UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the year ended December 31, 2014

OR

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

Commission file number: 001-33023

Riverbed Technology, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**03-0448754**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification no.)**

680 Folsom Street
San Francisco, CA 94107
(Address of principal executive offices, including zip code)
(415) 247-8800
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class to be so Registered	Name of Each Exchange on Which Each Class is to be Registered
Common Stock, $0.0001 par value (Title of Class)	The NASDAQ Stock Market LLC

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

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

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

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

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File Required to be submitted and posted pursuant to Rule 405 of Regulation

S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

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

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

As of June 30, 2014, the last business day of our most recently completed second fiscal quarter, the aggregate market value of the voting stock held by non-affiliates was $1,812,063,075 based on the number of shares held by non-affiliates of the registrant as of June 30, 2014, and based on the reported last sale price of common stock on June 30, 2014. This calculation does not reflect a determination that persons are affiliates for any other purposes.

Number of shares of common stock outstanding as of January 29, 2015: 157,781,493.

Documents Incorporated by Reference: Portions of the registrant's proxy statement relating to its 2015 annual meeting of stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

RIVERBED TECHNOLOGY, INC.

YEAR ENDED DECEMBER 31, 2014

ANNUAL REPORT ON FORM 10-K

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Part I

Item 1. Business

Pending Merger

On December 14, 2014, Riverbed Technology, Inc. (Riverbed) entered into a definitive agreement (Merger Agreement) to be acquired by the private equity investment firm Thoma Bravo for $21.00 in cash per outstanding common share (the Merger). Consummation of the Merger is subject to customary closing conditions, including, without limitation, the absence of certain legal impediments, the expiration or termination of the required waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, antitrust regulatory approval in Germany, review and clearance by the Committee on Foreign Investment in the United States, and approval by our stockholders. See Note 1 - *Organization and Significant Accounting Policies* in the Notes to Consolidated Financial Statements for additional details.

Overview

Riverbed Technology, Inc. (Riverbed) is the leader in application performance infrastructure. In a world where businesses are increasingly relying on applications and data that run both in on-premises data centers as well as in the cloud, delivered to users over a mix of private and public networks, Riverbed offers a platform to give enterprises visibility to deliver, control, and optimize IT resources across the hybrid enterprise. The Riverbed Application Performance Platform is a set of solutions that help ensure applications perform as expected, data is always available when needed, and performance issues are diagnosed and cured before end users even notice.

The platform delivers application performance infrastructure solutions with a focus on two key areas:

<u>Application Acceleration</u>

- Wide area network (WAN) optimization for application acceleration includes:
    - Riverbed SteelHead - WAN optimization solution, and
    - Riverbed SteelFusion (formerly Granite) - branch converged infrastructure.
- Riverbed SteelApp (formerly Stingray; In February 2015, Riverbed and Brocade signed a definitive agreement pursuant to which Brocade Communications Systems, Inc. (Brocade) will, at closing, purchase the SteelApp product line) - application delivery controller (ADC).

<u>Performance Management</u>

- Riverbed SteelCentral - a performance management suite that combines our application-aware network performance management and application performance management control suite. The SteelCentral product line combines our former Cascade products and the products acquired from OPNET Technologies, Inc (OPNET).

These solutions can be flexibly delivered as appliances, software, and services.

Building on a History of Leadership in WAN Optimization

Riverbed was founded in 2002 with the objective of eliminating distance and location as variables in delivering applications by solving the problems of latency and bandwidth limitations in WANs. Computing over a local area network (LAN) is usually fast, easy, and inexpensive because the locations are grouped around a central hub and the distances involved are short. Once a company expands its business beyond the confines of one office, however, it encounters the challenges of the WAN. The realities of physics affect application performance even in the digital world. For applications and data to travel across a network takes time (latency) and incurs costs (bandwidth). The greater the distances and the more locations involved, the slower the performance of the applications for users and the higher the costs for companies. The result is that computing over a WAN is usually slow, costly, and often nearly impossible.

Application Performance Equals Business Performance

When applications *don't* work, people *can't* work. Degraded application performance is a massive issue that impacts business directly. Slow applications can degrade an employee's ability to provide timely customer service, close a financial transaction with a client, or complete an on-line form to enroll a new customer. Performance issues can delay time-to-market for new products when the large computer-aided drawing (CAD) files on which product development depends clog the network and limit the ability of dispersed engineers to collaborate. Poorly performing applications slow the adoption and return on investment (ROI) of new enterprise applications and systems such as unified communications, for example, which involves greatly increased needs for network bandwidth to support videoconferencing and other data-intensive collaborative applications. Application and network issues can interrupt transactions, hinder sales, and drive impatient customers away from websites, portals, chat windows, and shopping carts. Clearly, the performance limitations imposed by applications designed for LANs can be, and often are, debilitating to business.

From WAN Optimization to Optimizing the Hybrid Enterprise

Riverbed solved these challenges with a series of inventions that optimized application and data delivery over WANs and was packaged in an appliance called Riverbed® SteelHead™, which dramatically reduces bandwidth requirements for applications and improves application performance. SteelHead's launch in 2004 forged a new market - WAN Optimization - a market that SteelHead has led since the beginning. Today, SteelHead continues as the industry's #1 WAN optimization solution with over 50% market share, and winner of the InfoWorld Technology of the Year Award for eight years running.

In a Changing IT Landscape, New Challenges Need New Solutions

Over the 10-plus years since SteelHead first shipped, the IT world has continued to evolve through major transformations - including virtualization, cloud computing, consumerization of IT, mobility, social networking, and big data. Today, the same challenges of delivering applications and data across networks over long distances are not only still there, but are magnified and exacerbated.

The typical enterprise today has applications, data, and infrastructure in on-premises data centers as well as in the cloud.

It is this combination of private and public assets delivering essential business services that defines the hybrid enterprise. Hybrid architectures and SaaS applications bring significant challenges to organizations along with the significant benefits: the complexity of multiple clouds, networks, service providers, and SLAs; end users everywhere; and hundreds of applications (including SaaS applications such as Salesforce, Microsoft Azure/Office 365, and Amazon Web Services) that need to be managed and delivered across a mix of networks.

Riverbed's business strategy leverages its heritage and expertise in network optimization and application acceleration to deliver hardware, software, and services solutions to optimize application performance across the breadth and depth of the hybrid enterprise. Riverbed continues to expand its platform for application performance in on-premises, cloud, and as-a-service environments across public and private networks.

In February 2009, Riverbed acquired Mazu Networks, Inc. (Mazu), which became the foundation for its Cascade products. In October 2010, Riverbed acquired CACE Technologies, Inc. (CACE), which extended the capabilities of its existing Cascade offerings. Riverbed's Cascade products allow us to meet enterprise and service provider customer demands by extending its suite of WAN optimization products to include global application performance, reporting, and analytics.

In 2010, Riverbed introduced solutions for the public cloud, including a cloud-intelligent WAN optimization solution and a cloud storage gateway targeting backup and improved disaster recovery (DR) readiness. By extending its award-winning acceleration and de-duplication capabilities to cloud storage, Riverbed provides organizations with a fast, secure, and cost-efficient method to eliminate antiquated tape-based data protection systems, dramatically reduce backup costs, and improve DR readiness, without changes in the existing infrastructure.

In November 2010, Riverbed acquired Global Protocols LLC (Global Protocols), to bolster our leadership position in delivering optimization solutions for satellite networks.

In July 2011, Riverbed acquired Zeus Technology Ltd. and Aptimize Ltd., which became the SteelApp (formerly Stingray) product line, a virtual ADC for scalable, secure, and elastic delivery of enterprise, cloud, and e-commerce applications. In February 2015, Riverbed and Brocade signed a definitive agreement pursuant to which Brocade will, at closing, purchase the SteelApp product line.

In February 2012, Riverbed introduced SteelFusion (formerly Granite), a branch converged infrastructure that delivers local performance while enabling data centralization, instant recovery, and lower total cost of ownership (TCO). SteelFusion completely changes how global enterprises deploy, manage, and recover branch office servers and data while delivering substantially lower TCO. With SteelFusion, global enterprises can achieve complete consolidation of edge applications, servers, and storage to the data center and deliver services to the edge of the enterprise as if they were local. The technology is complementary to WAN optimization, accelerating performance for applications and use cases not addressed by any WAN optimization approach today.

In December 2012, Riverbed acquired OPNET, a provider of application performance management (APM) and network performance management (NPM) solutions. OPNET's products and related services are designed to help customers make better use of resources, reduce operational problems, and improve competitiveness. Through this acquisition, and its combination with Cascade, Riverbed established itself as a leader in the dynamic and growing APM and NPM markets. We have integrated OPNET with the Cascade business to form the Riverbed Performance Management product line, Riverbed SteelCentral.

Products

Application Acceleration Product Family

SteelHead (WAN Optimization)

We offer a comprehensive suite of WAN optimization products that are built on proprietary software and delivered on hardware or virtual appliances, software and public cloud environments. Riverbed offers an array of SteelHead products to address diverse customer environments and deployment sizes from laptops, small branch offices to large headquarters and datacenter locations. Virtual SteelHead provides all the functionality of our appliances, in a software-based virtual appliance designed for private cloud environments. Cloud SteelHead delivers our WAN optimization functionality specifically for public cloud environments. In 2012, we announced SteelHead CX models, which accelerate a broad range of applications that are critical to business. Through a combination of data reduction, TCP and user datagram protocol (UDP) optimization, and application-level protocol optimization, they deliver dramatic performance increases across the WAN for all TCP and UDP applications. That year we also announced the integration of VMware vSphere into new SteelHead EX model appliances. The integration provides organizations with a single platform for simplified, centralized management of distributed virtual services at a lower TCO. When combined with the SteelFusion (formerly Granite) edge-VSI, the integrated solution allows organizations to leverage the investments they have made in the data center and extend control and policy boundaries to the edge of the network. In 2014, with RiOS 9.0, we introduced new integrations between SteelHead and SteelCentral to deliver comprehensive visibility, control, & optimization capabilities for any application across hybrid networks.

SteelHead appliances allow organizations to meet their top IT performance priorities, from accelerating application performance worldwide to consolidating remote office infrastructure into the data center:

- SteelHead CX - The Riverbed SteelHead CX series features dedicated WAN optimization appliances, ideal for organizations that want to improve application performance and data transfers served over a wide area network. The series is engineered for seamless network integration into remote sites and data centers, with scalable performance designed to support a growing number of users, devices, and data.
- SteelHead EX - The Riverbed SteelHead EX series combines WAN optimization, virtualization, and storage consolidation. As such, it enables organizations to meet the needs of the active branch office with an enterprise-class branch office box. Every SteelHead EX appliance features the Riverbed Virtual Services Platform (VSP), a dedicated platform that runs virtual services and enables greater consolidation in branch offices.

  The SteelHead EX series (with the Riverbed VSP) helps organizations consolidate previously orphaned services onto a high-performance branch office box. Specifications include ample dedicated memory and disk to ensure virtual machine performance without compromise.

SteelHead Mobile software enables faster application performance and better support for mobile workers. With SteelHead Mobile software, companies of any size can give mobile workers LAN-like access to corporate files and applications no matter where they are in the world. SteelHead Mobile software overcomes the challenges that plague remote users, including variable locations, inconsistent links, and high-latency environments, and it does so seamlessly and transparently. This results in higher productivity and more efficient operations, access, and performance anywhere.

SteelHead CX for Virtual software extends WAN optimization to deployments where physical hardware may not be conveniently suited. Military deployments, for example, typically use ruggedized, custom hardware on which running a virtual machine is more convenient. Space-limited scenarios, such as mobile news vans or construction trailers, may also require a form factor that is free from the physical limitations of hardware appliances.

SteelHead SaaS and SteelHead CX for Cloud software extends Riverbed WAN optimization to a solution that is purpose-built for public cloud computing environments. Public, private, and hybrid cloud environments all face the performance limitations inherent in today's applications and networks. In order for enterprises to maximize the flexibility and cost savings of the public cloud they must overcome the same latency and bandwidth constraints that challenge distributed IT infrastructure environments. SteelHead SaaS and SteelHead CX for Cloud offers a number of features to help ensure a smooth transition and user experience.

The Riverbed Central Management Console provides centralized configuration, monitoring and control, which simplifies the process of deploying and managing SteelHead products that are distributed across a WAN. With this turnkey solution, businesses can easily configure, monitor, report on, and upgrade groups of SteelHead appliances and Virtual SteelHead - all through one web-based interface.

SteelHead Interceptor appliance provides high scalability and availability for sites with multiple SteelHead appliances and extends the scaling and high-availability capabilities of SteelHead appliances to meet the requirements of the largest and most complex enterprise networks and data center environments. The Interceptor appliance allows these organizations to scale their WAN optimization solutions to support hundreds of thousands of end users, and scale up to optimize very high-bandwidth network connections in the data center.

SteelFusion (Branch Converged Infrastructure)

SteelFusion appliances allow IT to consolidate servers and storage from branch offices back to the data center without compromising branch application performance by enabling storage to be decoupled from its server over thousands of miles of distance and work as if the storage were local to the server. The user gets uncompromised performance, while IT management is able to manage, backup, restore, patch, expand, and protect the data for its far-flung enterprise all within the four walls of the data center. SteelFusion centrally protects and secures data, and significantly lowers the TCO of branch and remote offices.

SteelHead EX + SteelFusion appliances are available in a range of models to suit the needs of any office. SteelFusion requires two components: SteelFusion Edge, an in-built service running on a SteelHead EX + SteelFusion appliance in the branch office, and SteelFusion Core, a physical or virtual appliance deployed alongside the SteelHead appliance and storage arrays in the data center.

SteelApp (Application Delivery Control)

Riverbed SteelApp is a virtual ADC designed to deliver faster and more reliable access to public web sites and private applications. In February 2015, Riverbed and Brocade signed a definitive agreement pursuant to which Brocade will, at closing, purchase the SteelApp product line. SteelApp frees applications from the constraints of legacy, proprietary, hardware-based load balancers, which enables them to run in any physical, virtual or cloud environment.

SteelApp Traffic Manager software provides complete control over user traffic, allowing administrators to accelerate, optimize, and secure key business transactions. With SteelApp Traffic Manager, applications can run in any environment - physical, virtual, or cloud - and migrate and scale on demand.

SteelApp Application Firewall software is a sophisticated, application-aware, web application firewall for deep application security that protects against known and unknown attacks at the application layer, secures applications, and meets compliance requirements with confidence.

SteelApp Aptimizer software is a web accelerator that dynamically groups activities for fewer long distance round trips. SteelApp Aptimizer software compresses images to maximize available bandwidth, increases caching for faster repeat visits, and prioritizes actions to provide the best possible response time for loading web pages on any browser.

SteelApp Services Controller software automates the deployment, licensing, and metering of application delivery services. It gives applications a dedicated ADC instance, in a high-density multi-tenanted platform.

Performance Management Product Family

Our SteelCentral Performance Management portfolio consists of NPM and APM solutions to deliver end-to-end visibility across every critical part of the application delivery chain and troubleshoot issues that arise, before they become problems. Whether organizations are rolling out new applications, consolidating or virtualizing data centers, migrating to the cloud or simply in need of a troubleshooting and visibility solution, our products deliver unmatched end-user experience while increasing IT effectiveness and productivity and dramatically reducing downtime.

Our NPM solutions help organizations manage, secure and optimize the availability and performance of global applications being delivered across global networks. Riverbed NPM offers compelling benefits for customers who have not yet deployed WAN optimization. SteelCentral products offer superior application-aware NPM, so managers can resolve network and application performance problems before they impact the business.

Our customers discover, monitor, and troubleshoot critical applications, get accurate data for strategic IT projects, and communicate performance results clearly to the business, while lowering IT management costs. We combine flow-based and packet-based monitoring for a complete view of the environment, and integrate seamlessly with Wireshark software, the most widely used open source network analysis tool.

Customers achieve the greatest value and return on investment when deploying the entire NPM family, which combines sophisticated end-to-end, service-level monitoring with high-speed, high-fidelity packet capture and analysis for both broad and deep network performance monitoring and analysis. SteelHead products also act as integral components of our NPM solution, providing enhanced performance telemetry including quality of service and WAN optimization performance data in addition to flow and packet level information.

SteelCentral NetProfiler appliance is the centralized analysis and reporting console for the network performance management family, correlating information collected by Cascade Shark, Cascade Gateway, Cascade Sensor and even SteelHead products to provide centralized monitoring, analysis and reporting of network and application performance problems. Cascade Profiler enables enterprises to proactively monitor and troubleshoot applications and the network, automate discovery and dependency mapping, plan for capacity planning and WAN optimization, and assure a consistent and reliable end-user experience.

SteelCentral NetShark appliances deliver scalable, high-performance continuous packet capture and long-term storage, enabling real-time and back-in-time forensic analysis and reporting of network and security events. SteelCentral NetShark appliances are typically deployed wherever detailed and historical back-in-time analysis is needed, such as within the datacenter, headquarters or key branch offices, and can be used as an integral part of the SteelCentral visibility solution or as a standalone troubleshooting solution.

A software version of SteelCentral NetShark that has been virtualized to run on VMware ESX environments, SteelCentral NetShark Virtual Edition (VE) taps into the virtual switch in the ESX hypervisor to monitor the performance of all inter-VM traffic and send data to SteelCentral NetProfiler for analysis and reporting and/or to continuously capture packets and store them on the local server or on a storage area network (SAN) for back-in-time analysis with SteelCentral Packet Analyzer.

SteelCentral NetSensor provides infrastructure (e.g., servers, network routers, and switches) device monitoring by polling data about device health, such as CPU utilization and memory utilization, and by leveraging SNMP, WMI, and IPSLA.

Riverbed Packet Analyzer is a robust analysis console that enables users to quickly analyze multi-terabyte packet recordings on remote SteelCentral NetShark appliances and SteelHead products without having to transfer large packet captures files across the network.

SteelCentral NetExpress appliances bring the same revolutionary approach to application-aware NPM for the large enterprise to the small and medium enterprise in a flexible form designed to grow with the needs of the business and provide ease of use and deployment.

SteelCentral UC Xpert allows continuous monitoring of voice and video quality so you can catch and fix problems before they ever become an issue for an organization's customers and employees.

Our APM solutions use a variety of advanced technologies to support the analysis of application, network, and server performance under a wide range of current and planned or modeled operating conditions. Our APM solution delivers extensive cross-product integration, to enable users to realize added value when products are deployed together.

SteelCentral AppResponse is an appliance-based solution that continuously monitors and analyzes end-user experience for all users and transactions. The solution also supports in-depth monitoring and analysis of the underlying network, a domain that is vital to comprehensive APM. AppResponse leverages the central role of the network in transporting transaction data to obtain vital information about relationships among clients and servers, and also among servXpert and also for application discovery and dependency mapping functions performed by AppMapper. On-board analytics extract transactions from application flows and break down application response time, identifying which parts of the infrastructure are contributing most to delays. Add-on modules provide analytics for Citrix-hosted applications, database transactions, voice over IP (VOIP), and NetFlow.

SteelCentral Web Analyzer extends end-user experience monitoring to web-based applications, even those hosted in the cloud. And it measures the real end-user experience for web-based applications at the browser level.

SteelCentral Appinternals delves into the complex software frameworks and operating systems of modern servers to extract large amounts of performance and forensic data to support all aspects of APM from the server perspective. AppInternalscan provide analysis for any type of application, but particularly excels in Java and .NET environments. It continuously monitors thousands of system and application metrics and automatically detects and ranks performance and behavior anomalies. Its correlation technology automatically reveals relationships among metrics, highlighting the corresponding causal connections between components, resources, and code-level behavior in order to perform root cause analysis. It can assemble a complete picture of a transaction's path across tiers for near real-time and historical analysis.

SteelCentral AppMapper automatically produces run-time application maps, identifying the underlying application components and infrastructure components that enable a production application. This dynamic model of the application, captured at the time of execution, is essential for troubleshooting application performance problems. It also provides critical information to improve a host of other operational workflows, such as configuration and change management, and datacenter virtualization and consolidation. AppMapper provides visibility into the interaction between applications and the underlying infrastructure, enabling IT organizations to effectively assess and respond to events and conditions that affect application service levels.

SteelCentral Transaction Analyzer is a powerful tool for detailed analysis of individual transactions. In today's complex application architectures, a single transaction can involve many tiers and require thousands of messages to traverse the network. This solution, which processes and merges traces taken in the production environment, makes extensive use of visualization and analytics to accelerate troubleshooting in production, as well as pre-deployment testing and prediction. In production, the combination of AppResponse and Transaction Analyzer provides a seamless workflow that spans monitoring, alerting, triage, root cause diagnosis, and remediation guidance. In pre-deployment, Transaction Analyzer is our solution for application network readiness testing.

Customers

Our products have been sold to more than 26,000 customers worldwide in every major industry, including manufacturing, finance, technology, government, architecture, engineering and construction, professional services, utilities, healthcare and pharmaceuticals, media and retail. Our products are deployed in a wide range of organizations, from large global organizations with hundreds or thousands of locations to smaller organizations with few locations. One value-added distributor (VAD), Arrow Electronics, Inc. (Arrow) accounted for 16% of our trade receivable balance at December 31, 2014. One VAD, Arrow, and one service provider partner, Orange Business Services (Orange), accounted for 17% and 13% of our trade receivable balance at December 31, 2013, respectively. Two VADs, Arrow and Avnet Inc. (Avnet), represented 20% and 14%, respectively, of our revenue for the year ended December 31, 2014; 18% and 13%, respectively, of our revenue for the year ended December 31, 2013; and 17% and 11%, respectively, of our revenue for the year ended December 31, 2012. We believe it is unlikely that the loss of any of our channel partners would have a long term material adverse effect on our consolidated revenues as we believe end-users would likely purchase our products from a different channel partner. However, a loss of any one of these channel partners could have a material adverse impact during the transition period.

Our agreements with Arrow, Avnet and Orange are ordinary course of business relationships. The agreements are non-exclusive channel partner agreements subject to successively renewable annual terms and are cancellable by us and Arrow, Avnet and/or Orange, as applicable, for convenience upon 30-days' prior notice.

The agreements do not obligate us to sell a major part of our goods or services, nor do they require Arrow, Avnet and/or Orange to buy any of our products; rather, the agreements set forth only the terms to which a sale will be subject if and when a customer places a purchase order with Arrow, Avnet and/or Orange, as applicable, for specified products.

Backlog represents the customer orders that have yet to be fulfilled or invoiced. As of December 31, 2014 and December 31, 2013, backlog was not material.

Sales and Marketing

We sell our products and support through channel partners and our field sales force:

- *Channel partners* — We have over 2,500 channel partners worldwide, primarily value-added resellers (VARs), VADs, service providers and systems integrators. These partners help market and sell our products to a broad array of organizations and allow us to leverage our field sales force; and
- *Field sales force* — We have a field sales force that is responsible for managing all direct and indirect sales within each of our geographic territories.

With the ability to foster a strong, collaborative sales engagement environment between us and our partners, the Riverbed Performance Partner program delivers a coverage model that optimizes our customer's ability to acquire and implement our solutions in the manner that best fits its needs — through either VARs, systems integrators or service providers. We derived 90% of our revenue through indirect channels in 2014.

Our marketing activities include an integrated strategy comprised of lead generation, advertising, website operations, direct marketing, public relations, technology conferences and trade shows including our own Riverbed FORCE User Conference.

See Item 1A, "Risk Factors," for a discussion of risks related to our sales and marketing efforts.

Support and Services

We offer tiered customer support programs depending upon the service needs of our customers' deployments. Support contracts provide customers the right to receive unspecified software product upgrades, maintenance releases issued when-and-if-available during the support period and hardware repair. Product support includes internet access to technical content, as well as telephone, internet and email access to technical support personnel. Support contracts typically have a term of one to three years. We have support centers in New York, Bethesda, the San Francisco Bay Area, Amsterdam, London, Singapore, Sydney and Tokyo, which enable us to respond at all times. As we expand, we plan to continue to hire additional technical support personnel to service our growing international customer base.

Primary product support for customers of our channel partners is often provided by the partners themselves and we provide back-up support.

Our product sales include a warranty on hardware and software. Hardware is typically warranted against material defects for 12 months. Software is typically warranted to meet published specifications for a period of 90 days.

Research and Development

Continued investment in research and development is critical to our business. To this end, we have assembled a team of engineers with expertise in various fields, including networking, applications, storage, and systems management. We have invested significant time and financial resources into the development of our products. We plan to expand our product offerings and solutions capabilities in the future and plan to dedicate significant resources to these continued research and development efforts.

Research and development expenses were $205.6 million, $189.7 million, and $146.1 million in 2014, 2013 and 2012, respectively.

Manufacturing

We outsource manufacturing of all hardware products. Our manufacturers provide us with limited warranties to cover general product failures, and all our larger manufacturing partners provide specific quality control processes and replacement cycle time commitments. In addition, the lead times associated with certain components are lengthy and consequently make rapid changes in quantity requirements and delivery schedules difficult. Although we outsource manufacturing operations for cost-effective scale and flexibility, we perform rigorous quality control testing intended to ensure the reliability of our products once deployed. We provide long-term forecasts to our manufacturing partners and we maintain oversight of their supply chain activities.

Shortages in components that we use in our products are possible and our ability to predict the availability of such components may be limited. Some of these components are available only from single or limited sources of supply. Our ability to deliver products to our customers in a timely manner would be adversely impacted if we needed to qualify replacements for any of a number of the components used in our products.

We outsource our logistics functions to third parties. These third parties ship our products on our behalf and perform certain other shipping and product integration capabilities.

Competition

Riverbed competes not only in the WAN optimization market, but also has leading solutions for network performance monitoring, application performance monitoring, and branch converged infrastructure. The application performance infrastructure market is highly competitive and continually evolving. These solutions comprise the Riverbed Application Performance Platform, the most complete application performance infrastructure solution in the market.

Key competitive factors in our markets include product performance, ability to deploy easily into existing networks and ability to remotely manage products. We believe that our solution performs better than competitive products as measured by a broad range of metrics encompassing application performance, compression ratios and data transfer times. Our ability to sustain such a competitive advantage depends on our ability to achieve continuous technological innovation and adapt to the evolving needs of our customers.

We believe we are currently the only provider of a comprehensive WAN optimization solution. However, a large number of vendors have made acquisitions to enter the WAN optimization market and continue to invest in this area. Our primary competitors include Cisco Systems, Blue Coat Systems, Citrix Systems, and F5 Networks. We also face competition from a large number of smaller private companies and new market entrants.

We believe that we compete favorably in each of the sub-segments of WAN optimization in addition to being the only provider of a comprehensive WAN optimization solution. As we have a purpose-built architecture, compared to many vendors' attempts to combine separate technology elements, we believe we have a significant advantage in performance, ease-of-use, and ability to scale to large numbers of locations and employees.

We have received broad industry recognition for our innovative technology. For eight consecutive years, InfoWorld has named the Riverbed SteelHead appliances as a Product of the Year. Riverbed's WAN optimization solutions have received industry recognition from Forrester Research, IDC, *NetworkWorld*, *The Wall Street Journal*, *eWeek*, *Storage Magazine*, *Network Computing* and *Byte & Switch*, among others. Since 2007, we have been positioned by Gartner in the Leaders' Quadrant of the "WAN Optimization Controller (WOC)" Magic Quadrant, authored by Joe Skorupa and Severine Real, and most recently the "WAN Optimization" Magic Quadrant published in March 2014. This Gartner report positions vendors in one of four quadrants - Leaders, Challengers, Visionaries and Niche Players - based on the companies' vision and ability to execute on that vision.

We also compete in the NPM and APM markets with our Riverbed Performance Management product line. Our primary competitors in this market are Netscout Systems, Computer Associates (NetQos) and Compuware. Riverbed is recognized by Gartner as a "Leader" in the Magic Quadrant for Network Performance Monitoring and Diagnostics (2014) and a "Visionary" in the Magic Quadrant for Application Performance Monitoring (2014).

See Item 1A, "Risk Factors," for further discussion of risks regarding competition.

Intellectual Property

Our success as a company depends upon our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including patents, trade secrets, copyrights and trademarks, as well as customary contractual protections.

Our worldwide patent portfolio includes 195 issued U.S. patents and 46 issued foreign patents. U.S. patents generally have a term of twenty years from their priority date, which is generally either the date they were initially filed or the filing date of the earliest patent from which priority is claimed. Currently, our issued patents will begin to expire starting in 2018. U.S. patent filings are intended to provide the holder with a right to exclude others from making, using, selling, or importing in the U.S. the inventions covered by the claims of granted patents. We also have U.S. provisional and non-provisional patent applications pending, as well as counterparts pending in other jurisdictions around the world. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. Our granted patents, and to the extent any future patents are issued, any such future patents, may be contested, circumvented, or invalidated over the course of our business, and we may not be able to prevent third parties from infringing these patents. In addition, the laws of certain countries do not protect our proprietary rights to the same extent as do the laws in the U.S. Therefore, the exact effect of having a patent cannot be predicted with certainty.

Our registered trademarks in the U.S. include, but are not limited to, Riverbed, SteelHead, RiOS, Cascade OPNET, SteelFusion, SteelCentral, AppResponse, AppInternals and Wireshark.

In addition to the foregoing protections, we generally control access to and use of our proprietary software and other confidential information through the use of internal and external controls, including contractual protections with employees, contractors, customers and partners. Our software is also protected by U.S. and international copyright laws.

We also incorporate third-party software programs into our products pursuant to license agreements. For example, we embed technology from VMware into our SteelHead appliances to provide the virtualization in our RSP or VSP. Any disruption in our access to any of these software programs could result in significant delays in our product releases and could require substantial effort to locate or develop a replacement program.

See Item 1A, “Risk Factors,” for discussion of risks related to protecting our intellectual property.

Employees

As of December 31, 2014, we had 2,555 employees in offices in all major geographies. Of these, 1,097 were engaged in sales and marketing, 780 in research and development, 393 in support and services, 251 in general and administration and 34 in manufacturing. None of our U.S. employees are represented by labor unions; however, in certain international subsidiaries, workers councils represent our employees. We consider current employee relations to be good.

Corporate Information

Riverbed Technology, Inc. was incorporated in Delaware in May 2002. We operate internationally primarily through a number of wholly owned subsidiaries that are designed primarily to support our sales, marketing, and support activities outside the United States. A summary of our financial information by geographic location is found in Note 16 - *Segment and Geographic Information* in the Notes to Consolidated Financial Statements. We have a single operating segment and substantially all of our operating assets are located in the United States.

Our Internet address is www.riverbed.com. There we make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). Our SEC reports can be accessed through the investor relations section of our website. The information found on our website is not part of this or any other report we file with or furnish to the SEC. The public may also read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington DC, 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Unless the context otherwise requires, in this Annual Report on Form 10-K, the terms "Riverbed," "the Company," "we," "us," and "our" refer to Riverbed Technology, Inc. and its subsidiaries.

Item 1A. Risk Factors

Set forth below and elsewhere in this Annual Report on Form 10-K, and in other documents we file with the SEC, are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this Annual Report on Form 10-K and in our other public statements. Because of the following factors, as well as other variables affecting our operating results, past financial performance should not be considered as a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods.

Risks Related to Our Business and Industry

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

Our quarterly and annual operating results have varied significantly in the past and could vary significantly in the future, which makes it difficult for us to predict our future operating results. Our operating results may fluctuate due to a variety of factors, many of which are outside of our control, including the changing and volatile U.S., European and global economic environment, and any of which may cause our stock price to fluctuate. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance. In addition, revenues in any quarter are largely dependent on customer contracts entered into during that quarter. Historically, the amount of customer orders that have not been shipped as of the end of a fiscal year has not been material. Moreover, a significant portion of our quarterly sales typically occurs during the last month of the quarter, and sometimes within the last few weeks or days of the quarter. As a result, our quarterly operating results are difficult to predict even in the near term and a delay in an anticipated sale past the end of a particular quarter may negatively impact our results of operations for that quarter, or in some cases, that year. A delay in the recognition of revenue, even from just one account, may have a significant negative impact on our results of operations for a given period. If our revenue or operating results fall below the expectations of investors or securities analysts or below any guidance we may provide to the market, as has occurred recently and at other times in the past, or if the guidance we provide to the market falls below the expectations of investors or securities analysts, as has occurred recently and at other times in the past, the price of our common stock could decline substantially. Such a stock price decline could occur, and has occurred recently and at other times in the past, even when we have met our publicly stated revenue and/or earnings guidance.

In addition to other risks listed in this “Risk Factors” section, factors that may affect our operating results include, but are not limited to:

- seasonal fluctuations in demand for our products and services. For example, many companies in our industry experience adverse seasonal fluctuations in customer spending patterns, particularly in the first and third quarters; we have experienced these seasonal fluctuations in the past and expect that this trend will continue in the future;
- fluctuations in sales cycles and prices for our products and services;
- reductions in customers’ budgets for information technology purchases and delays in their purchasing cycles;
- general economic or political conditions in our domestic and international markets, including the deficit spending and government debt issues surrounding the U.S. and Eurozone economies;
- unpredictability in the development of core, new, or adjacent markets, or a slowdown or reversal of growth in these markets, including the wide area network (WAN) optimization, network and application performance management, and public cloud computing markets and including any markets that we enter as a result of acquisitions;
- our ability to realize the anticipated benefits of our acquisition of OPNET;
- limited visibility into customer spending plans;
- changing market conditions, including current and potential customer consolidation;
- customer or partner concentration. For example, two value-added distributors each represented more than 10% of our revenue for the twelve months ended December 31, 2014;

- variation in sales channels, product costs, or mix of products sold;
- the timing of recognizing revenue in any given quarter as a result of revenue recognition accounting rules, including the extent to which sales transactions in a given period are unrecognizable until a future period or, conversely, the satisfaction of revenue recognition rules in a given period resulting in the recognition of revenue from transactions initiated in prior periods;
- the sale of our products in the timeframes we anticipate, including the number and size of orders, and the product mix within any such orders, in each quarter;
- our ability to develop, introduce and ship in a timely manner new products and product enhancements that meet customer requirements;
- the timing and execution of product transitions or new product introductions, including any related or resulting inventory costs;
- delays in customer purchasing cycles in response to our introduction of new products or product transitions. For example, a product transition caused some of our customers to lengthen their purchasing decision in the first quarter of 2012 as they spent time evaluating new models. In addition, we experienced extended sales cycles in the first quarter of 2012 as some of our customers evaluated our SteelFusion (formerly Granite) product;
- customer acceptance of new product introductions. For example, in the first quarter of 2012 we introduced SteelFusion, which delivers branch converged infrastructure. New products may not achieve any significant degree of market acceptance or be accepted into our sales channel by our channel partners. Furthermore, many of our target customers have not purchased products similar to these and might not have a specific budget for the purchase of these products;
- in addition to OPNET, our ability to successfully integrate acquired companies or technologies, especially where those acquisitions result in our entering new markets. For example, in July 2011 we acquired Zeus Technology Ltd., a company that delivers high-performance software-based load balancing and traffic management solutions for virtual and cloud environments, and Aptimize Ltd., a web content optimization company;
- our ability to realize the anticipated benefits of any strategic transaction undertaken by us, including any acquisition, divestiture, partnership, commercial agreement, or investment;
- 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 substantial discounting of products;
- our ability to control costs, including our operating expenses and the costs of the components we purchase;
- our ability to timely and effectively implement, and realize the anticipated benefits of, any restructuring plans, including those announced in October 2014;
- any component shortages or price fluctuations in our supply chain;
- our ability to establish and maintain successful relationships with channel partners, and the effectiveness of any changes we make to our distribution model;
- any decision to increase or decrease operating expenses in response to changes in the marketplace or perceived marketplace opportunities;
- our ability to derive benefits from our investments in sales, marketing, engineering or other activities;
- our ability to successfully work with partners on combined solutions, including with respect to product validation, marketing, selling and support;
- volatility in our stock price, which may lead to higher stock compensation expenses;
- unpredictable fluctuations in our effective tax rate due to the geographic distribution of our worldwide earnings or losses, disqualifying dispositions of stock from the employee stock purchase plan and stock options, changes in the valuation of our deferred tax assets or liabilities, changes in actual results

versus our estimates, or changes in tax laws, regulations, accounting principles, or interpretations thereof; and

- the effects of natural disasters, including any effects on our supply chain or on the willingness of our customers or prospective customers to make capital commitments.

If the Merger does not occur, it could have a material adverse effect on our business, results of operations, financial condition and stock price.

Completion of the Merger is subject to the satisfaction of various conditions, including the receipt of approvals from our stockholders and from government or regulatory agencies. There is no assurance that all of the various conditions will be satisfied, or that the Merger will be completed on the proposed terms, within the expected timeframe, or at all.

The Merger gives rise to inherent risks that include:

- pending stockholder litigation that could prevent or delay the Merger or otherwise negatively impact our business and operations;
- the price of our common stock will change if the Merger is not completed to the extent that the current market price of our stock reflects an assumption that the Merger will be completed;
- the amount of cash to be paid under the agreement governing the Merger is fixed and will not be adjusted for changes in our business, assets, liabilities, prospects, outlook, financial condition or results of operations or in the event of any change in the market price of, analyst estimates of, or projections relating to, our common stock;
- legal or regulatory proceedings, including regulatory approvals from various domestic and foreign governmental entities (including any conditions, limitations or restrictions placed on these approvals) and the risk that one or more governmental entities may delay or deny approval, or other matters that affect the timing or ability to complete the transaction as contemplated;
- the ability of Thoma Bravo and its affiliates to obtain the necessary funds to complete the Merger;
- the possibility of disruption to our business, including increased costs and diversion of management time and resources;
- difficulties maintaining business and operational relationships, including relationships with customers, suppliers, and other business partners;
- the inability to attract and retain key personnel pending consummation of the Merger;
- the inability to pursue alternative business opportunities or make changes to our business pending the completion of the Merger;
- the requirement to pay a termination fee of $126 million if we terminate the agreement governing the Merger under certain circumstances;
- developments beyond our control including, but not limited to, changes in domestic or global economic conditions that may affect the timing or success of the Merger; and
- the risk that if the Merger is not completed, the market price of our common stock could decline, investor confidence could decline, shareholder litigation could be brought against us, relationships with customers, suppliers and other business partners may be adversely impacted, we may be unable to retain key personnel, and profitability may be adversely impacted due to costs incurred in connection with the proposed Merger.

Adverse economic conditions make it difficult to predict revenues for a particular period and may lead to reduced information technology spending, which would harm our business and operating results. In addition, turmoil in credit markets during economic downturns increases our exposure to our customers' and partners' credit risk, which could result in reduced revenue or increased write-offs of accounts receivable.

Our business depends on the overall demand for information technology, and in particular for WAN optimization and the other markets in which we operate, and on the economic health and general willingness of our current and prospective customers, both enterprises and government organizations, to make capital commitments.

These government organizations include non-U.S. as well as U.S. federal, state and local organizations. In some quarters, sales to government organizations have represented, and may in the future represent, a significant portion of overall sales. If the conditions in the U.S. and global economic environment, including the economies of any international markets that we serve, remain uncertain or continue to be volatile, or if they deteriorate further, our business, operating results, and financial condition would likely be materially adversely affected. For example, U.S. government deficit spending and debt levels, as well as actions taken by the U.S. Congress relating to these matters, could negatively impact the U.S. and global economies and adversely affect our financial results. In addition, our financial results could be negatively impacted by the continuing uncertainty surrounding, or any deterioration relating to, the debt levels or growth prospects for Eurozone economies.

Economic weakness, customer financial difficulties and constrained spending on IT initiatives have resulted, and may in the future result, in challenging and delayed sales cycles and could negatively impact our ability to forecast future periods. In addition, the markets we serve are emerging and the purchase of our products involves material changes to established purchasing patterns and policies. The purchase of our products is often discretionary and may involve a significant commitment of capital and other resources. In addition, our operating expenses are largely based on anticipated revenue trends and a high percentage of our expenses are, and will continue to be, fixed in the short-term. Uncertainty about future economic conditions makes it difficult to forecast operating results and to make decisions about future investments. Weak or volatile economic conditions would likely harm our business and operating results in a number of ways, including information technology spending reductions among customers and prospects, longer sales cycles, lower prices for our products and services and reduced unit sales. A reduction in information technology spending could occur or persist even if economic conditions improve. In addition, any increase in worldwide commodity prices may result in higher component prices and increased shipping costs, both of which may negatively impact our financial results.

Many of our customers and channel partners use third parties to finance their purchases of our products. Any freeze, or reduced liquidity, in the credit markets may result in customers or channel partners either delaying or entirely foregoing planned purchases of our products if they are unable to obtain the required financing. This would result in reduced revenues, and our business, operating results and financial condition would be harmed. In addition, these customers' and partners' ability to pay for products already purchased may be adversely affected by any credit market turmoil or an associated downturn in their own business, which in turn could harm our business, operating results and financial condition.

We face intense competition that could reduce our revenue and adversely affect our financial results.

The market for our products is highly competitive and we expect competition to intensify in the future. Other companies may introduce new products in the same markets we serve or intend to enter.

This competition could result, and has resulted in the past, 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 and financial condition.

Competitive products may in the future have better performance, more and/or better features, lower prices and broader acceptance than our products. Many 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, in the WAN Optimization market we face competition from a number of established companies, including Cisco Systems, Blue Coat Systems, Citrix Systems, and F5 Networks. We also face competition from a large number of smaller private companies and new market entrants. In the Network Performance Management and Application Performance Management markets, our Riverbed Performance Management product line primarily competes with Netscout, Computer Associates (NetQos), and Compuware.

We expect increased competition from our current competitors as well as other established and emerging companies if our market continues to develop and expand. For example, third parties currently selling our products 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 also face competitive pressures from other sources. For example, Microsoft has improved, and has announced its intention to further improve, the performance of its software for remote office users. Our products are designed to improve the performance of many applications, including applications that are based on Microsoft protocols. Accordingly, improvements to Microsoft application protocols may reduce the need for our products, adversely affecting our business, operating results, and financial condition. Improvement in other application protocols or in the Transmission Control Protocol (TCP), the underlying transport protocol for most WAN traffic, could have a similar effect. In addition, we market our products, in significant part, on the anticipated cost savings to be realized by organizations if they are able to avoid the purchase of costly IT infrastructure at remote sites by purchasing our products. To the extent other companies are able to reduce the costs associated with purchasing and maintaining servers, storage or applications to be operated at remote sites, our business, operating results, and financial condition could be adversely affected.

Our business could be negatively affected as a result of actions of stockholders or others.

In January 2014, we announced that our Board of Directors had rejected an unsolicited proposal by Elliott Management Corporation (Elliott) to acquire all of our outstanding shares of common stock, and Elliott has made several public statements that were critical of the Board of Directors, Riverbed, and our management team. Perceived uncertainties as to our future direction as a result of stockholder activism, potential changes to the composition of the Board of Directors, or other developments may lead to the perception of a change in the direction of our business or other instability, which may be exploited by our competitors, cause concern to our current or potential customers, and make it more difficult to attract and retain qualified personnel. If customers choose to delay, defer or reduce transactions with us or do business with our competitors instead of us because of any such issues, then our business, operating results, and financial condition would be adversely affected.

We rely heavily on channel partners to sell our products. Disruptions to, or our failure to effectively implement, develop and manage, our distribution channels and the processes and procedures that support them could harm our business.

Our future success is highly dependent upon establishing and maintaining successful relationships with a variety of channel partners, including value-added resellers, value-added distributors, service providers, and systems integrators. A substantial majority of our revenue (90% in 2014 and 85% in 2013) is derived from indirect channel sales and we expect indirect channel sales to continue to account for a substantial majority of our total revenue. We employ a two-tier distribution strategy, as part of a larger effort to scale our reach and better serve the needs of our channel. Our revenue depends in large part on the effective performance of these channel partners, and changes to our distribution model, the loss of a channel partner, or the reduction in sales to our channel partners could materially reduce our revenues and gross margins. By relying on indirect channels, we may have little or no contact with the ultimate 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, we recognize a large portion of our revenue based on a sell-through model using information regarding the end user customers that is provided by our channel partners. If those channel partners provide us with inaccurate or untimely information, the amount or timing of our revenues could be adversely impacted. For example, we have encountered delays with certain partners where internal processing issues have prevented that partner from providing a purchase order to us in a timely manner.

Recruiting and retaining qualified channel partners and training them in our technology and product offerings requires significant time and resources. These recruitment, retention, and training efforts have assumed even greater importance as we have evolved into a multi-product company. In order to develop and expand our distribution channel, we must continue to scale and improve our processes and procedures that support our distribution channel, including investment in systems and training, and those processes and procedures may become increasingly complex and difficult to manage. In particular, training and educating our channel partners has become more complex as we have introduced products that extend beyond core WAN optimization. We have no minimum purchase commitments with any of our value-added resellers or other indirect distributors, and our contracts with these channel partners do not prohibit them from offering products or services that compete with ours. Our competitors may be effective in providing incentives to existing and potential channel partners to favor their products, to choose not to partner with us, or to prevent or reduce sales of our products. Our channel partners may choose not to offer our products exclusively or at all. If we fail to maintain successful relationships with our channel partners, fail to develop new relationships with channel partners in new markets or expand the number of channel partners in existing markets, fail to manage, train or motivate existing channel partners effectively, or if these channel partners are not successful in their sales efforts, sales of our products would decrease and our business, operating results and financial condition would be materially adversely affected.

We expect our gross margins to vary over time and our recent level of gross margin may not be sustainable. In addition, our gross margins may be adversely affected by our introductions of new products.

Our gross margins vary from quarter to quarter and the recent level of gross margins may not be sustainable and may be adversely affected in the future by numerous factors, including but not limited to product or sales channel mix shifts, increased price competition, increases in material or labor costs, excess product component or obsolescence charges from our contract manufacturers, write-downs for obsolete or excess inventory, increased costs due to changes in component pricing or charges incurred due to component holding periods if our forecasts do not accurately anticipate product demand, warranty-related issues, product discounting, freight charges, or our introduction of new products or new product platforms or entry into new markets with different pricing and cost structures.

Any introduction of, and transition to, a new product line requires us to forecast customer demand for both legacy and new product lines for a period of time, and to maintain adequate inventory levels to support the sales forecasts for both product lines. If new product line sales, or product line sales in general, exceed our sales forecast, we could possibly experience stock shortages, which would negatively affect our revenues. If legacy product line sales, or product lines sales in general, fall short of our sales forecast, we could have excess inventory, as has occurred from time to time. Any inventory charges would negatively impact our gross margins.

Our sales cycles can be long and unpredictable, and our sales efforts require considerable time and expense. As a result, our revenue is difficult to predict and may vary substantially from quarter to quarter.

The timing of our revenue is difficult to predict. Our sales efforts involve educating our customers about the use and benefit of our products, including their technical capabilities and potential cost savings to an organization. Customers typically undertake a significant evaluation process that has in the past resulted in a lengthy sales cycle, in some cases over twelve months. Also, as our channel model distribution strategy evolves, utilizing value-added resellers, value-added distributors, systems integrators and service providers, and as the breadth of our product offerings increases, the level of variability in the length of sales cycle across transactions may increase and make it more difficult to predict the timing of many of our sales transactions. For example, we recently experienced, and may continue to experience, extended sales cycles as a result of the additional complexity inherent in selling multiple product offerings in one transaction or a series of related transactions. We spend substantial time and money in our sales efforts without any assurance that these endeavors will produce any sales. Even after making the decision to purchase, customers may deploy our products slowly and deliberately. In addition, product purchases are frequently and increasingly subject to budget constraints, multiple approvals, and unplanned administrative, processing, and other delays.

Customers may also defer purchases as a result of anticipated or announced releases of new products or enhancements by our competitors or by us. In the past, we experienced delays in customer purchasing cycles in response to our introduction of new products or product transitions; we expect that this trend will continue in the future. Product purchases may be, and in the recent past have been, delayed by the volatile U.S. and global economic environment, which introduced additional risk into our ability to accurately forecast sales in a particular quarter. If sales expected from a specific customer for a particular quarter are not realized in that quarter or at all, revenue will be harmed and we may miss our stated guidance for that period.

If we do not successfully anticipate market needs and develop products and product enhancements that meet those needs, or if those products do not gain market acceptance, our business and operating results will be harmed.

We may not be able to anticipate future market needs or be able to develop new products or product enhancements to meet such needs, either on a timely basis or at all. For example, our failure to address additional application-specific protocols, particularly if our competitors are able to provide such functionality, could harm our business. In addition, our inability to diversify beyond our current product offerings could adversely affect our business. Any new products or product enhancements that we introduce, including by way of acquisitions, may not achieve any significant degree of market acceptance or be accepted into our sales channel by our channel partners, which would adversely affect our business and operating results. In addition, the introduction of new products or product enhancements may shorten the life cycle of our existing products, or replace sales of some of our current products, thereby offsetting the benefit of even a successful product introduction, or may cause customers to defer purchasing our existing products in anticipation of the new or enhanced products, any of which could adversely affect our business and operating results.

Acquisitions could disrupt our business and cause dilution to our stockholders.

During 2012 we acquired OPNET. We have made other acquisitions of businesses, products or technologies, and in the future we may acquire additional businesses, products, or technologies. Our ability as an organization to integrate acquisitions is unproven. Any acquisitions that we complete may not ultimately strengthen our competitive position or achieve our goals, or the acquisition may be viewed negatively by customers, financial markets or investors. In addition, we may encounter difficulties in integrating personnel, operations, technologies, or products from the acquired businesses and in retaining and motivating key personnel from these businesses. We may also encounter difficulties in maintaining uniform standards, controls, procedures, and policies across locations, or in managing geographically or culturally diverse locations. We may experience significant problems or liabilities associated with acquired or integrated product quality or technology. Acquisitions may disrupt our ongoing operations, divert management from day-to-day responsibilities and increase our expenses. 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.

We rely on third parties to perform shipping and other logistics functions on our behalf. A failure or disruption at a logistics partner would harm our business.

We use third-party logistics partners to perform storage, packaging, shipment and handling for us. It is time-consuming and costly to qualify and implement relationships with new logistics partners. Therefore, if one or more of our logistics partners suffers an interruption in its business, or experiences delays, disruptions, or quality control problems in its operations, or we choose to change or add additional logistics partners, our ability to ship products to our customers would be delayed and our business, operating results and financial condition would be adversely affected.

We are susceptible to shortages or price fluctuations in our supply chain. Any shortages or price fluctuations in components used in our products could delay shipment of our products or increase our costs and harm our operating results.

We use various hardware components in our products that are sourced from third parties. Shortages in components that we use in our products have occurred recently and may occur in the future and our suppliers' ability to predict the availability of such components may be limited. Some components that we use are available only from limited sources of supply. Replacing a component that is used in our products with a different component may require establishing a new supply relationship with a third-party and may also require extensive testing and qualification before the replacement component may be used, both of which may be costly and time-consuming. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in quantity requirements and delivery schedules. The unavailability of any component that is necessary to the proper functioning of our appliances would prevent us from shipping products. Any inability to ship our products in a timely manner would delay sales and adversely impact our revenue, business, operating results and financial condition.

Any growth in our business or the economy is likely to create greater pressures on us and our suppliers to project overall component demand accurately and to establish optimal component inventory levels. In addition, increased demand by third parties for the components we use in our products may lead to decreased availability and higher prices for those components. We carry limited inventory of our product components, and we rely on suppliers to deliver components in a timely manner based on forecasts we provide. We rely on both purchase orders and long-term contracts with our suppliers, but we may not be able to secure sufficient components at reasonable prices or of acceptable quality, which would seriously impact our ability to deliver products to our customers and, as a result, adversely impact our revenue.

If we fail to accurately predict our manufacturing requirements, we could incur additional costs or experience manufacturing delays, which would harm our business. We are dependent on contract manufacturers, and changes to those relationships, expected or unexpected, may result in delays or disruptions that could harm our business.

We depend on independent contract manufacturers to manufacture and assemble our products. We rely on purchase orders or long-term contracts with our contract manufacturers. Some of our contract manufacturers are not obligated to supply products to us for any specific period, in any specific quantity, or at any specific price. Our orders may represent a relatively small percentage of the overall orders received by our contract manufacturers from their customers. As a result, fulfilling our orders may not be considered a priority by one or more of our contract manufacturers in the event the contract manufacturer is constrained in its ability to fulfill all of its customer obligations in a timely manner. We provide demand forecasts and purchase orders to our contract manufacturers. To the extent that any such demand forecast or purchase order is binding, if we overestimate our requirements, the contract manufacturers 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, the contract manufacturers may have inadequate materials and components required to produce our products, which could interrupt manufacturing of our products and result in delays in shipments and deferral or loss of revenue.

It is time-consuming and costly to qualify and implement contract manufacturer relationships. Therefore, if one or more of our contract manufacturers suffers an interruption in its business, or experiences delays, disruptions, or quality control problems in its manufacturing operations, or we choose 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.

In addition, a portion of our manufacturing is performed overseas and is subject to risks associated with doing business in other countries.

We are dependent on various information technology systems, and failures of or interruptions to those systems could harm our business.

Many of our business processes depend upon our information technology systems (IT), the systems and processes of third parties, and on interfaces with the systems of third parties. For example, our order entry system provides information to the systems of our contract manufacturers, which enables them to build and ship our products. If those systems fail or are interrupted, or if our ability to connect to or interact with one or more networks is interrupted, our processes may function at a diminished level or not at all. This would harm our ability to ship products, and our financial results would likely be harmed.

In addition, reconfiguring our IT systems or other business processes in response to changing business needs, or in connection with integrating acquired businesses, may be time-consuming and costly. To the extent this impacts our ability to react timely to specific market or business opportunities, our financial results would likely be harmed.

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

We depend on our ability to protect our proprietary technology. We rely on trade secret, patent, copyright and trademark laws and confidentiality agreements with employees and third parties, all of which offer only limited protection. The steps we have taken to protect our proprietary rights may not be adequate to preclude misappropriation of our proprietary information or infringement of our intellectual property rights, and our ability to police such misappropriation or infringement is uncertain, particularly in countries outside of the U.S. Further, with respect to patent rights, we do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims, and even if patents are issued, they may be contested, circumvented or invalidated over the course of our business. The invalidation of any of our key patents could benefit our competitors by allowing them to more easily design products similar to ours. Moreover, the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages, and competitors may in any event be able to develop similar or superior technologies to our own now or in the future. Protecting against the unauthorized use of our products, trademarks, and other proprietary rights is expensive, difficult and, in some cases, impossible. Litigation has been necessary in the past and may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. For example, we are currently engaged in patent infringement litigation against Silver Peak Systems, in which both we and Silver Peak Systems assert patent infringement by the other party. Intellectual property litigation has resulted, and may in the future result, in substantial costs and diversion of management resources, and may in the future harm our business, operating results and financial condition. 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.

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

Our industry is, and any industry or market that we may enter in the future may be, characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. In the ordinary course of our business, we are involved in disputes and licensing discussions with others regarding their claimed proprietary rights and we cannot assure you that we will always successfully defend ourselves against such claims. Third parties have claimed and may in the future claim that our products or technology infringe their proprietary rights. We expect that infringement claims may increase as the number of products and competitors in any of our markets increases and overlaps occur. In addition, as we have gained greater visibility and market exposure as a public company, we face a higher risk of being the subject of intellectual property infringement claims. Any claim of infringement by a third-party, even those without merit, could cause us to incur substantial legal costs defending against the claim, and could distract our management from our business. Furthermore, we could be subject to a judgment or voluntarily enter into a settlement, either of which could require us to pay substantial damages. A judgment or settlement could also include an injunction, a court order or other agreement that could prevent us from offering our products. For example, in April 2014, Silver Peak Systems received a verdict of infringement by us relating to two patents; although an initial injunction request was denied, Silver Peak Systems may continue to seek an injunction against our continued offering of certain features on our SteelHead products. In addition, we might elect or be required to seek a license for the use of third-party intellectual property, which may not be available on commercially reasonable terms or at all, or if available, the payments under such license may harm our operating results and financial condition. Alternatively, we may be required to develop non-infringing technology, which could require significant effort and expense and may ultimately not be successful. Any of these events could seriously harm our business, operating results, and financial condition. Third parties may also assert infringement claims against our customers and channel partners. Any of these claims would require us to initiate or defend potentially protracted and costly litigation on their behalf, regardless of the merits of these claims, because we generally indemnify our customers and channel partners from claims of infringement of proprietary rights of third parties. If any of these claims succeed, or if we voluntarily enter into a settlement, we may be forced to pay damages on behalf of our customers or channel partners, which could have a material adverse effect on our business, operating results and financial condition.

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

In the years ended December 31, 2014, 2013, and 2012, we derived 43%, 41% and 45%, respectively, of our revenue from customers outside the U.S. We have personnel in numerous countries worldwide. We expect to continue to add personnel in additional countries. Our international sales and operations makes us subject to various U.S. and international laws and regulations, including those relating to antitrust, data protection, and business dealings with both commercial and governmental officials and organizations. Our international sales and operations subject us to a variety of additional risks, including:

- the difficulty and cost of managing and staffing international offices and the increased travel, infrastructure, legal, and other compliance costs associated with multiple international locations;
- difficulties in enforcing contracts and collecting accounts receivable, and longer payment cycles, especially in emerging markets;
- tariffs and trade barriers and other regulatory or contractual limitations on our ability to sell or develop our products in certain foreign markets;
- the effects of any political instability on the general willingness of our current and prospective customers to make capital commitments;
- unfavorable changes in tax treaties or laws;

- 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 sales and operations. Our failure to manage any of these risks successfully, or to comply with these laws and regulations, could harm our operations, reduce our sales, and harm our business, operating results and financial condition. For example, in certain foreign countries, particularly those with developing economies, certain business practices that are prohibited by laws and regulations applicable to us, such as the Foreign Corrupt Practices Act, may be more commonplace. Although we implement policies and procedures with the intention of ensuring compliance with these laws and regulations, our employees, contractors, and agents, as well as channel partners involved in our international sales, may take actions in violation of our policies. Any such violation could have an adverse effect on our business and reputation.

Some of our business partners also have international operations and are subject to the risks described above. Even if we are able to successfully manage the risks of international operations, our business may be adversely affected if our business partners are not able to successfully manage these risks.

Foreign currencies periodically experience rapid fluctuations in value against the U.S. dollar. Any foreign currency devaluation against the U.S. dollar increases the real cost of our products to our customers and partners in foreign markets where we sell in U.S. dollars, which has resulted in the past and may result in the future in delayed or cancelled purchases of our products and, as a result, lower revenues. In addition, this increase in cost increases the risk to us that we will be unable to collect amounts owed to us by such customers or partners, which in turn would impact our revenues and could materially adversely impact our business and financial results. Any devaluation may also lead us to more aggressively discount our prices in foreign markets in order to maintain competitive pricing, which would negatively impact our revenues and gross margins. Conversely, a weakened U.S. dollar could increase the cost of local operating expenses and procurement of raw materials to the extent we purchase components in foreign currencies.

Starting in the first quarter of fiscal 2012, we entered into forward contracts designated as cash flow hedges to protect against foreign currency exchange rate risks. The effectiveness of our hedges depends on our ability to accurately forecast expenses denominated in non-U.S. dollar currencies. As a result, we could incur significant losses from our hedging activities if our forecasts are incorrect. In addition, our hedging activities may be ineffective or may not offset any or more than a portion of the adverse financial impact resulting from currency variations. Gains or losses associated with hedging activities also may impact our profitability.

International customers may also require that we localize our products. The product development costs for localizing the user interface of our products, both graphical and textual, could be a material expense to us if the software requires extensive modifications. To date, such changes have not been extensive, and the costs have not been material.

We are investing in engineering, sales, marketing, services, and infrastructure, and these investments may achieve delayed or lower than expected benefits, which could harm our operating results.

We intend to continue to add personnel and other resources to our engineering, sales, marketing, services and infrastructure functions as we focus on developing new technologies, growing our market segments, capitalizing on existing or new market opportunities, increasing our market share, and enabling our business operations to meet anticipated demand. We are likely to recognize the costs associated with these investments earlier than some of the anticipated benefits, and the return on these investments may be lower, or may develop more slowly, than we expect. If we do not achieve the benefits anticipated from these investments, or if the achievement of these benefits is delayed, our operating results may be adversely affected.

If we lose key personnel or are unable to attract and retain personnel on a cost-effective basis, our business would be harmed.

Our success is substantially dependent upon the performance of our senior management and key technical and sales personnel. Our management and employees can terminate their employment at any time, and the loss of the services of one or more of our executive officers or other key employees 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. Competition for qualified personnel is intense, and we may not be successful in attracting and retaining such personnel on a timely basis, on competitive terms, or at all. Additionally, fluctuations or a sustained decrease in the price of our stock could affect our ability to attract and retain key personnel. When our stock price declines, our equity incentive awards may lose retention value, which may negatively affect our ability to attract and retain such key personnel. If we are unable to attract and retain the necessary technical, sales and other personnel on a cost-effective basis, our business, operating results and financial condition would be adversely affected.

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

Developing our products is expensive, and the investment in product development may involve a long payback cycle or may not generate additional revenue at all. For the year ended December 31, 2014, our research and development expenses were $205.6 million, or approximately 19% of our total revenue. Our future plans include significant investments in research and development and related product opportunities. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. These investments may take several years to generate positive returns, if ever.

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 harm our operating results and reputation.

Once our products are deployed within our customers' networks, our customers 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 customers in deploying our products, succeed in helping our customers quickly resolve post-deployment issues, and provide effective ongoing support, it would adversely affect our ability to sell our products to existing customers and would 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. Any failure to maintain high quality support and services would harm our operating results and reputation.

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

We have expanded our operations significantly since inception, both organically and through acquisitions of complementary businesses and technologies, and anticipate that further significant expansion will be required. This growth is expected to continue to place significant demands on our management, infrastructure, and other resources. To manage our growth, we need to hire, integrate, and retain highly skilled and motivated employees. We will also need to continue to improve our financial and management controls, reporting systems, and procedures. We have an enterprise resource planning software system that supports our finance, sales, and inventory management processes. If we were to encounter delays or difficulties as a result of this system, including loss of data and decreases in productivity, our ability to properly run our business could be adversely impacted. If we do not effectively manage our growth, our business would be harmed.

Organizations are increasingly concerned with the security of their data, and to the extent they elect to encrypt data being transmitted from the point of the end user in a format that we're not able to decrypt, rather than only across the WAN, our WAN optimization products will become less effective.

Our WAN optimization products are designed to remove the redundancy associated with repeated data requests over a WAN, either through a private network or a virtual private network (VPN). The ability of our WAN optimization products to reduce redundancy depends on our products' ability to recognize the data being requested. Our WAN optimization products currently detect and decrypt some forms of encrypted data. 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 WAN optimization products. For those organizations that elect to encrypt their data transmissions from the end-user to the server in a format that we are not able to decrypt, our WAN optimization products will offer limited performance improvement unless we are successful in incorporating additional functionality into our products that address those encrypted transmissions. Our failure to provide such additional functionality could limit the growth of our business and harm our operating results.

If our products do not interoperate with our customers' infrastructure, installations could be delayed or cancelled, which would harm our business.

Our products must interoperate with our customers' existing infrastructure, which often have different specifications, utilize multiple protocol standards, deploy products from multiple vendors, and contain multiple generations of products that have been added over time. If we find errors in the existing software or defects in the hardware used in our customers' infrastructure or problematic network configurations or settings, as we have in the past, we may have to modify our software or hardware so that our products will interoperate with our customers' infrastructure. In such cases, and others, our products may be unable to provide significant performance improvements for applications deployed in our customers' infrastructure. These issues could cause longer installation times for our products and could cause order cancellations, either of which would adversely affect our business, operating results and financial condition. In addition, government and other customers may require our products to comply with certain security or other certifications and standards. If our products are late in achieving or fail to achieve compliance with these certifications and standards, or our competitors achieve compliance with these certifications and standards, we may be disqualified from selling our products to such customers, or at a competitive disadvantage, which would harm our business, operating results, and financial condition.

If functionality similar to that offered by our products is incorporated into existing network infrastructure products, organizations may decide against adding our products to their network, which would harm our business.

Other providers of network infrastructure products, including our partners, are offering or announcing functionality aimed at addressing the problems addressed by our products. For example, Cisco Systems incorporates WAN optimization functionality into certain of its router blades. The inclusion of, or the announcement of intent to include, functionality perceived to be similar to that offered by our products in products that are already generally accepted as necessary components of network architecture or in products that are sold by more established vendors may have an adverse effect on our ability to market and sell our products. Furthermore, even if the functionality offered by other network infrastructure providers is more limited than our products, a significant number of customers may elect to accept such limited functionality in lieu of adding appliances from an additional vendor. Many organizations have invested substantial personnel and financial resources to design and operate their networks and have established deep relationships with other providers of network infrastructure products, which may make them reluctant to add new components to their networks, particularly from new vendors. In addition, an organization's existing vendors or new vendors with a broader product offering than ours may be able to offer concessions that we are not able to match because we currently offer a relatively focused line of products and have fewer resources than many of our competitors. If organizations are reluctant to add network infrastructure products from new vendors or otherwise decide to work with their existing vendors, our business, operating results, and financial condition will be adversely affected.

Our products are highly technical and may contain undetected software or hardware errors or security vulnerabilities. These errors or security vulnerabilities, and any related claims against our products, could cause harm to our reputation and our business.

Our products, including software product upgrades and releases, 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, defects, or security vulnerabilities. In particular, new products and product platforms may be subject to increased risk of hardware issues. Some errors in our products may be discovered only after a product has been installed and used by customers. Some of these errors may be attributable to third-party technologies incorporated into our products, which makes us dependent upon the cooperation and expertise of such third-parties for the diagnosis and correction of such errors. The diagnosis and correction of third-party technology errors is particularly difficult where our product features the RSP or VSP, because it is not always immediately clear whether a particular error is attributable to a technology incorporated into our product or to third-party software deployed by our customers on our product. In addition, where we have incorporated technology from a third-party, the solutions may be more complex and may lead to new technical errors that may prove difficult to diagnose and support. Any delay or mistake in the initial diagnosis of an error will result in a delay in the formulation of an effective action plan to correct such error. Any errors, defects, or security vulnerabilities discovered in our products after commercial release could result in loss of revenue or delay in revenue recognition, loss of customers and increased service and warranty cost, any of which could harm our reputation, business, operating results and financial condition. Any such errors, defects, or security vulnerabilities could also adversely affect the market's perception of our products and business. 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 harm 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 and third-party software could impose limitations on our ability to commercialize our products.

We incorporate open source software into our products. The terms of many open source licenses have not been interpreted by U.S. or other 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. We could also be subject to similar conditions or restrictions should there be any changes in the licensing terms of the open source software incorporated into our products. In either 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 or successful basis, any of which could adversely affect our business, operating results and financial condition.

We also incorporate certain third-party technologies, including software programs, into our products and may need to utilize additional third-party technologies in the future. However, licenses to relevant third-party technology may not continue to be available to us on commercially reasonable terms, or at all. Therefore, we could face delays in product releases until equivalent technology can be identified, licensed or developed, and integrated into our current products. These delays, if they occur, could materially adversely affect our business, operating results and financial condition. We currently use third-party software programs in our appliance and software products, some of which are currently available from only one vendor. Any disruption in our access to these or other software programs or third-party technologies could result in significant delays in our product releases and could require substantial effort to locate or develop a replacement program. If we decide in the future to incorporate into our products any other software program licensed from a third-party, and the use of such software program is necessary for the proper operation of our products, then our loss of any such license would similarly adversely affect our ability to release our products in a timely fashion.

We are subject to various regulations that could subject us to liability or impair our ability to sell our products.

Our products and services are subject to a variety of government regulations, including export controls, import controls, environmental laws, laws relating to the use of conflict minerals, and required certifications. For example, our products are subject to export controls of the U.S. and other countries and may be exported outside the U.S. and other countries only with the required level of export license or through an export license exception, because we incorporate encryption technology into our products. 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 regulations may increase the cost of building and selling our products, 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 regulations, 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. We must comply with various and increasing environmental regulations, both domestic and international, regarding the manufacturing and disposal of our products. Failure to comply with these and similar laws on a timely basis, or at all, could have a material adverse effect on our business, operating results and financial condition. Any decreased use of our products or limitation on our ability to export or sell our products would harm our business, operating results and financial condition.

Our sales to United States government customers subject us to special risks that could adversely affect our business.

We sell our products directly or indirectly to the United States government and, in connection with such sales, we must comply with complex federal procurement and related laws and regulations, which may impose added costs on our business. For the year ended December 31, 2014, approximately 9.9% of our sales constituted sales made directly or indirectly to the United States government. The federal government audits and reviews the performance of federal contractors regarding contract terms, pricing practices, cost structure, and compliance with applicable laws, regulations and standards. Such an audit could result in an adverse finding, including a finding that we overcharged the government or failed to comply with applicable laws, regulations and standards. If a government audit or other investigation results in an adverse finding or uncovers improper or illegal activities, we may be required to restate previously reported operating results or we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with United States federal government agencies. We could face additional expense and delay if any of our competitors, or competitors of the prime contractors to which we serve as subcontractors, protest or challenge contract awards made to us or to our prime contractors pursuant to competitive bidding. In addition, United States government contracts contain provisions and are subject to laws and regulations that provide government customers with rights and remedies not typically found in commercial contracts; these remedies include rights to terminate for convenience on short notice, reduce or modify contracts or subcontracts, and claim rights in products and technology produced by us.

We incur significant costs as a result of operating as a public company, and our management devotes substantial time to new compliance initiatives.

We incur significant legal, accounting and other expenses as a public company, including costs resulting from regulations regarding corporate governance practices and costs relating to compliance with Section 404 of the Sarbanes-Oxley Act. For example, the listing requirements of the Nasdaq Stock Market's Global Select Market require that we satisfy certain corporate governance requirements relating to independent directors, audit and compensation committees, distribution of annual and interim reports, stockholder meetings, stockholder approvals, solicitation of proxies, conflicts of interest, stockholder voting rights and codes of conduct. In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act contains various provisions applicable to the corporate governance functions of public companies. Our management and other personnel devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, these rules and regulations could 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.

We are exposed to risks from legislation requiring companies to evaluate internal control over financial reporting.

The Sarbanes-Oxley Act requires that we test our internal control over financial reporting and disclosure control and procedures. In particular, for the year ended December 31, 2014, we performed system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our compliance with Section 404 requires that we incur substantial expense and expend significant management time on compliance-related issues. Moreover, if we are not able to comply with the requirements of Section 404 in the future, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock may decline and we could be subject to sanctions or investigations by the Nasdaq Stock Market's Global Select Market, the SEC or other regulatory authorities, which would require significant additional financial and management resources.

Changes in financial accounting standards may cause adverse unexpected revenue fluctuations and affect our reported results of operations.

A change in accounting policies can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New pronouncements and varying interpretations of existing pronouncements have occurred with frequency and may occur in the future. Changes to existing rules, or changes to the interpretations of existing rules, could lead to changes in our accounting practices, and such changes could adversely affect our reported financial results or the way we conduct our business.

We are required to expense equity compensation given to our employees, which has reduced our reported earnings, will harm our operating results in future periods and may reduce our stock price and our ability to effectively utilize equity compensation to attract and retain employees.

We historically have used stock options, restricted stock units, and an employee stock purchase plan as significant components of our employee compensation program in order to align employees' interests with the interests of our stockholders, encourage employee retention, and provide competitive compensation packages. The compensation charges that we are required to record related to these equity awards have reduced, and will continue to reduce, our reported earnings, will harm our operating results in future periods, and may require us to reduce the availability and amount of equity incentives provided to employees, which could make it more difficult for us to attract, retain and motivate key personnel. Moreover, if securities analysts, institutional investors and other investors adopt financial models that include stock option expense in their primary analysis of our financial results, our stock price could decline as a result of reliance on these models with higher expense calculations.

We may have exposure to greater than anticipated tax liabilities.

Our provision for income taxes is subject to volatility and could be adversely affected by nondeductible stock-based compensation, changes in the research and development tax credit laws, earnings being lower than anticipated in jurisdictions where we have lower statutory rates and being higher than anticipated in jurisdictions where we have higher statutory rates, transfer pricing adjustments, not meeting the terms and conditions of tax holidays or incentives, changes in the valuation of our deferred tax assets and liabilities, changes in actual results versus our estimates, or changes in tax laws, regulations, accounting principles or interpretations thereof. In addition, like other companies, we may be subject to examination of our income tax returns by the U.S. Internal Revenue Service and other tax authorities. While we regularly assess the likelihood of adverse outcomes from such examinations and the adequacy of our provision for income taxes, there can be no assurance that such provision is sufficient and that a determination by a tax authority will not have an adverse effect on our results of operations.

If we fail to successfully manage our exposure to the volatility and economic uncertainty in the global financial marketplace, our operating results could be adversely impacted.

We are exposed to financial risk associated with the global financial markets, including volatility in interest rates and uncertainty in the credit markets. Our exposure to market rate risk for changes in interest rates relates primarily to the outstanding balance of our $600.0 million credit facility and our investment portfolio. The primary objective of our investment activities is to preserve principal, maintain adequate liquidity and portfolio diversification while at the same time maximizing yields without significantly increasing risk. However, the valuation of our investment portfolio is subject to uncertainties that are difficult to predict. Factors that may impact its valuation include changes to credit ratings of the securities that we hold, interest rate changes, the ongoing strength and quality, and recent instability, of the global credit market, and liquidity. If the carrying value of our investments exceeds the fair value, and the decline in fair value is deemed to be other-than-temporary, we will be required to write down the value of our investments. Additionally, instability and uncertainty in the financial markets, as has been recently experienced, could result in the incurrence of significant realized or impairment losses associated with certain of our investments, which would reduce our net income.

If we need additional capital in the future, it may not be available to us on favorable terms, or at all.

We have historically relied on outside financing and cash flow from operations to fund our operations, capital expenditures and expansion, most recently through establishment of a $600.0 million credit facility. We may require additional capital from equity or debt financing in the future to fund our operations or respond to competitive pressures or strategic opportunities. We may not be able to secure timely additional financing on favorable terms, or at all. The terms of our current senior secured credit facility include certain covenants that limit future borrowings and require that certain payments, investments and acquisitions meet defined leverage ratios, and any additional financing may place additional limits on our financial and operating flexibility. The terms of our current senior secured credit facility include financial covenants that require the maintenance of minimum consolidated interest coverage and maximum consolidated leverage ratios. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new securities we issue could have rights, preferences and privileges senior to those of holders of our common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, if and when we require it, our ability to grow or support our business and to respond to business challenges could be significantly limited.

We have taken on significant debt, which will decrease our business flexibility and increase our interest expense.

We currently have a balance of $510.0 million related to our $600.0 million credit facility. This debt, together with certain covenants imposed on us in connection with incurring this debt, among other things, limits how we conduct our business, reduces our flexibility to respond to changing business and economic conditions and increases our interest expense. Our ability to pay interest and repay the principal for our indebtedness is dependent upon our ability to manage our business operations, generate sufficient cash flows to service such debt and the other factors discussed in this section. There can be no assurance that we will be able to manage any of these risks successfully. We may also need to refinance a portion of our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or that the terms of any refinancing may not be as favorable as the terms of our existing debt. Furthermore, if prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, then the interest expense relating to that refinanced indebtedness would increase. In addition, the covenants in our credit facility limit our ability to, among other things, obtain additional financing, make acquisitions or other investments, repurchase our stock or pay dividends. These limitations could adversely affect our financial condition and results of operations.

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

Our main operations, including our primary data center, 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, could disrupt our operations and therefore harm our business, operating results and financial condition. A natural disaster could also impact our ability to manufacture and deliver our products to customers, or provide support to our customers, any of which would harm 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, which could result in the theft of intellectual property, customer information or other sensitive data. Any of these incidents could result in both legal and reputational costs. Natural disasters, acts of unrest or terrorism or war could also cause disruptions in our or our customers' business, our domestic and international markets, 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

The trading price of our common stock has been volatile and is likely to be volatile in the future.

The trading prices of the securities of technology companies, including our own, have been highly volatile. Further, our common stock has a limited trading history. Since our initial public offering in September 2006 through December 31, 2014, our stock price, after adjusting for our 2:1 stock split in the form of a stock dividend effected in November 2010, has fluctuated from a low of $3.55 to a high of $44.70. The market price of our common stock has at times reflected a higher multiple of expected future earnings than many other companies. As a result, even small changes in investor expectations regarding our future growth and earnings, whether as a result of actual or rumored financial or operating results, changes in the mix of products and services sold, acquisitions, industry changes, or other factors, could result in, and have recently resulted in, significant fluctuations in the market price of our common stock.

Factors that could affect the trading price of our common stock include, but are not limited to:

- variations in our operating results;
- announcements of technological innovations, new services or service 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;
- providing estimates of our future operating results, or changes of these estimates, either by us or by any securities analysts who follow our common stock, or changes in recommendations by any securities analysts who follow our common stock;
- significant sales or purchases, or announcement of significant sales or purchases, of our common stock by us or our stockholders, including our directors and executive officers;
- announcements by or about us regarding events or news adverse to our business;
- market conditions in our industry, the industries of our customers and the economy as a whole;
- adoption or modification of regulations, policies, procedures or programs applicable to our business;
- actions taken by stockholders and others, including in connection with a potential offer to acquire us;
- an announced acquisition of or by a competitor;
- an announced acquisition of or by us. For example, our stock price declined immediately after the announcement by us of our intention to acquire OPNET; and
- the failure to consummate the Merger.

If the market for technology stocks or the stock market in general experiences loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, operating results or financial condition. The trading price of our common stock might also decline in reaction to announcements by, or events that affect, other companies in our industry, or the trading price might decline in reaction to events that affect the stock market generally even if these announcements or events do not directly affect us. Each of these factors, among others, could cause our stock price to decline. Some companies that have had volatile market prices for their securities have had securities class action lawsuits filed against them. If such a lawsuit were filed against us, regardless of its merits or outcome, it could result in substantial costs and divert management's attention and resources.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will continue to depend in part on the research and reports that securities or industry analysts publish about us or our business. If we do not continue to maintain adequate research coverage or if one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

Anti-takeover provisions in our charter documents and Delaware law could discourage, delay or prevent a change in control of our company and may affect the trading price of our common stock.

We are a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change in control would be beneficial to our existing stockholders. In addition, our restated certificate of incorporation and amended and restated bylaws contain provisions that may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable.

On November 11, 2013, we implemented a stockholder rights plan, also called a poison pill, which may have the effect of discouraging or preventing a change of control of us by, among other things, making it uneconomical for a third-party to acquire us on a hostile basis. In November 2014, we extended the expiration of the rights plan until November 2015.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease approximately 167,000 square feet of office space in San Francisco, California, for our worldwide corporate headquarters. We lease a research and development facility of approximately 82,000 square feet of office space in Bethesda, MD held under two leases. We lease a research and development facility of approximately 67,000 square feet of office space in Sunnyvale, California. These leases expire starting in 2016 through 2024. We maintain support centers in New York, the San Francisco Bay Area, Bethesda, Amsterdam, London, Singapore, Sydney and Tokyo, and sales offices in multiple locations worldwide. We believe that our current facilities are suitable and adequate to meet our current needs.

Item 3. Legal Proceedings

On June 1, 2011, we served Silver Peak Systems, Inc. with a lawsuit, filed in the United States District Court for the District of Delaware, alleging infringement of certain patents. The lawsuit seeks unspecified damages and injunctive relief. On July 22, 2011, Silver Peak Systems denied the allegations and requested declaratory judgments of invalidity and non-infringement. On December 21, 2011, we amended our lawsuit against Silver Peak Systems to allege infringement of an additional patent. Our lawsuit against Silver Peak Systems currently alleges infringement of three patents. Trial of our claims against Silver Peak Systems in this matter is currently stayed pending a separate U.S. Patent and Trademark Office proceeding.

On August 17, 2011, Silver Peak Systems amended its counterclaims against us, alleging infringement by Riverbed of three U.S. patents: 7,630,295, titled “Network Device Continuity”; 7,945,736, titled “Dynamic Load Management of Network Memory”; and 7,948,921, titled “Automatic Network Optimization.” Silver Peak subsequently dropped its claims with respect to U.S. patent 7,630,295. The trial on the remaining two patents commenced on March 24, 2014. On April 1, 2014, the jury rendered a verdict of infringement on U.S. patents 7,948,921 and 7,945,736 based on certain features offered on Riverbed SteelHead products. We disagree with the verdict, and we intend to appeal to the Federal Circuit. There has been no trial or discovery on damages, and we expect that such a trial and discovery would be scheduled only if we lose on appeal to the Federal Circuit.

At this time we are unable to estimate any range of reasonably possible loss relating to these actions.

On June 28, 2013, we served Silver Peak Systems with an additional lawsuit, filed in the United States District Court for the Northern District of California, alleging infringement of two patents that are not covered by the lawsuit in Delaware. The California lawsuit seeks unspecified damages and injunctive relief. On July 22, 2013, Silver Peak Systems denied the allegations and requested declaratory judgments of invalidity and non-infringement. On August 12, 2013, Silver Peak Systems amended its counterclaims against us, alleging infringement by Riverbed of U.S. patent 8,392,684, titled “Data Encryption in a Network Memory Architecture for Providing Data Based on Local Accessibility”. On August 26, 2013 we denied Silver Peak Systems’ allegations and requested declaratory judgments of invalidity and non-infringement. On July 29, 2014, the Court lifted the stay that was in place on our action against Silver Peak, though no trial date has been set. The action against us is currently stayed pending a separate U.S. Patent and Trademark Office proceeding. At this time we are unable to estimate any range of reasonably possible loss relating to these actions. We believe that we have meritorious defenses to the counterclaims against us, and we intend to vigorously contest these counterclaims.

In connection with our July 2011 acquisition of the outstanding securities of Zeus Technology Limited (Zeus), the share purchase agreement provided for certain additional potential payments (acquisition-related contingent consideration) totaling up to $27.0 million in cash, based on achievement of certain bookings targets related to Zeus products for the period from July 20, 2011 through July 31, 2012 (the Zeus Earn-Out period). The share purchase agreement also provided for a potential $3.0 million payment as an incentive bonus to former employees of Zeus, based on achievement of certain bookings targets related to Zeus products for the Zeus Earn-Out period.

In October 2012 we served the representative of the Zeus shareholders, as lead defendant and proposed defendant class representative for all other similarly situated former shareholders of Zeus, with a lawsuit, filed in the Superior Court of the State of California, for declaratory relief. The lawsuit seeks declaratory judgment that, among other things, (a) Riverbed is not in breach of the share purchase agreement, and (b) Riverbed does not owe any acquisition-related contingent consideration under the share purchase agreement because the necessary conditions precedent to the payment of acquisition-related contingent consideration did not occur. In November 2012, the representative of the Zeus shareholders filed a cross-complaint against Riverbed and Riverbed Technology Limited in the Superior Court of the State of California. The cross-complaint claims breach of contract and breach of the covenant of good faith and fair dealing, and seeks declaratory judgment that Riverbed has breached the share purchase agreement and that the entire $27.0 million in contingent consideration is payable to Zeus shareholders. Discovery is ongoing, and the Court has approved a class treatment of the former shareholders, though several have declined to participate. The trial is currently scheduled for August 31, 2015, though may be rescheduled to an earlier date pending the Court's availability. We believe that the contention of the representative of the Zeus shareholders, and the Court-appointed class representatives for shareholders, is without merit and intend to vigorously defend our determination.

In November 2012 we received a grand jury subpoena issued by the United States District Court for the Eastern District of Virginia. The subpoena requested documents related to certain federal government contracting matters, including a $19 million transaction involving the sale of our products and services by a Riverbed reseller to an agency of the federal government in 2009. In January 2014 we received a notice that the Civil Division of the United States Attorney's Office for the Eastern District of Virginia has opened a civil investigation into the same matters.

In connection with the merger agreement and the transactions contemplated thereby, ten purported class action lawsuits have been filed. Seven complaints, captioned *Gary Merryman, Individually and On Behalf of All Others Similarly Situated v. Riverbed Technology, Inc., et al.*, filed on December 19, 2014 and amended on January 21, 2015, *Kamesh Bathla, On Behalf of Himself and All Others Similarly Situated v. Riverbed Technology, Inc. et al.*, filed on December 22, 2014 and amended on January 14, 2015, *Domenico Carlucci, Individually and On Behalf of All Others, Similarly Situated v. Riverbed Technology, Inc. et al.*, filed on December 23, 2014 and amended on January 15, 2015, *First Financial Trust, Individually and On Behalf of All Others Similarly Situated v. Riverbed Technology, Inc. et al.*, filed on December 23, 2014, *Gerard Byrne, Individually and On Behalf of All Others Similarly Situated v. Boustridge et al.*, filed on December 24, 2014, *Richard Krol, On Behalf of Himself and All Others Similarly Situated v. Riverbed Technology, Inc. et al.*, filed on January 8, 2015 and amended on January 15, 2015, *and David Jessen v. Riverbed Technology, Inc. et al.*, filed on January 15, 2015, were filed in the Court of Chancery of the State of Delaware. On January 30 and February 2, 2015, the Delaware actions were consolidated as *In Re Riverbed Technology Inc. Shareholder Litigation*. Two complaints, captioned *Ken Steiger, On Behalf of Himself and All Others Similarly Situated v. Riverbed Technology, Inc., et al.*, filed on January 16, 2015, and *Louis Benson, On Behalf of Himself and All Others Similarly Situated v. Riverbed Technology, Inc., et al.*, filed January 20, 2015, were filed in the San Francisco Superior Court, in the State of California. One complaint captioned *Seth Olson, Individually and On Behalf of All Others Similarly Situated v. Riverbed Technology, Inc., et al.*, filed February 5, 2015, was filed in the United States District Court for the Northern District of California, San Francisco Division. In general, the complaints assert that, among other things, the members of the Board of Directors breached their fiduciary duties to stockholders by initiating a process that undervalues Riverbed, by agreeing to a transaction that does not adequately reflect Riverbed's true value, and/or by failing to disclose material information relating thereto, and that Riverbed, Newco, Merger Sub, Thoma Bravo, Ontario Teachers' Pension Plan Board, and/or Elliott aided and abetted the Board of Directors' breaches of fiduciary duties. The federal complaint further asserts violations of federal securities laws related to the dissemination of the purportedly false and materially misleading proxy and seeks a declaration that certain provisions in the Company's amended and restated bylaws concerning forum selection and fee shifting are invalid. The complaints generally seek to enjoin the merger or, alternatively, seek rescission of the merger in the event the defendants are able to consummate it. We intend to vigorously contest these claims.

From time to time, we are subject to various legal proceedings, claims and litigation arising in the ordinary course of business. We do not believe we are party to any currently pending legal proceedings the outcome of which would have a material adverse effect on our financial position, results of operations, or cash flows.
There can be no assurance that existing or future legal proceedings arising in the ordinary course of business or otherwise will not have a material adverse effect on our financial position, results of operations, or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

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

Market Information for Common Stock

Our common stock has traded on Nasdaq under the symbol "RVBD" since our initial public offering on September 20, 2006, first on the Nasdaq Global Market and, since January 1, 2008, on the Nasdaq Global Select Market. Prior to our initial public offering, there was no public market for our common stock.

The following table sets forth for the indicated periods the high and low sales prices of our common stock as reported by the Nasdaq Global Select Market.

	Fiscal Year 2014		Fiscal Year 2013	
	High	Low	High	Low
First Quarter	$ 22.76	$ 17.57	$ 21.39	$ 14.46
Second Quarter	$ 20.78	$ 18.47	$ 16.75	$ 13.83
Third Quarter	$ 20.87	$ 17.50	$ 17.94	$ 14.43
Fourth Quarter	$ 21.00	$ 16.71	$ 19.38	$ 13.77

The last reported sale price for our common stock on the Nasdaq Global Select Market was $20.82 per share on February 6, 2015.

Dividend Policy

We have never paid any cash dividends on our common stock. Our Board of Directors (Board) currently intends to retain any future earnings to support operations and to finance the growth and development of our business and does not intend to pay cash dividends on our common stock for the foreseeable future. Any future determination related to our dividend policy will be made at the discretion of our Board.

On November 10, 2013, our Board authorized and declared a dividend distribution of one right (a Right) for each outstanding share of common stock, par value $0.0001 per share (the Common Shares), of Riverbed to stockholders of record at the close of business on November 21, 2013 (the Record Date). Each Right entitles the registered holder to purchase from us one one-thousandth of a share of Series A Participating Preferred Stock, par value $0.0001 per share (the Preferred Shares), of Riverbed at an exercise price of $75.00 per one one-thousandth of a Preferred Share, subject to adjustment (the Exercise Price). The complete terms of the Rights are set forth in a Preferred Shares Rights Agreement (the Rights Agreement), dated as of November 11, 2013 and as amended November 27, 2013, between us and Computershare Trust Company, N.A., as rights agent. Subject to certain exceptions specified in the Rights Agreement, the Rights will separate from the Common Shares and become exercisable following (i) the 10th business day (or such later date as may be determined by the Board) after the public announcement that a person or group of affiliated or associated persons (an Acquiring Person) has acquired beneficial ownership of 10% (or 20% in the case of certain institutional investors who report their holdings on Schedule 13G) or more of the Common Shares or (ii) the 10th business day (or such later date as may be determined by the Board) after a person or group announces a tender or exchange offer that would result in ownership by a person or group of 10% (or 20% in the case of certain institutional investors who report their holdings on Schedule 13G) or more of the Common Shares. Until such a time, the Rights are inseparable from our common stock. The Rights have a de minimus fair value. In November 2014, the expiration of the Rights Agreement was extended to November 11, 2015.

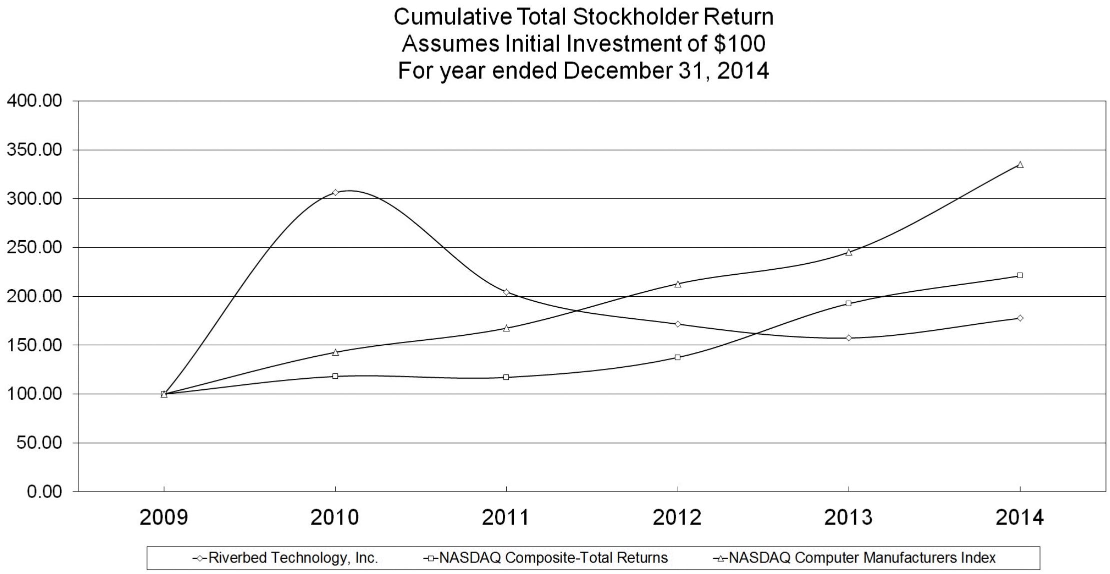
Stockholders

As of January 29, 2015, there were 184 registered stockholders of record of our common stock. Because many of our shares of common stock are held by brokers or other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by the record holders.

Stock Performance Graph

The graph set forth below compares the cumulative total stockholder return on our common stock between December 31, 2009 and December 31, 2014, with the cumulative total return of (i) the Nasdaq Computer Index and (ii) the Nasdaq Composite Index, over the same period. This graph assumes the investment of $100 on December 31, 2009 in our common stock, the Nasdaq Computer Index and the Nasdaq Composite Index, and assumes the reinvestment of dividends, if any. We have never paid dividends on our common stock and have no present plans to do so.

The comparisons shown in the graph below are based upon historical data and are not intended to suggest future performance. This performance graph shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or incorporated by reference into any filing of ours under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.



Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Share Repurchase Programs

On August 19, 2011, our Board authorized a Share Repurchase Program (the Program), which authorizes us to repurchase up to $150.0 million of our outstanding common stock. On May 17, 2012, our Board approved a $150.0 million increase to the Program. On August 19, 2013, the Board announced a $200.0 million increase to the Program. On March 4, 2014, the Board announced a $250.0 million increase, for a total authorized repurchase amount under the program of $750.0 million. The Program does not require us to purchase a minimum number of shares, and may be suspended, modified or discontinued at any time without prior notice. The timing and amounts of these purchases are based on market conditions and other factors, including price, regulatory requirements and capital availability. The share repurchases were financed by available cash balances and cash from operations.

There were no share repurchases under the repurchase program during the three months ended December 31, 2014. The amount remaining available under the program was $192.2 million as of December 31, 2014.

Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with our audited consolidated financial statements and related notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included in this Annual Report on Form 10-K. The consolidated statement of operations data for the years ended December 31, 2014, 2013 and 2012, and the selected consolidated balance sheet data as of December 31, 2014 and 2013 are derived from, and are qualified by reference to, the audited consolidated financial statements included in this Annual Report on Form 10-K. The consolidated statement of operations data for the years ended December 31, 2010 and 2009, and the consolidated balance sheet data as of December 31, 2011, 2010 and 2009 are derived from audited consolidated financial statements, which are not included in this Annual Report on Form 10-K.

	Year ended December 31,				
(in thousands, except per share amounts)	**2014**	**2013**	**2012**	**2011**	**2010**
Consolidated Statement of Operations Data:					
Revenue:					
Product	$ 605,414	$ 614,498	$ 548,141	$ 501,376	$ 380,277
Support and services	483,794	426,535	288,719	225,100	171,612
Total revenue	1,089,208	1,041,033	836,860	726,476	551,889
Cost of revenue:					
Cost of product (1) (2)	150,032	164,774	124,406	105,150	81,998
Cost of support and services (1) (2)	131,878	117,157	80,412	68,925	50,750
Total cost of revenue (1) (2)	281,910	281,931	204,818	174,075	132,748
Gross profit	807,298	759,102	632,042	552,401	419,141
Operating expenses					
Sales and marketing (1) (2)	454,945	469,200	328,657	272,635	225,052
Research and development (1) (2)	205,591	189,654	146,108	122,964	87,117
General and administrative (1) (2)	76,535	73,339	60,594	59,699	47,382
Other costs (3)	21,927	18,322	726	5,211	3,343
Total operating expenses	758,998	750,515	536,085	460,509	362,894
Operating income	48,300	8,587	95,957	91,892	56,247
Interest expense and other, net (4)	46,570	(35,152)	(1,924)	154	724
Income (loss) before income taxes	94,870	(26,565)	94,033	92,046	56,971
Provision for (benefit from) income taxes	23,602	(14,147)	39,436	28,239	22,813
Net income (loss)	$ 71,268	$ (12,418)	$ 54,597	$ 63,807	$ 34,158
Net income (loss) per common share:					
Basic	$ 0.45	$ (0.08)	$ 0.35	$ 0.41	$ 0.24
Diluted	$ 0.44	$ (0.08)	$ 0.33	$ 0.38	$ 0.22
Shares used in computing net income (loss) per common share:					
Basic	158,680	162,707	156,205	154,411	145,012
Diluted	163,192	162,707	164,570	166,900	155,999

(1) Includes stock-based compensation and related payroll tax expenses as follows:

	Year ended December 31,				
(in thousands)	2014	2013	2012	2011	2010
Cost of product	$ 1,491	$ 1,241	$ 1,011	$ 1,075	$ 578
Cost of support and services	8,948	9,015	7,080	7,001	5,805
Sales and marketing	36,677	41,752	36,639	38,249	30,529
Research and development	29,615	26,157	29,734	29,599	20,616
General and administrative	15,885	14,636	18,007	21,275	16,420
Total stock-based compensation and related payroll tax expenses	$ 92,616	$ 92,801	$ 92,471	$ 97,199	$ 73,948

(2) Costs of revenue and operating expenses include recurring costs resulting from acquisitions including amortization of purchased intangibles, retention bonuses for acquired employees, termination benefits, and contingent consideration to be paid to employees recorded as compensation expense. Operating expenses also include rent expense related to an operating lease not in service and professional fees associated with non-routine corporate governance and shareholder matters. These costs by expense category are as follows:

	Year ended December 31,				
(in thousands)	2014	2013	2012	2011	2010
Cost of product	$ 44,250	$ 50,170	$ 16,411	$ 9,916	$ 3,883
Cost of support and services	9,238	9,138	125	—	—
Sales and marketing	80,458	98,308	10,964	5,229	2,481
Research and development	30,668	26,577	1,807	2,858	1,005
General and administrative	19,779	15,832	23	26	324
Total costs	$ 184,393	$ 200,025	$ 29,330	$ 18,029	$ 7,693

(3) The Other costs in operating expenses include transaction costs associated with our acquisitions and dispositions, integration and acquisition-related costs associated with our acquisitions, restructuring costs and changes in the fair value of acquisition-related contingent consideration. Transaction costs include professional service fees for advisory, legal, tax and accounting services directly associated with our acquisitions or dispositions, including costs incurred in connection with the Merger. Integration and acquisition-related costs are professional service fees, management consulting, acquired employee retention bonuses, one-time termination benefits, facility exit costs and other non-recurring, or redundant costs to integrate acquired companies into Riverbed’s systems and operations. Restructuring costs in 2014 include one-time employee termination costs related to a reduction in total staff of approximately 80 people, or 3% of the total workforce and facilities exit costs. The change in fair value of the acquisition-related contingent consideration is primarily related to the final adjustment based on the actual results as compared to the forecasted results as of the acquisition date and subsequent quarters related to the Zeus acquisition.

(4) Fiscal year 2014 includes a $57.5 million gain on the sale of assets related to the SteelStore product line (see Note 2 - *Acquisitions and Dispositions* in the Notes to Consolidated Financial Statements). Fiscal year 2013 includes a $12.3 million write-off of deferred debt issuance costs related to the pay-off of the 2012 Credit Facility (see Note 14 - *Borrowings* in the Notes to Consolidated Financial Statements). Fiscal year 2012 and 2011 include foreign exchange losses related to the revaluation of the acquisition-related transactions.

(in thousands)	As of December 31, 2014	2013	2012	2011	2010
Consolidated Balance Sheet Data					
Cash and cash equivalents	$ 296,384	$ 208,022	$ 280,509	$ 215,476	$ 165,726
Short and long-term investments	317,522	324,014	249,081	377,887	335,414
Working capital	342,909	268,303	309,973	350,856	374,898
Total assets	1,926,488	1,897,598	2,024,339	1,031,199	736,081
Total borrowings	510,000	525,000	572,141	—	—
Common stock and additional paid-in-capital	649,697	702,928	757,777	631,921	518,052
Stockholders’ equity	840,596	828,639	894,222	711,064	537,420

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. The information in this Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Such statements are based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements, including statements under the headings "The Riverbed Strategy," "Major Trends Affecting our Financial Results" and statements regarding our revenue, gross margin, expenses, and future liquidity requirements. For example, words such as "may," "will," "could," "would," "should," "estimates," "predicts," "potential," "continue," "strategy," "believes," "anticipates," "plans," "expects," "intends" and similar expressions are intended to identify forward-looking statements. Our actual results and the timing of certain events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those discussed elsewhere in this Annual Report on Form 10-K in the section titled "Risk Factors" and the risks discussed in our other SEC filings. We undertake no obligation to publicly release any revisions to or otherwise update the forward-looking statements after the date of this Annual Report on Form 10-K.

Overview

We were founded in May 2002 by experienced industry leaders with a vision to improve the performance of wide-area distributed computing. We began commercial shipments of our SteelHead products in May 2004 and have since sold our products to approximately 26,000 customers worldwide, including customers resulting from acquisitions. We have two product lines:

- Application Acceleration product line, which includes our wide area network (WAN) optimization products, including SteelHead and SteelFusion (formerly Granite), SteelApp (formerly Stingray; In February 2015, Riverbed and Brocade signed a definitive agreement pursuant to which Brocade will, at closing, purchase the SteelApp product line) virtual application delivery controllers (ADCs); and SteelStore (formerly Whitewater) cloud storage delivery products (which were sold to NetApp, Inc. on October 27, 2014); and
- Performance Management product line, which includes our SteelCentral performance management and control suite. The Performance Management product line combines our former Cascade products and the products acquired from OPNET.

We are headquartered in San Francisco, California. Our personnel are located throughout the U.S. and in more than 35 countries worldwide.

In October 2014, we sold our SteelStore product line to NetApp for $80.0 million. The revenues and costs of this product line are included in our results of operations through October 27, 2014. Revenues from the SteelStore product line were $4.6 million, $4.4 million, and $2.0 million in the years ended December 31, 2014, 2013 and 2012, respectively.

On December 14, 2014, we entered into a Merger Agreement to be acquired by the private equity investment firm Thoma Bravo for $21.00 in cash per outstanding common share. Consummation of the Merger is subject to customary closing conditions, including, without limitation, the absence of certain legal impediments, the expiration or termination of the required waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, antitrust regulatory approval in Germany, review and clearance by the Committee on Foreign Investment in the United States, and approval by the Company's stockholders. See Note 1 - *Organization and Significant Accounting Policies* in the Notes to Consolidated Financial Statements for additional details.

On February 4, 2015, we entered into a definitive agreement with Brocade for the sale of our SteelApp product line. Revenues from the sale of the SteelApp products and services to be divested were $31.1 million, $35.8 million, and $28.4 million in 2014, 2013, and 2012, respectively.

The transactions noted above are part of the evaluation of strategic and financial alternatives that was undertaken by the Company and previously announced on October 9, 2014. The decision by our Board of Directors to evaluate strategic and financial alternatives was based on a number of factors, including but not limited to the recent slowing of growth rates of the Company's product lines, the ongoing integration of the OPNET acquisition and market awareness and adoption rates of these areas of our broadened product portfolio.

The Riverbed Strategy

Our goal is to develop solutions that are widely recognized as the preeminent performance and efficiency standard for organizations of all sizes and geographies. Key elements of our strategy include:

- *Enhance our customers' performance* - Riverbed is the performance company. Our vision is to provide the most complete platform to give enterprises the visibility to deliver, control, and optimize IT resources across the hybrid enterprise. The Riverbed Application Performance Platform is a set of software solutions that help ensure applications perform as expected, data is always available when needed, and performance issues are diagnosed and cured before end users even notice.
- *Maintain and extend our technological advantages* - We believe that we offer the broadest ability to enable rapid and reliable access to applications and data for our customers. We intend to enhance our position as a leader and innovator in the WAN optimization, branch converged infrastructure, and performance management markets. We also intend to continue to sell new capabilities, such as our solutions oriented toward cloud environments, into our installed base and to new customers. Continuing investments in research and development are critical to maintaining our technological advantage.
- *Extend our technology partner ecosystem* - We work with a broad and diverse ecosystem of partners to extend the value of our platform and deliver a range of implementation, integration and value added services. We have enhanced our product capabilities via integration of and interoperability with partner technologies.
- *Increase market awareness* - To generate increased demand for our products, we will continue to market the effectiveness of our comprehensive IT performance solutions.
- *Enhance and extend our support and services capabilities* - On an ongoing basis, we plan to enhance and extend our support and services capabilities to continue to support our growing global customer base.

Major Trends Affecting Our Financial Results

Company Outlook

We believe that our current value proposition, which enables customers to improve the performance of their applications and access to their data across WANs by integrating performance acceleration and performance management solutions, while also offering the ability to simplify IT infrastructure and realize significant capital and operating cost savings, should allow us to continue to grow our business. Our product revenue growth rate will depend significantly on continued growth in the WAN optimization, APM, and NPM markets, our ability to continue to attract new customers in those markets and our ability to generate additional sales from existing customers. Our growth in support and services revenue 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 will be directly affected by the continued acceptance of our products in the marketplace, as well as the timing and size of orders, product mix, average selling prices and costs of our products and general economic conditions. The largest component of our expenses is typically personnel costs. Personnel costs consist of salaries, benefits and incentive compensation for our employees, including commissions for sales personnel and stock-based compensation.

Revenue

Our revenue has grown rapidly since we began shipping products in May 2004, increasing from $2.6 million in 2004 to $1.1 billion in 2014. Revenue grew by 5% in 2014 from $1.0 billion in 2013. In 2013, revenue was favorably impacted by $159.9 million as compared to 2012 related to our acquisition of OPNET in December 2012.

Costs and Expenses

Operating expenses consist of sales and marketing, research and development, general and administrative expenses, and acquisition-related costs. Personnel-related costs, including stock-based compensation, are the most significant component of each of these expense categories. The increase in operating expenses in 2013 as compared to 2012 was primarily from our OPNET acquisition, including acquisition related amortization of acquired intangibles of $48.4 million and acquisition and integration related costs of $18.3 million.

On October 9, 2014, we announced that we have initiated a plan in order to reduce annual costs by $20 million to $25 million and improve annual operating margins by 1% to 2%. We consolidated and eliminated certain outside services and streamlining our sales and marketing efforts to better align with the business needs. We reduced our work force by approximately 80 positions worldwide. The actions related to our restructuring efforts were substantially completed by the end of the fourth quarter of 2014. During 2014, we recorded restructuring charges of $5.2 million. See Note 10 - *Restructuring* in the Notes to Consolidated Financial Statements.

Stock-based Compensation Expense

Stock-based compensation expense and related payroll taxes were $92.6 million, $92.8 million, and $92.5 million in the years ended December 31, 2014, 2013 and 2012 respectively. We expect to continue to incur increasing stock-based compensation expense as we expect stock-based compensation to continue to play an important part in the overall compensation structure for our employees.

Stock-based compensation expense and related payroll tax were as follows:

	Year ended December 31,		
(in thousands)	**2014**	**2013**	**2012**
Cost of product	$ 1,491	$ 1,241	$ 1,011
Cost of support and services	8,948	9,015	7,080
Sales and marketing	36,677	41,752	36,639
Research and development	29,615	26,157	29,734
General and administrative	15,885	14,636	18,007
Total stock-based compensation expense and related payroll taxes	$ 92,616	$ 92,801	$ 92,471

Acquisitions and Dispositions

On October 27, 2014, we sold our SteelStore product line to NetApp, Inc. for $80.0 million. The revenues and costs of this product line are included in our results of operations through October 27, 2014. Revenues from the SteelStore product line were $4.6 million, $4.4 million, and $2.0 million in the years ended December 31, 2014, 2013 and 2012, respectively.

On December 18, 2012, we completed our acquisition of OPNET to extend our NPM business into the APM market. The addition of OPNET's broad-based family of APM products and Network Engineering, Operations and Planning (NEOP) products enhance our position in the NPM and APM markets and enables us to provide customers with an integrated solution that both monitors and accelerates network and application performance. The total acquisition date fair value of consideration transferred was $980.2 million, which included cash payments of $857.0 million, common stock issued of $122.6 million and the fair value of options assumed of $0.6 million.

During the year ended December 31, 2013, the OPNET acquisition contributed $159.9 million in revenue. The revenues of OPNET are included in our consolidated results for the periods presented subsequent to the acquisition date and are part of our Performance Management product line. Included in total Cost of product revenue for the year ended December 31, 2013 was OPNET acquisition-related intangible amortization of $32.9 million. Included in total operating expenses for the year ended December 31, 2013 was OPNET acquisition-related intangible amortization of $48.4 million.

During the first quarter of 2012, we purchased certain assets of Expand Networks Ltd. (Expand), including its intellectual property, for $6.5 million.

Seasonality

Our operating results may be affected by seasonal buying patterns. Historically, we have experienced a stronger seasonal revenue cycle in the fourth fiscal quarter and lowest in our first fiscal quarter.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). These accounting principles require us to make certain 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 revenue 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 could be adversely affected.

The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following: revenue recognition, stock-based compensation, accounting for business combinations including the fair value measurement of contingent consideration, goodwill, intangible assets and impairment assessments, accounting for income taxes, and inventory valuation. Our critical accounting policies have been discussed with the Audit Committee of the Board of Directors.

Revenue Recognition

We recognize revenue when all of the following have occurred: (1) we have entered into a legally binding arrangement with a customer; (2) delivery has occurred; (3) customer payment is deemed fixed or determinable and free of contingencies and significant uncertainties; and (4) collection is reasonably assured.

The majority of our product revenue includes hardware appliances containing software components that function together to provide the essential functionality of the product. Therefore, our hardware appliances are considered non-software deliverables. Most non-software products and services qualify as separate units of accounting because they have value to the customer on a standalone basis and our revenue arrangements generally do not include a general right of return relative to delivered products. We account for non-software arrangements with multiple deliverables, which generally include support services sold with each of our hardware appliances, using the relative selling price method under the revenue recognition guidance for multiple deliverable arrangements.

Our product revenue also includes revenue from the sale of stand-alone software products. Stand-alone software may operate on our hardware appliance, but is not considered essential to the functionality of the hardware. Stand-alone software products generally include a perpetual license to our software. Stand-alone software sales are subject to the industry specific software revenue recognition guidance.

Certain arrangements with multiple deliverables may have stand-alone software deliverables that are subject to the software revenue recognition guidance along with non-software deliverables. The revenue for these multiple deliverable arrangements is allocated to the stand-alone software deliverables as a group and the non-software deliverables based on the relative selling prices of all of the deliverables in the arrangement.

The amount of product and services revenue recognized for arrangements with multiple deliverables is impacted by our valuation of relative selling prices. We apply the selling price hierarchy using vendor specific objective evidence (VSOE) when available, third-party evidence of selling price (TPE) if VSOE does not exist, and estimated selling price (ESP) if neither VSOE nor TPE is available.

VSOE of fair value for elements of an arrangement is based upon the normal pricing and discounting practices for a deliverable when sold separately, and VSOE for support services is measured by the renewal rate offered to the customer. In determining VSOE, we require that a substantial majority of the selling prices fall within a reasonably narrow pricing range, generally evidenced by a substantial majority of such historical stand-alone transactions falling within a reasonably narrow range of the median rates. In addition, we consider major service groups, geographies, customer classifications, and other variables in determining VSOE.

We are typically not able to determine TPE for our products or services. TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, our go-to-market strategy differs from that of our peers and our offerings contain a significant level of differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, we are unable to reliably determine what similar competitor products’ selling prices are on a stand-alone basis.

When we are unable to establish the estimated stand-alone value of our non-software deliverables using VSOE or TPE, we use ESP in our allocation of arrangement consideration. The objective of ESP is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. We determine ESP for a product or service by considering multiple factors including, but not limited to, cost of products, gross margin objectives, pricing practices, geographies, customer classes and distribution channels.

For stand-alone software sales, we recognize revenue based on software revenue recognition guidance. Under the software revenue recognition guidance, we use the residual method to recognize revenue when an agreement includes one or more elements to be delivered at a future date and VSOE of the fair value of all undelivered elements exists. In the majority of our contracts, the only element that remains undelivered at the time of delivery of the product is support services. Under the residual method, the fair value of the undelivered stand-alone software, which is typically support services, is deferred and the remaining portion of the contract fee is recognized as product revenue. If evidence of the fair value of one or more undelivered stand-alone software elements does not exist, all revenue is generally deferred and recognized when delivery of those elements occurs or when fair value can be established. When the undelivered stand-alone software for which we do not have VSOE of fair value is support, revenue for the entire arrangement is bundled and recognized ratably over the support period.

For our non-software deliverables, we allocate the arrangement consideration based on the relative selling price of the deliverables. For our hardware appliances we use the ESP of the deliverable. For our support and services, we generally use VSOE as our relative selling price. When we are unable to establish VSOE for our support and services, we use ESP in our allocation of arrangement consideration. We regularly review VSOE and ESP. As our go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes in selling prices, including both VSOE and ESP.

For sales to direct end-users and channel partners, including value-added resellers, value-added distributors, service providers, and systems integrators, we recognize product revenue upon delivery, assuming all other revenue recognition criteria are met. For our hardware appliances, delivery occurs upon transfer of title and risk of loss, which is generally upon shipment. It is our practice to identify an end-user prior to shipment to a channel partner. For end-users and channel partners, we generally have no significant obligations for future performance such as rights of return or pricing credits. Shipping charges billed to customers are included in product revenue and the related shipping costs are included in cost of product revenue.

Support and services consist of support services, professional services, and training. Support services include repair and replacement of defective hardware appliances, software updates and access to technical support personnel. 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 on a when-and-if-available basis. Open-enrollment training services which are delivered on a when-and-if-available basis may be bundled with support services. Revenue for support services is recognized on a straight-line basis over the service contract term, which is typically one to three years. Professional services are recognized upon delivery or completion of performance. Professional service arrangements are typically short term in nature and are largely completed within 90 days from the start of service. Training services are recognized upon delivery of the training.

Our fees are typically considered to be fixed or determinable at the inception of an arrangement, generally based on specific products and quantities to be delivered. Substantially all of our contracts do not include rights of return or acceptance provisions. To the extent that our agreements contain such terms, we recognize revenue once the acceptance provisions or right of return lapses. Payment terms to customers generally range from net 30 to 90 days. In the event payment terms are provided that significantly differ from our standard business practices, the fees may be deemed to not be fixed or determinable and revenue is recognized when the payments become due, provided the remaining criteria for revenue recognition have been met.

We assess the ability to collect from our customers based on a number of factors, including credit worthiness of the customer and past transaction history of the customer. If the customer is not deemed credit worthy, we defer revenue from the arrangement until payment is received and all other revenue recognition criteria have been met.

Stock-Based Compensation

Stock-based awards granted include restricted stock units (RSUs), stock purchased under our Employee Stock Purchase Plan (the Purchase Plan), and stock options. Stock-based compensation expense is measured at the grant date, based on the fair value of the awards, and is recognized as expense over the requisite service period only for those equity awards expected to vest.

The fair value of the RSUs is determined based on the stock price on the date of grant. The fair value of the RSUs is amortized on a straight-line basis over the requisite service periods of the awards, which is generally three to four years. We estimated the fair value of stock purchased under our Purchase Plan and stock options using the Black-Scholes model. This model utilizes the estimated fair value of common stock and requires that, at the date of grant, we use the expected term of the grant, the expected volatility of the price of our common stock, risk-free interest rates and expected dividend yield of our common stock. The fair value is amortized on a straight-line basis over the requisite service periods of the awards, which is generally three to four years for stock options, and six months to two years for stock purchased under our Purchase Plan.

The expected term represents the period that stock options are expected to be outstanding. We estimated the expected term based on historical exercise patterns and post vesting termination behavior. We estimated the expected volatility of stock options using a blended historical and implied volatility data. The computation of expected volatility for the Purchase Plan is based on our historical volatility.

Accounting for Business Combinations

In our business combinations, we are required to recognize all the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. Further, acquisition-related costs are recognized separately from the acquisition and expensed as incurred; restructuring costs are generally expensed in periods subsequent to the acquisition date; changes in the estimated fair value of contingent consideration after the initial measurement on the acquisition date are recognized in earnings in the period of the change in estimate; and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period are recognized as a component of provision for (benefit from) income taxes. In addition, the fair value of in-process research and development (R&D) is recorded as an indefinite-lived intangible asset until the underlying project is completed, at which time the intangible asset is amortized over its estimated useful life, or abandoned, at which time the intangible asset is expensed.

Accounting for business combinations requires management to make significant estimates and assumptions, including the acquisition date fair value of intangible assets, estimated contingent consideration payments and pre-acquisition contingencies.

Although we believe the assumptions and estimates we have made have been reasonable and appropriate, they are based in part on historical experience and information obtained from management of the acquired company and are inherently uncertain. Examples of critical estimates in accounting for acquisitions include but are not limited to:

- the estimated fair value of the acquisition-related contingent consideration, which is performed using a probability-weighted discounted cash flow model based upon the forecasted achievement of post-acquisition bookings targets;
- the future expected cost to develop the in-process R&D into commercially viable products and the estimated cash flows from the products when completed;
- the future expected cash flows from product sales, support agreements, consulting contracts, other customer contracts and acquired developed technologies and patents; and
- the discount rates.

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

Goodwill, Intangible Assets and Impairment Assessments

Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets. Goodwill is tested for impairment at least annually (more frequently if certain indicators are present). In the event that we determine that the fair value of our reporting unit is less than the reporting unit's carrying value, we will incur an impairment charge for the amount of the difference during the quarter in which the determination is made.

Intangible assets that are not considered to have an indefinite life are amortized over their useful lives. On a periodic basis, we evaluate the estimated remaining useful life of purchased intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. The carrying amounts of these assets are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate. In the event that we determine certain assets are not fully recoverable, we will incur an impairment charge for those assets or portion thereof during the quarter in which the determination is made.

Recoverability of indefinite lived intangible assets is measured by comparison of the carrying amount of the asset to fair value as measured by the future discounted cash flow the asset is expected to generate. In the event that we determine that the fair value of an intangible asset is less than the carrying value, we will incur an impairment charge for the amount of the difference during the period in which the determination is made. No material impairments of intangible assets were identified during any of the periods presented.

Accounting for Income Taxes

We use the asset and liability method of accounting for income taxes. Under this method, income tax expenses or benefits are recognized for the amount of taxes payable or refundable for the current year and for deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. The measurement of current and deferred tax assets and liabilities are based on provisions of currently enacted tax laws. The effects of future changes in tax laws or rates are not contemplated.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income tax expense and tax contingencies in each of the tax jurisdictions in which we operate. This process involves estimating current income tax expense together with assessing temporary differences in the treatment of items for tax purposes versus financial accounting purposes that may create net deferred tax assets and liabilities. We rely on estimates and assumptions in preparing our income tax provision.

We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including our recent earnings experience by jurisdiction, expectations of future taxable income, and the carryforward periods available to us for tax reporting purposes, as well as other relevant factors. We establish a valuation allowance to reduce deferred tax assets to the amount we believe is more likely than not to be realized. Due to inherent complexities arising from the nature of our businesses, future changes in income tax law, or variances between our actual and anticipated operating results, we make certain judgments and estimates. Therefore, actual income taxes could materially vary from these estimates.

As part of our accounting for business combinations, a portion of the purchase price was allocated to goodwill and intangible assets. Amortization expenses associated with acquired intangible assets are generally not tax deductible; however, deferred taxes have been recorded for non-deductible amortization expenses as a part of the purchase price allocation. In the event of an impairment charge associated with goodwill, such charges are generally not tax deductible and would increase the effective tax rate in the quarter any impairment is recorded.

We are subject to periodic audits by the Internal Revenue Service and other taxing authorities. These audits may challenge certain tax positions we have taken, such as the timing and amount of deductions and allocation of taxable income to the various tax jurisdictions. Uncertain tax positions are accounted for in accordance with authoritative guidance, and may require significant management judgment in estimating final outcomes. Actual results could materially differ from these estimates and could significantly affect the effective tax rate and cash flows in future years.

Inventory Valuation

Inventory consists of hardware and related component parts and is stated at the lower of cost (on a first-in, first-out basis) or market. A portion of our inventory relates to evaluation units located at customer locations, as some of our customers test our equipment prior to purchasing. Inventory that is obsolete or in excess of our forecasted demand is written down to its estimated realizable value based on historical usage, expected demand, and with respect to evaluation units, the historical conversion rate, the age of the units, and the estimated loss of utility. Inherent in our estimates of market value in determining inventory valuation are estimates related to economic trends, future demand for our products, the timing of new product introductions and technological obsolescence of our products. Inventory write-downs, including estimated loss of utility on evaluation units, are recognized as cost of product and amounted to approximately $8.0 million, $11.2 million and $6.7 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Results of Operations

Revenue

We derive our revenue from sales of our appliances and software licenses and from support and services. Product revenue primarily consists of revenue from sales of our Application Acceleration and Performance Management products and is typically recognized upon delivery. Support revenue provides customers the right to receive unspecified software product upgrades, maintenance releases issued when-and-if-available during the support period, hardware repair, and access to technical support personnel. Support revenue is recognized ratably over the contractual period, which is typically one to three years. Service revenue includes professional services and training and is recognized as the services are performed.

(dollars in thousands)	Year ended December 31, 2014	2013	2012
Total Revenue	$ 1,089,208	$ 1,041,033	$ 836,860
Total Revenue by Type:			
Product	$ 605,414	$ 614,498	$ 548,141
Support and services	$ 483,794	$ 426,535	$ 288,719
% Revenue by Type:			
Product	56%	59%	65%
Support and services	44%	41%	35%
Total Revenue by Geography:			
United States	$ 621,209	$ 611,469	$ 463,534
Other Americas	33,893	38,351	31,373
Americas	$ 655,102	$ 649,820	$ 494,907
Europe, Middle East and Africa	$ 292,714	$ 258,357	$ 225,652
Asia Pacific	$ 141,392	$ 132,856	$ 116,301
% Revenue by Geography:			
United States	57%	59%	55%
Other Americas	3%	3%	4%
Americas	60%	62%	59%
Europe, Middle East and Africa	27%	25%	27%
Asia Pacific	13%	13%	14%
Total Revenue by Product Line:			
Application Acceleration	$ 831,765	$ 807,469	$ 767,037
Performance Management	$ 257,443	$ 233,564	$ 69,823
% Revenue by Product Line:			
Application Acceleration	76%	78%	92%
Performance Management	24%	22%	8%
Total Revenue by Sales Channel:			
Direct	$ 110,327	$ 158,714	$ 43,526
Indirect	$ 978,881	$ 882,319	$ 793,334
% Revenue by Sales Channel:			
Direct	10%	15%	5%
Indirect	90%	85%	95%

December 31, 2014 Compared to 2013: Revenue increased by 5% in 2014 as compared to 2013 primarily due to growth in support and services revenue. Product revenue decreased by 1% in 2014, which was primarily due a decline in unit volume in our Application Acceleration product line. As of December 31, 2014 and 2013, our products had been sold to approximately 26,000 and 25,000 customers, respectively.

In October 2014, we sold our SteelStore product line to NetApp for $80 million. The revenues and costs of this product line are included in our results of operations through October 27, 2014. Revenues from the SteelStore product line were $4.6 million, $4.4 million, and $2.0 million in the years ended December 31, 2014, 2013 and 2012, respectively.

On February 4, 2015, we entered into a definitive agreement with Brocade for the sale of our SteelApp product line. Revenues from the sale of the SteelApp products and services to be divested were $31.1 million, $35.8 million, and $28.4 million in 2014, 2013, and 2012, respectively.

Substantially all of our customers purchase support when they purchase our products. Support and services revenue increased 13% in 2014 as compared to 2013. Support and services revenue as a percentage of total revenues increased over the prior year due to growth in our customer base. As our customer base grows, we expect our revenue generated from support and services to increase.

We derived 90% of our revenue from indirect channels in 2014 compared to 85% in 2013. The increase in the percentage of revenue from the indirect channels in 2014 as compared to 2013 was due to integration of the former OPNET direct sales into our channel. We expect indirect channel revenue to continue to represent a substantial majority of our revenue.

We generated 43% and 41% of our revenue in the years ended December 31, 2014 and 2013, respectively, from international locations outside of the United States (U.S.). The increase in international revenue as a percent of total revenue was due to growth in the European markets. We continue to expand into international locations and introduce our products in new markets and expect international revenue to increase in dollar amount over time.

2013 Compared to 2012: Revenue increased by 24% in 2013 as compared to 2012 with a significant portion of the growth coming from acquisitions. Product revenue increased by 12% in 2013, which was primarily due to acquisitions and an increase in unit volume from increasing sales to existing customers. The OPNET acquisition in December 2012 contributed $159.9 million and $5.5 million in total revenue in 2013 and 2012, respectively.

Support and services revenue increased 48% in 2013 as compared to 2012 reflective of the significant support and service component of the acquired OPNET business. Support and services revenue as a percentage of total revenues increased over the prior year due primarily to the OPNET acquisition and also to growth in our customer base. As our customer base grows, we expect our revenue generated from support and services to increase.

We generated 41% and 45% of our revenue in the years ended December 31, 2013 and 2012, respectively, from international locations outside of the United States (U.S.).

Cost of Revenue and Gross Margin

Cost of product revenue consists of the personnel costs of manufacturing management, costs of the appliance hardware, manufacturing, shipping and logistics costs, expenses for inventory obsolescence, warranty obligations, and amortization of acquisition-related intangibles. We utilize third parties to assist in the design and manufacture of our appliance hardware, embed our proprietary software on our appliance hardware and perform shipping logistics.

Cost of support and service revenue consists of personnel costs of technical support and professional services, spare parts, and logistics services.

Our gross margin has been and will continue to be affected by a variety of factors, including the mix and average selling prices of our products, new product introductions and enhancements, the cost of our appliance hardware, expenses for inventory obsolescence and warranty obligations, cost of support and service personnel, and the mix of distribution channels through which our products are sold.

	Year ended December 31,		
(dollars in thousands)	**2014**	**2013**	**2012**
Cost of revenue:			
Cost of product	$ 150,032	$ 164,774	$ 124,406
Cost of support and services	131,878	117,157	80,412
Total cost of revenue	281,910	281,931	204,818
Gross profit	$ 807,298	$ 759,102	$ 632,042
Gross margin for product	75%	73%	77%
Gross margin for support and services	73%	73%	72%
Total gross margin	74%	73%	76%

December 31, 2014 Compared to 2013: The total cost of product revenue decreased $14.7 million, or 8.9%, in the year ended December 31, 2014 compared to the year ended December 31, 2013, due primarily to a decrease in the amortization of acquisition-related intangible assets of $4.5 million, as the acquired intangibles from Mazu and Cace were fully amortized by the end of 2013, lower inventory write-downs of $4.4 million, lower product costs of $3.0 million, and lower logistics costs of $1.3 million.

Cost of support and services revenue increased $14.7 million, or 12.6%, primarily as a result of increased support revenue.

Gross margin was 74% in the year ended December 31, 2014 compared to 73% in the year ended December 31, 2013. Product gross margin increased to 75% in the year ended December 31, 2014 from 73% in the year ended December 31, 2013 primarily as a result of a decrease in amortization of acquisition-related intangible assets. Gross margin for support and services remained flat at 73% in both years ended December 31, 2014 and 2013.

2013 Compared to 2012: The total cost of product revenue increased $40.4 million, or 32.4%, in the year ended December 31, 2013 compared to the year ended December 31, 2012, due primarily to an increase in the amortization of OPNET acquisition-related intangible assets of $31.5 million. Inventory write-downs increased $4.4 million primarily related to the loss of utility of our evaluation inventory.

Cost of support and services revenue increased $36.7 million, or 45.7%, primarily as a result of the increased professional services headcount domestically and abroad as a result of the acquisition of OPNET.

Gross margin was 73% in the year ended December 31, 2013 compared to 76% in the year ended December 31, 2012. Product gross margin decreased to 73% in the year ended December 31, 2013 from 77% in the year ended December 31, 2012 primarily as a result of an increase in amortization of the OPNET acquisition-related intangible assets. Gross margin for support and services increased slightly to 73% in the year ended December 31, 2013 compared to 72% in the year ended December 31, 2012, primarily due to a change in services mix with more professional services.

Sales and Marketing Expenses

Sales and marketing expenses represent the largest component of our operating expenses and include 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 leverage our investments in sales and marketing with the intent to add new customers and increase penetration within our existing customer base by increasing channel penetration, building brand awareness and sponsoring marketing events. We expect future sales and marketing expenses to continue to be our most significant operating expense.

	Year ended December 31,		
(dollars in thousands)	**2014**	**2013**	**2012**
Sales and marketing expenses	$ 454,945	$ 469,200	$ 328,657
Percent of total revenue	42%	45%	39%

December 31, 2014 Compared to 2013: Sales and marketing expenses decreased by $14.3 million, or 3.0%, in the year ended December 31, 2014 compared to the year ended December 31, 2013, due to lower amortization of intangible assets of $12.9 million, lower marketing program costs of $3.0 million, and lower personnel costs of $2.2 million primarily due to lower commissions, offset by an increase in facilities- and information technology-related expenses of $5.2 million.

2013 Compared to 2012: Sales and marketing expenses increased by $140.5 million, or 42.8%, in the year ended December 31, 2013 compared to the year ended December 31, 2012, primarily due to increases in personnel costs of $71.9 million and increases in marketing-related programs and travel of $11.2 million. The increase in personnel costs, which include salaries, commissions, bonuses and related benefits and stock-based compensation, was primarily due to an increase in sales and marketing employees as a result of the OPNET acquisition. Amortization of the intangibles acquired in the OPNET acquisition also contributed $45.6 million to the increase in sales and marketing expense.

Research and Development Expenses

Research and development (R&D) expenses primarily include personnel costs and facilities costs. We expense R&D costs 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 in our R&D efforts because we believe they are essential to maintaining our competitive position.

(dollars in thousands)	Year ended December 31, 2014	2013	2012
Research and development expenses	$ 205,591	$ 189,654	$ 146,108
Percent of total revenue	19%	18%	17%

December 31, 2014 Compared to 2013: R&D expenses increased by $15.9 million, or 8.4%, in the year ended December 31, 2014 compared to the year ended December 31, 2013, primarily due to increases in personnel-related costs of $10.2 million and increases in facilities and information technology-related expenses of $4.9 million. The increase in personnel costs, which include salaries, bonuses and related benefits and stock-based compensation, was primarily a result of higher average headcount.

2013 Compared to 2012: R&D expenses increased by $43.5 million, or 29.8%, in the year ended December 31, 2013 compared to the year ended December 31, 2012, primarily due to increases in personnel costs of $36.8 million. The increase in personnel costs, which include salaries, bonuses and related benefits and stock-based compensation, was primarily a result of the OPNET acquisition.

General and Administrative Expenses

General and administrative (G&A) expenses consist primarily of compensation for personnel and facilities costs related to our executive, finance, human resources, information technology and legal organizations, and fees for professional services. Professional services include legal, audit and information technology consulting costs.

(dollars in thousands)	Year ended December 31, 2014	2013	2012
General and administrative expenses	$ 76,535	$ 73,339	$ 60,594
Percent of total revenue	7%	7%	7%

December 31, 2014 Compared to 2013: G&A expenses increased by $3.2 million, or 4.4%, in the year ended December 31, 2014 compared to the year ended December 31, 2013, primarily due to an increase of $3.9 million for professional service fees related to non-routine corporate governance and shareholder matters, offset by decrease in personnel-related costs.

2013 Compared to 2012: G&A expenses increased by $12.7 million, or 21.0%, in the year ended December 31, 2013 compared to the year ended December 31, 2012, primarily due to an increase in personnel costs of $3.5 million and an increase in outside services of $5.3 million, of which $3.2 million related to legal fees to defend our intellectual property. The overall increase, other than legal fees, was primarily due to an increase in G&A employees as a result of the OPNET acquisition.

Other Costs

Other costs include transaction costs associated with our acquisitions and dispositions, integration and acquisition-related costs associated with our acquisitions, restructuring costs and changes in the fair value of acquisition-related contingent consideration. Transaction costs include professional service fees for advisory, legal, tax and accounting services directly associated with our acquisitions or dispositions. Integration and acquisition-related costs are professional service fees, management consulting, acquired employee retention bonuses, one-time termination benefits, facility exit costs and other non-recurring, or redundant costs to integrate acquired companies into our systems and operations.

The following table summarizes the Other costs recognized in the years ended December 31, 2014, 2013 and 2012:

(in thousands)	Year ended December 31, 2014	2013	2012
Transaction costs	$ 10,992	$ —	$ 12,504
Integration and acquisition-related costs	5,688	18,322	3,412
Restructuring charges	5,247	—	—
Change in fair value of acquisition-related contingent consideration	—	—	(15,190)
Other costs	$ 21,927	$ 18,322	$ 726

During the years ended December 31, 2014 and 2013, we recorded Other costs of $21.9 million and $18.3 million, respectively. The 2014 transaction costs are expenses directly associated with the sale of the SteelStore product line, the SteelApp product line, and the Merger. The 2014 integration and acquisition-related costs are primarily legal fees related to our litigation with the former shareholders of Zeus. The 2014 restructuring costs include one-time employee termination costs of $4.3 million related to a reduction in total staff during the fourth quarter of 2014 of approximately 80 people, or 3% of the total workforce, and facilities exit costs of $0.9 million.

During the years ended December 31, 2013 we recorded Other costs of $18.3 million. The 2013 integration and acquisition-related costs are primarily costs to integrate OPNET into our systems and operations.

During the year ended December 31, 2012 we recorded Other costs of $0.7 million. The 2012 transaction costs and integration and acquisition-related costs are primarily related to the OPNET acquisition. The 2012 change in fair value of the acquisition-related contingent consideration is primarily related to the final adjustment based on the actual results as compared to the forecasted results as of the acquisition date and subsequent quarters related to the Zeus acquisition.

Interest Income

Interest income consists primarily of interest income on our cash and marketable securities. Cash has historically been invested in highly liquid investments with maturities at the date of purchase of 90 days or less such as time deposits held at major banks, commercial paper, U.S. government agency discount notes, money market mutual funds and other money market securities. Short and long-term investments consist of certificates of deposit, government-sponsored enterprise obligations, municipal bonds, treasury bills, commercial paper, and corporate bonds and notes.

(in thousands)	Year ended December 31, 2014	2013	2012
Interest income	$ 1,264	$ 838	$ 1,645

December 31, 2014 Compared to 2013: Interest income increased in the year ended December 31, 2014, primarily due to a slightly higher average balance of interest-bearing accounts. The weighted average interest rate applicable to our cash and investments balances was 0.23% and 0.18% in the year ended December 31, 2014 and 2013, respectively.

December 31, 2013 Compared to 2012: Interest income decreased in the year ended December 31, 2013, primarily due to a lower average balance of interest-bearing accounts. The weighted average interest rate applicable to our cash and investments balances was 0.18% and 0.26% in the year ended December 31, 2013 and 2012, respectively.

Interest Expense and Other, Net

Interest expense and other, net consists primarily of interest expense on borrowings, write-off of deferred debt issuance costs, and foreign currency exchange gains or losses.

	Year ended December 31,		
(in thousands)	**2014**	**2013**	**2012**
Interest expense	(11,146)	(23,744)	(959)
Write-off of deferred debt issuance costs	—	(12,268)	—
Foreign exchange gains (losses)	(999)	22	(2,610)
Interest expense and other, net	$ (12,145)	$ (35,990)	$ (3,569)

December 31, 2014 Compared to 2013: Interest expense and other, net, decreased in the year ended December 31, 2014, primarily due to lower interest expense related to the decrease in the borrowing rate negotiated in the 2013 Credit Facility (see Note 14 - *Borrowings* in the Notes to Consolidated Financial Statements). We expect interest expense in the future periods to be lower based on the paydown of the principal balance. We expect to experience fluctuations in foreign exchange gains and losses.

2013 Compared to 2012: Interest expense and other, net, increased in the year ended December 31, 2013, primarily due to the interest expense of $23.7 million resulting from our entering into a December 2012 Credit Facility in connection with the acquisition of OPNET. In the fourth quarter of 2013, we wrote-off the deferred debt issuance costs of $12.3 million upon the pay-off of the 2012 Credit Facility and entered into a new 2013 Credit Facility (see Note 14 - *Borrowings* in the Notes to Consolidated Financial Statements).

Gain on Sale of Assets

During the year ended December 31, 2014, we recognized a gain on the sale of assets of $57.5 million related to the sale of the SteelStore product line to NetApp for $80.0 million in October 2014 (see Note 2 - *Acquisitions and Dispositions* in the Notes to Consolidated Financial Statements).

Provision for (Benefit from) Income Taxes

The provision for (benefit from) income taxes was $23.6 million, $(14.1) million, and $39.4 million for the years ended December 31, 2014, 2013, and 2012, respectively. Our income tax provision (benefit) consists of federal, foreign, and state income taxes. Our effective tax rate was 25%, 53%, and 42%, for the years ended December 31, 2014, 2013, and 2012, respectively.

For the year ended December 31, 2014, our effective tax rate differed from the federal statutory rate due to state taxes and significant permanent differences. Significant permanent differences included taxes in foreign jurisdictions with a tax rate different than the U.S. federal statutory rate, nondeductible stock-based compensation expense, intercompany transfer of intellectual property rights, the domestic production activities deduction, the federal R&D tax credit, and the disposition of non-deductible goodwill related to the sale of the SteelStore product line. Our effective tax rate in 2014 was lower than 2013 due to relatively higher pretax income, a favorable geographic mix of earnings between jurisdictions, and a change in estimate related to intercompany royalties. These benefits were partially offset by the disposition of non-deductible goodwill related to the sale of the SteelStore product line.

For the year ended December 31, 2013, our effective tax rate differed from the federal statutory rate due to state taxes and significant permanent differences. Significant permanent differences included taxes in foreign jurisdictions with a tax rate different than the U.S. federal statutory rate, nondeductible stock-based compensation expense, intercompany transfer of intellectual property rights, the domestic production activities deduction, and the federal R&D tax credit. Our effective tax rate in 2013 was higher than 2012 primarily due to state tax benefits related to a change in tax status of certain OPNET subsidiaries, tax benefits recognized as a result of the retroactive reinstatement of federal R&D tax credit, lower taxes on intercompany transfer of intellectual property, higher domestic production activities deduction and a favorable geographic mix of earnings between jurisdictions. These benefits were partially offset by higher non-deductible stock-based compensation expense.

For the year ended December 31, 2012, our effective tax rate differed from the federal statutory rate due to state taxes and significant permanent differences. Significant permanent differences arose primarily from taxes in foreign jurisdictions with a tax rate different than the U.S. federal statutory rate, non-deductible stock-based compensation expense, intercompany transfer of intellectual property rights, and non-deductible acquisition-related expenses.

International revenues account for a significant portion of our total revenues, such that a material portion of our pretax income is earned and taxed outside the U.S. at rates lower than the U.S. statutory rate. The geographic mix of earnings in any particular fiscal year can have a significant impact on our provision for income taxes. The foreign jurisdiction with the most significant impact on our provision for foreign income taxes in the periods presented is Singapore.

We are subject to a reduced income tax rate in Singapore as a result of certain employment and spending commitments. The reduced tax rate is effective through 2020. For the years ended December 31, 2014, 2013 and 2012, we realized a tax benefit of $5.0 million ($0.03 per diluted share), $1.7 million ($0.01 per diluted share) and $3.8 million ($0.02 per diluted share), respectively.

During the year ended December 31, 2013, the American Taxpayer Relief Act of 2012 reinstated the U.S. federal R&D tax credit through December 31, 2013, retroactive to January 1, 2012. As a result, the tax provision for the year ended December 31, 2013 includes a tax benefit of $4.4 million related to the federal R&D tax credit for the year ended December 31, 2012.

During 2013, we completed the integration of the OPNET business into our existing tax structure and intercompany relationships to more closely align with the international nature of our business activities. Our corporate restructuring activities may cause volatility to our overall effective tax rate in the short term but is expected to reduce our overall effective tax rate over the long term.

During the year ended December 31, 2013, we changed the tax status of certain OPNET subsidiaries to entities that are disregarded for federal and state income tax purposes. As a result of the change in tax status, we recorded a state income tax benefit of $4.4 million, net of federal benefit, to record the revaluation of OPNET's deferred tax assets and liabilities resulting from the change.

Based on our forecasted future income allocated to California, it is more likely than not the California income tax credit carryforwards will not be utilized in the foreseeable future. Accordingly, we have established a full valuation allowance against the tax credits. The amount of the valuation allowance against the California credits was $12.6 million and $10.5 million, net of federal benefits, for the years ended December 31, 2014 and 2013, respectively.

During the year ended December 31, 2014, we reduced our current federal, foreign and state taxes payable by $2.3 million for the excess tax benefits from stock option exercises and other employee stock programs, offsetting additional paid-in capital. In addition, we have unrecorded excess tax benefits from stock option exercises and other employee stock programs of approximately $5.9 million as of December 31, 2014. These amounts will be credited to additional paid-in-capital when such amounts reduce cash taxes payable.

We are subject to income tax in the U.S. as well as numerous state and foreign jurisdictions. We are no longer subject to federal examinations for years before 2009. With the exception of several states, we are no longer subject to state and local income tax examinations for years before 2011, although carryforward attributes that were generated prior to 2011 may still be adjusted upon examination by the California Franchise Tax Board if the attributes either have been or will be used in a future period. In addition, we file tax returns in multiple foreign taxing jurisdictions. In our most significant foreign jurisdictions, the UK and Singapore, the open tax years range from 2011 to 2013.

Selected Quarterly Financial Data

The following table sets forth selected unaudited quarterly financial data for each of the eight quarters ended December 31, 2014. The data has been prepared on the same basis as the audited consolidated financial statements included in this Annual Report on Form 10-K, and reflects all necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of this data. The results of historical periods are not necessarily indicative of the results of operations for a full year or any future period.

(in thousands, except per share data)	For the three months ended 2014 Dec. 31	Sep. 30	Jun. 30	Mar. 31	2013 Dec. 31	Sep. 30	Jun. 30	Mar. 31
Total revenue	$ 283,392	$ 276,374	$ 264,026	$ 265,416	$ 283,261	$ 261,723	$ 249,910	$ 246,139
Gross profit	$ 210,753	$ 206,036	$ 195,005	$ 195,504	$ 211,485	$ 190,866	$ 179,554	$ 177,197
Net income (loss)	$ 49,731	$ 11,484	$ 6,765	$ 3,288	$ 8,395	$ 3,818	$ (16,521)	$ (8,110)
Net income (loss) per share-basic	$ 0.32	$ 0.07	$ 0.04	$ 0.02	$ 0.05	$ 0.02	$ (0.10)	$ (0.05)
Net income (loss) per share-diluted	$ 0.31	$ 0.07	$ 0.04	$ 0.02	$ 0.05	$ 0.02	$ (0.10)	$ (0.05)

Our operating results may fluctuate due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance. In addition, a significant portion of our quarterly sales typically occurs during the last month of the quarter, which we believe reflects customer buying patterns of products similar to ours and other products in the technology industry generally. As a result, our quarterly operating results are difficult to predict even in the near term.

Commencing with the first shipment of our products in the second quarter of 2004, revenue has increased each quarter over the prior year quarter, with the exception of the fourth quarter of 2014, due to increases in the number of products and support and services sold to new and existing customers and international expansion. Gross profit has increased each quarter over the prior year quarter in dollar amount, with the exception of the fourth quarter of 2014, where the increase was consistent with revenue growth. For the quarter ended December 31, 2014, Net income was impacted by a gain on the sale of the SteelStore product line of $57.5 million (see Note 2 - *Acquisitions and Dispositions* in the Notes to the Consolidated Financial Statements).

Liquidity and Capital Resources

(in thousands)	As of December 31, 2014	2013	2012
Working capital	$ 342,909	$ 268,303	$ 309,973
Cash and cash equivalents	296,384	208,022	280,509
Short and long-term investments	317,522	324,014	249,081

(in thousands)	Year ended December 31, 2014	2013	2012
Cash provided by operating activities	$ 227,682	$ 217,346	$ 239,263
Cash provided by (used in) investing activities	20,556	(104,047)	(654,383)
Cash provided by (used in) financing activities	(153,636)	(187,512)	477,407

Cash and Cash Equivalents, Short and Long-term Investments

Cash and cash equivalents consist of money market mutual funds and other money market securities, as well as government-sponsored enterprise obligations, treasury bills, commercial paper, and corporate bonds and notes with remaining maturities at date of purchase of 90 days or less. Short and long-term investments consist of certificates of deposit, government-sponsored enterprise obligations, municipal bonds, treasury bills, commercial paper, and corporate bonds and notes.

Cash and cash equivalents, short-term investments and long-term investments as of December 31, 2014 were $613.9 million, an increase of $81.9 million as compared to December 31, 2013.

As of December 31, 2014 and 2013, $183.5 million and $93.8 million, respectively of the Company’s cash and cash equivalents, short-term and long-term investments were held by foreign subsidiaries and are generally based in U.S. dollar-denominated holdings. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the U.S.

Restricted cash primarily represents the $12.0 million escrow related to the sale of our SteelStore product line and collateralized letters of credit established in connection with lease agreements for our facilities. Current restricted cash, which is included in the Prepaid expenses and other current assets in the consolidated balance sheets, totaled $1.6 million and $3.3 million at December 31, 2014 and 2013, respectively. Long-term restricted cash totaled $20.6 million at December 31, 2014 and $9.1 million at December 31, 2013 and are included in Other assets in the Consolidated Balance Sheets.

We have significant international operations. Our sales contracts are principally denominated in U.S. dollars and therefore changes in foreign exchange rates have not materially 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 not been significant.

Cash Provided by Operating Activities

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, product costs, outside services, and rent payments. Our cash flows from operating activities will continue to be affected principally by the extent to which we grow our revenue and spend on hiring personnel in order to grow our business. 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 related cash flows from their sales efforts.

Cash provided by operating activities increased by $10.4 million to $227.7 million in the year ended December 31, 2014 compared to $217.3 million in the year ended December 31, 2013. Cash provided from the statement of operations for the year ended December 31, 2014, after adjustments for certain non-cash income items, including depreciation and amortization, stock-based compensation expense, excess tax benefits from employee stock plans and deferred taxes, was $185.8 million, an increase in cash flow of $31.1 million from the $154.7 million from the prior year period. The increase in cash provided from the statement of operations was primarily due to improved profitability on higher revenue and lower interest expense on borrowings. Cash provided by operating activities associated with changes in operating assets and liabilities in the year ended December 31, 2014 was $41.9 million, a decrease of $20.7 million from the prior year period.

Cash provided by operating activities decreased by $21.9 million to $217.3 million in the year ended December 31, 2013 compared to $239.3 million in the year ended December 31, 2012. Cash provided from the statement of operations for the year ended December 31, 2013, after adjustments for certain non-cash income items, including depreciation and amortization, stock-based compensation expense, excess tax benefits from employee stock plans and deferred taxes, was $154.7 million, a decrease in cash flow of $10.8 million from the $165.6 million from the prior year period. The decrease in cash provided from the statement of operations was primarily due to higher operating expenses and interest expense on borrowings. Cash provided by operating activities associated with changes in operating assets and liabilities in the year ended December 31, 2013 was $62.6 million, a decrease of $11.1 million from the prior year period.

Cash Provided by (Used in) Investing Activities

Cash provided by investing activities primarily relate to proceeds from the sale and maturity of investments and cash provided from the sale of assets. Cash provided by (used in) investing activities was $20.6 million in the year ended December 31, 2014 compared to $104.0 million in the year ended December 31, 2013. Cash provided by investing activities in 2014 related to proceeds from the maturities of available for sale securities was $304.7 million and proceeds from sales of available for sale securities was $72.7 million, as compared to $299.7 million and $24.0 million in the prior year. Cash provided by the proceeds from the sale of the SteelStore product line was $65.8 million. Cash used in investing activities for the year ended December 31, 2014 included $49.3 million used for capital expenditures, $372.7 million used to purchase short-term and long-term available for sale securities and $0.7 million used for acquisitions. Cash used in investing activities in 2013 included $401.1 million used to purchase short-term and long-term available for sale securities, $25.6 million used for capital expenditures, and $1.0 million used for acquisitions.

Cash used in investing activities was $104.0 million in the year ended December 31, 2013 compared to $654.4 million in the year ended December 31, 2012. Cash used in investing activities for the year ended December 31, 2013 included $25.6 million used for capital expenditures, $401.1 million used to purchase short-term and long-term investments and $1.0 million used for acquisitions. Cash used in investing activities in 2013 was offset by proceeds from maturities of available for sale securities of $299.7 million and proceeds from sales of available for sale securities of $24.0 million. Cash used in investing activities in 2012 included $790.3 million used for the OPNET acquisition, $22.0 million used for capital expenditures, and $157.8 million used to purchase short-term and long-term investments, net of proceeds received from sales and maturities of securities.

Cash Provided by (Used in) Financing Activities

Cash used in financing activities was $153.6 million in the year ended December 31, 2014. Cash used for repurchases of common stock was $195.6 million in the year ended December 31, 2014 compared to $200.1 million in the year ended December 31, 2013. Cash provided from the exercise of stock options was $72.0 million in the year ended December 31, 2014 compared to $72.8 million in the year ended December 31, 2013, offset by cash provided from the excess tax benefit relating to employee stock plans of $7.4 million in the year ended December 31, 2014 compared to $8.6 million in the year ended December 31, 2013. In the year ended December 31, 2014, there were no additional borrowings of debt under the 2013 Credit Facility as compared to $521.2 million in the prior year. Payments made to pay down our debt borrowings were $15.0 million in the year ended December 31, 2014 as compared to $575.0 million in the prior year. Cash used to pay taxes on net share settlement of equity awards was $22.4 million in the year ended December 31, 2014 compared to $15.1 million in the prior year.

Cash used in financing activities was $187.5 million in the year ended December 31, 2013. Cash provided from the exercise of stock options was $72.8 million in the year ended December 31, 2013 compared to $47.6 million in the year ended December 31, 2012, and cash provided from the excess tax benefit relating to employee stock plans was $8.6 million in the year ended December 31, 2013 compared to $23.9 million in the year ended December 31, 2012. In the year ended December 31, 2013, borrowings of debt, net of issuance costs, under the 2013 Credit Facility contributed $521.2 million towards cash provided in financing activities as compared to $560.4 million in the prior year. The proceeds from the 2013 Credit Facility were used to pay down long-term borrowings of $575.0 million in the year ended December 31, 2013. Cash used for repurchases of common stock was $200.1 million in the year ended December 31, 2013 compared to $127.1 million in the year ended December 31, 2012. Cash used to pay taxes on net share settlement of equity awards was $15.1 million in the year ended December 31, 2013 compared to $27.3 million in the prior year.

We believe that our net proceeds from operations, together with our cash and investments balance at December 31, 2014, will be sufficient to fund our projected operating requirements for at least the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities, 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.

In December 2012, we entered into a credit agreement and related security and other agreements for a seven year $575.0 million senior secured term loan facility (the 2012 Credit Facility), which carried an interest rate of LIBOR + 300 basis points, with a 1% LIBOR floor, to facilitate the acquisition of OPNET. In December 2013, we entered into a new credit agreement and related security and other agreements for a $600.0 million credit facility (the 2013 Credit Facility) that includes a $300.0 million senior secured term loan facility and a $300.0 million senior secured revolving loan facility. The 2013 Credit Facility has a five year term and has an initial interest rate for both the term loan and revolving loan of LIBOR + 175 basis points. As of December 31, 2013, we drew down $300.0 million on the term loans, and $225.0 million under the revolving credit facility. The proceeds were used to pay-off all remaining obligations under the 2012 Credit Facility. The terms of the 2013 Credit Facility require us to make scheduled quarterly payments on the term loan of 1.25% of the original principal amount in the first two years, or $3.8 million per quarter, increasing to 2.50% thereafter, with the balance due on December 20, 2018. Refer to Contractual Obligations, below, for the minimum payment requirements.

This quarterly payment provision will result in the use of an increased portion of our cash flows from operations to pay principal payments on our credit facilities (limiting our flexibility in planning for, or reacting to, changes in our business and industry) making the payments unavailable for operations, working capital, capital expenditures, expansion, acquisitions, or other purposes.

In the future, we may enter into other arrangements for potential investments in, or acquisitions of, complementary businesses, services or technologies, which could require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Contractual Obligations

The following is a summary of our contractual obligations as of December 31, 2014:

	Year ending December 31,						
	Total	2015	2016	2017	2018	2019	Thereafter
	(in thousands)						
Contractual Obligations							
Principal payments on borrowings	$ 510,000	$ 15,000	$ 30,000	$ 30,000	$ 435,000	$ —	$ —
Interest payments on borrowings (1)	37,116	10,107	9,836	9,200	7,973	—	—
Operating leases	198,304	28,634	27,145	25,303	23,645	21,328	72,249
Purchase obligations (2)	11,526	11,520	6	—	—	—	—
Total contractual obligations	$ 756,946	$ 65,261	$ 66,987	$ 64,503	$ 466,618	$ 21,328	$ 72,249

(1) Assumes an interest rate of 2.0% over the term of the loan (see Note 14 - *Borrowings* in the Notes to Consolidated Financial Statements). The actual interest rate is a variable rate of interest based on LIBOR (with no floor) plus an applicable margin (varying from 1.25% to 2.00%).

(2) Represents amounts associated with agreements that are enforceable, legally binding and specify terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of payment. Obligations under contracts that we can cancel without a significant penalty are not included in the table above.

As of December 31, 2014, we had $53.8 million of unrecognized tax benefits, including interest and penalties, related to uncertain tax positions. Because of the high degree of uncertainty regarding the settlement of these liabilities, we are unable to estimate the years in which future cash outflows may occur. As a result, this amount is not included in the table above.

Off-Balance Sheet Arrangements

At December 31, 2014 and 2013, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes, nor did we have any undisclosed material transactions or commitments involving related persons or entities.

Other

At December 31, 2014 and 2013, we did not have commercial commitments under lines of credit or standby repurchase obligations.

Recent Accounting Pronouncements

See Note 1 - *Organization and Significant Accounting Policies* in the Notes to Consolidated Financial Statements for relevant recent accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Risk

Our sales contracts are principally denominated in U.S. dollars and therefore our revenue and receivables are not subject to significant foreign currency risk. We do incur certain operating expenses in currencies other than the U.S. dollar and therefore are subject to volatility in cash flows due to fluctuations in foreign currency exchange rates, particularly changes in the British pound, Euro, Australian dollar and Singapore dollar. We enter into forward contracts to manage our exposure to foreign currency volatility that exists as part of our ongoing business operations. We utilize cash flow hedges to reduce the exchange rate impact on a portion of our operating expenses. Contracts are denominated primarily in British pounds, Euros, Australian dollars and Singapore dollars. We do not enter into any foreign exchange derivative instruments for trading or speculative purposes.

The effect of foreign currency fluctuations that are not hedged has two components: 1) the foreign currency translation adjustment from the revaluation of the foreign currency denominated balance sheets recorded in Accumulated other comprehensive income in the accompanying consolidated balance sheets and 2) the revaluation of foreign currency denominated intercompany balances recorded as foreign currency gain/(loss) and included in Interest expense and other, net in the accompanying consolidated statements of operations. The following table summarizes the amounts of foreign exchange gains (losses) from unhedged positions for the years ended December 31, 2014 and 2013 (in thousands):

	Years ended December 31,	
	2014	**2013**
Foreign currency translation adjustment recorded in Accumulated other comprehensive income	$ (2,144)	$ 1,247
Foreign exchange gains (losses) recorded in Interest expense and other, net	$ (999)	$ 22

Interest Rate Sensitivity

We had unrestricted cash and cash equivalents, and investments totaling $613.9 million and $532.0 million at December 31, 2014 and 2013, respectively. Cash and cash equivalents of $296.4 million and $208.0 million at December 31, 2014 and 2013, respectively, are held for working capital purposes and include highly liquid investments with a maturity of ninety days or less at the time of purchase. Cash equivalents consist primarily of money market mutual funds, government-sponsored enterprise obligations, treasury bills, and other money market securities. Investments of $317.5 million and $324.0 million at December 31, 2014 and December 31, 2013, respectively, consist of government-sponsored enterprise obligations, treasury bills, FDIC-backed certificates of deposit and corporate bonds and notes.

We do not enter into investments for trading or speculative purposes. Due to the high investment quality and relatively short duration of these investments, we do not believe that they present any material exposure to changes in fair market value as a result of changes in interest rates.

The applicable interest rate on our senior secured credit facility is equal to LIBOR (with no rate floor) plus an applicable margin (varying from 1.25% to 2.00%) or, in the certain cases a base rate (based on a certain lending institution's Prime Rate or as otherwise specified in the credit agreement, with no rate floor) plus an applicable margin (varying from 0.25% to 1.00%). The interest rate is currently LIBOR + 175 basis points, or 2.0% as of December 31, 2014. A change in the interest rate of 10% would result in an increase (or decrease) in annual interest expense of approximately $1.0 million.

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The following financial statements are filed as part of this Annual Report on Form 10-K

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REPORT OF ERNST & YOUNG LLP,
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Riverbed Technology, Inc.

We have audited the accompanying consolidated balance sheets of Riverbed Technology, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the index at Item 15(a)2. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Riverbed Technology, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company adopted FASB Accounting Standards Update No. 14-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity”, effective October 1, 2014.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Riverbed Technology, Inc.’s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 13, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
February 13, 2015

**REPORT OF ERNST & YOUNG LLP,
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders
Riverbed Technology, Inc.

We have audited Riverbed Technology, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Riverbed Technology, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in Part 1, Item 9a of this Annual Report on Form 10-K under the heading “Management's Report on Internal Control Over Financial Reporting.” Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Riverbed Technology, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Riverbed Technology, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014 of Riverbed Technology, Inc. and our report dated February 13, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
February 13, 2015

RIVERBED TECHNOLOGY, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	As of December 31,	
	2014	**2013**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 296,384	$ 208,022
Short-term investments	212,789	251,339
Trade receivables, net of allowances of $1,544 and $1,996 as of December 31, 2014 and 2013, respectively	104,028	93,836
Inventory	14,786	25,025
Deferred tax assets	31,802	7,222
Assets held for sale	30,965	—
Prepaid expenses and other current assets	54,227	49,016
Total current assets	744,981	634,460
Long-term investments	104,733	72,675
Fixed assets, net	70,800	57,810
Goodwill	669,716	704,305
Intangibles, net	304,544	404,467
Other assets	31,714	23,881
Total assets	$ 1,926,488	$ 1,897,598
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 47,011	$ 45,518
Accrued compensation and benefits	48,740	51,988
Other accrued liabilities	62,135	36,520
Current maturities of long-term borrowings	15,000	15,000
Liabilities held for sale	9,586	—
Deferred revenue	219,600	217,131
Total current liabilities	402,072	366,157
Deferred revenue, non-current	94,552	95,344
Borrowings, non-current, net of current maturities	495,000	510,000
Deferred tax liability, non-current	46,933	48,548
Other long-term liabilities	47,335	48,910
Total long-term liabilities	683,820	702,802
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.0001 par value — 30,000 shares authorized, no shares outstanding	—	—
Common stock and additional paid-in-capital; $0.0001 par value — 600,000 shares authorized; 157,670 and 159,845 shares issued and outstanding as of December 31, 2014 and 2013, respectively	649,697	702,928
Retained earnings	196,563	125,295
Accumulated other comprehensive income (loss)	(5,664)	416
Total stockholders' equity	840,596	828,639
Total liabilities and stockholders' equity	$ 1,926,488	$ 1,897,598

See Notes to Consolidated Financial Statements.

RIVERBED TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Year ended December 31, 2014	2013	2012
Revenue:			
Product	$ 605,414	$ 614,498	$ 548,141
Support and services	483,794	426,535	288,719
Total revenue	1,089,208	1,041,033	836,860
Cost of revenue:			
Cost of product	150,032	164,774	124,406
Cost of support and services	131,878	117,157	80,412
Total cost of revenue	281,910	281,931	204,818
Gross profit	807,298	759,102	632,042
Operating expenses:			
Sales and marketing	454,945	469,200	328,657
Research and development	205,591	189,654	146,108
General and administrative	76,535	73,339	60,594
Other costs	21,927	18,322	726
Total operating expenses	758,998	750,515	536,085
Operating income	48,300	8,587	95,957
Other income (expense), net			
Interest income	1,264	838	1,645
Interest expense and other, net	(12,145)	(35,990)	(3,569)
Gain on sale of assets	57,451	—	—
Total other income (expense), net	46,570	(35,152)	(1,924)
Income (loss) before provision for (benefit from) income taxes	94,870	(26,565)	94,033
Provision for (benefit from) income taxes	23,602	(14,147)	39,436
Net income (loss)	$ 71,268	$ (12,418)	$ 54,597
Net income (loss) per common share:			
Basic	$ 0.45	$ (0.08)	$ 0.35
Diluted	$ 0.44	$ (0.08)	$ 0.33
Shares used in computing net income (loss) per common share:			
Basic	158,680	162,707	156,205
Diluted	163,192	162,707	164,570

See Notes to Consolidated Financial Statements

RIVERBED TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Year ended December 31,		
	2014	2013	2012
Net income (loss)	$ 71,268	$ (12,418)	54,597
Other comprehensive income (loss):			
Unrealized gain (loss) on investments, net of tax	(44)	(38)	28
Foreign currency translation adjustment	(2,144)	1,247	2,670
Derivative instruments gain (loss), net of tax	(3,892)	475	7
Other comprehensive income (loss)	(6,080)	1,684	2,705
Comprehensive income (loss)	$ 65,188	$ (10,734)	$ 57,302

See Notes to Consolidated Financial Statements

RIVERBED TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years ended December 31, 2014, 2013 and 2012
(in thousands)

	Common stock and additional paid-in-capital		Retained earnings	Accumulated other comprehensive income (loss)	Total
	Shares	Amount			
Balance at December 31, 2011	157,454	$ 631,921	$ 83,116	$ (3,973)	$ 711,064
Issuance of common stock and assumed stock options from business acquisitions	6,503	123,231	—		123,231
Repurchase of common stock	(7,377)	(127,144)	—	—	(127,144)
Common stock issued under stock plans, net of shares withheld for employee taxes	6,756	20,297	—	—	20,297
Tax benefit from employee stock plans	—	20,178	—	—	20,178
Stock-based compensation	—	89,294	—	—	89,294
Net income	—	—	54,597	—	54,597
Other comprehensive income	—	—	—	2,705	2,705
Balance at December 31, 2012	163,336	757,777	137,713	(1,268)	894,222
Repurchase of common stock	(12,418)	(200,081)	—	—	(200,081)
Common stock issued under stock plans, net of shares withheld for employee taxes	8,927	57,699	—	—	57,699
Tax benefit from employee stock plans	—	(3,024)	—	—	(3,024)
Stock-based compensation	—	90,557	—	—	90,557
Net loss	—	—	(12,418)	—	(12,418)
Other comprehensive income	—	—	—	1,684	1,684
Balance at December 31, 2013	159,845	702,928	125,295	416	828,639
Repurchase of common stock	(10,166)	(195,571)	—	—	(195,571)
Common stock issued under stock plans, net of shares withheld for employee taxes	7,991	49,568	—	—	49,568
Tax benefit from employee stock plans	—	2,265	—	—	2,265
Stock-based compensation	—	90,507	—	—	90,507
Net income	—	—	71,268	—	71,268
Other comprehensive loss	—	—	—	(6,080)	(6,080)
Balance at December 31, 2014	157,670	$ 649,697	$ 196,563	$ (5,664)	$ 840,596

See Notes to Consolidated Financial Statements

RIVERBED TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended December 31,		
	2014	2013	2012
Operating Activities:			
Net income (loss)	$ 71,268	$ (12,418)	$ 54,597
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	113,757	126,166	40,010
Stock-based compensation	90,507	90,557	89,294
Gain on sale of assets	(57,451)	—	—
Write-off of deferred debt issuance costs	—	12,269	—
Deferred taxes	(25,866)	(55,182)	5,557
Excess tax benefit from employee stock plans	(7,367)	(8,636)	(23,883)
Amortization of deferred debt issuance costs	910	1,971	—
Changes in operating assets and liabilities:			
Trade receivables	(10,132)	19,354	(13,386)
Inventory	8,908	(850)	(6,238)
Prepaid expenses and other assets	294	5,892	7,776
Accounts payable	7,834	(10,632)	4,567
Accrued and other liabilities	20,052	10,015	(14,722)
Acquisition-related contingent consideration	—	—	(15,882)
Income taxes payable	2,265	(3,022)	20,176
Deferred revenues	12,703	41,862	91,397
Net cash provided by operating activities	227,682	217,346	239,263
Investing Activities:			
Capital expenditures	(49,307)	(25,625)	(21,956)
Proceeds from the sale of assets	65,788	—	—
Purchase of available for sale securities	(372,719)	(401,145)	(444,472)
Proceeds from maturities of available for sale securities	304,736	299,678	344,353
Proceeds from sales of available for sale securities	72,737	24,045	257,961
Acquisitions, net of cash and cash equivalents acquired	(679)	(1,000)	(790,269)
Net cash provided by (used in) investing activities	20,556	(104,047)	(654,383)
Financing Activities:			
Proceeds from issuance of common stock under employee stock plans, net of repurchases	71,958	72,764	47,606
Taxes paid related to net share settlement of equity awards	(22,390)	(15,065)	(27,309)
Payments for repurchases of common stock	(195,571)	(200,081)	(127,144)
Payments of borrowings	(15,000)	(575,000)	—
Proceeds from borrowings of debt and revolving credit line, net of issuance costs	—	521,234	560,371
Excess tax benefit from employee stock plans	7,367	8,636	23,883
Net cash (used in) provided by financing activities	(153,636)	(187,512)	477,407
Effect of exchange rate changes on cash and cash equivalents	(6,240)	1,726	2,746
Net increase (decrease) in cash and cash equivalents	88,362	(72,487)	65,033
Cash and cash equivalents at beginning of period	208,022	280,509	215,476
Cash and cash equivalents at end of period	$ 296,384	$ 208,022	$ 280,509
Non-cash financing transaction:			
Fair market value of common stock issued and options assumed from acquisitions	$ —	$ —	$ 123,231
Supplemental schedule of cash flow data:			
Cash paid for income taxes	$ 51,004	$ 3,631	$ 8,827
Cash paid for interest	$ 10,368	$ 22,205	$ 247

See Notes to Consolidated Financial Statements

RIVERBED TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Riverbed Technology, Inc. was founded on May 23, 2002 and is a leader in application performance infrastructure. Riverbed gives enterprises the visibility to deliver, control, and optimize IT resources across the hybrid enterprise through the Riverbed Application Performance Platform, a set of integrated solutions that give companies the flexibility to host applications and data in the locations that best serve the business while ensuring the flawless delivery of those applications to better leverage global resources, radically reduce the cost of running their business, and maximize employee productivity. Riverbed's solutions dramatically improve application performance, reduce IT costs, and substantially increase business agility.

Pending Merger

On December 14, 2014, we entered into an agreement and plan of merger (Merger Agreement) with Project Homestake Holdings, LLC (Newco) and Project Homestake Merger Sub Corp., a wholly owned subsidiary of Newco (Merger Sub), providing for the acquisition of Riverbed by the private equity investment firm Thoma Bravo for $21.00 in cash per outstanding common share (the Merger). Newco and Merger Sub were formed by an affiliate of private equity investment firm Thoma Bravo. Capitalized terms not otherwise defined have the meaning set forth in the Merger Agreement.

At the Effective Time of the Merger, each share of common stock of the Company (the Company Common Stock) issued and outstanding as of immediately prior to the Effective Time (other than Owned Shares or Dissenting Shares) will be cancelled and extinguished and automatically converted into the right to receive cash in an amount equal to $21.00, without interest thereon (the Per Share Price). Company Options and Restricted Stock Units generally will be cancelled and converted into the right to receive the Per Share Price, less, in the case of Company Options the exercise price per share.

Newco and Merger Sub have secured committed financing, consisting of a combination of equity to be provided by investment funds affiliated with Thoma Bravo, Teachers' Private Capital, the private investor department of Ontario Teachers' Pension Plan (OTTP), and certain other institutional equity co-investors, and debt financing from Credit Suisse Securities (USA) LLC, Citigroup Global Markets Inc. and certain of its affiliates, and Barclays Bank PLC, the aggregate proceeds of which will be sufficient for Newco and Merger Sub to pay the aggregate merger consideration and all related fees and expenses. Newco and Merger Sub have committed to use their reasonable best efforts to obtain the debt financing on the terms and conditions described in the debt commitment letter entered into as of December 12, 2014. The transaction is not subject to a financing condition.

Consummation of the Merger is subject to customary closing conditions, including, without limitation, the absence of certain legal impediments, the expiration or termination of the required waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, antitrust regulatory approval in Germany, review and clearance by the Committee on Foreign Investment in the United States, and approval by the Company's stockholders.

The Company has made customary representations and warranties in the Merger Agreement and has agreed to customary covenants regarding the operation of the business of the Company and its Subsidiaries prior to the Effective Time. The Company is also subject to customary restrictions on its ability to solicit alternative acquisition proposals from third parties and to provide non-public information to, and participate in discussions and engage in negotiations with, third parties regarding alternative acquisition proposals, with customary exceptions for Superior Proposals.

The Merger Agreement contains certain termination rights for the Company and Newco. Upon termination of the Merger Agreement under specified circumstances, the Company will be required to pay Newco a termination fee of $126.0 million. If the Merger Agreement is terminated in connection with the Company accepting a Superior Proposal or due to the Board of Directors' change or withdrawal of its recommendation of the Merger, then the termination fee will become payable by the Company to Newco. This termination fee will also be payable if the Merger Agreement is terminated because the Company's stockholders did not vote to adopt the Merger Agreement and prior to such termination, a proposal to acquire at least 50% of the Company's stock or assets is publicly announced and the Company enters into an agreement for, or completes, a transaction contemplated by such proposal within one year of termination. In addition, the Company will be required to reimburse Newco for up to $4.0 million of its expenses associated with the transaction if the Merger Agreement is terminated because the

Company's stockholders do not vote to adopt the Merger Agreement or if the Company breaches its representations, warranties or covenants in a manner that would cause the related closing conditions to not be met.

Significant Accounting Policies

Basis of Financial Statements

The consolidated financial statements include our accounts and the accounts of our wholly owned subsidiaries. Intercompany transactions and balances have been eliminated.

Use of Estimates

Our consolidated financial statements are prepared in United States (U.S.) generally accepted accounting principles (GAAP). These accounting principles require us to make certain 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 revenue and expenses during the periods presented. Significant estimates and assumptions made by management include the determination of the fair value of stock awards issued, inventory valuation, the accounting for income taxes, including the determination of the valuation allowance related to our deferred tax asset balances, liabilities for uncertain tax positions, goodwill and other intangible assets, and the accounting for business combinations. 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 were made. To the extent there are material differences between these estimates and actual results, our consolidated financial statements will be affected.

Cash and Cash Equivalents

We consider all highly liquid investments purchased with original maturities at the date of purchase of three months or less to be cash equivalents. Cash and cash equivalents are stated at cost, which approximates fair value.

Investments

We determine the appropriate classification of short and long-term investments at the time of purchase and re-evaluate such determination at each balance sheet date. The fair value of our investments is determined as the exit price in the principal market in which we would transact. Securities, which are classified as available for sale at December 31, 2014, 2013 and 2012, are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity. Unrealized gains and losses to date have not been material. Realized gains and losses and declines in value judged by us to be other-than-temporary on securities available for sale are included as a component of Interest expense and other, net. The cost of securities sold is based on the specific-identification method. Interest on securities classified as available for sale is included as a component of Interest expense and other, net.

Inventory Valuation

Inventory consists of hardware and related component parts and is stated at the lower of cost (on a first-in, first-out basis) or market. A portion of our inventory relates to evaluation units located at customer locations, as some of our customers test our equipment prior to purchasing. Inventory that is obsolete or in excess of our forecasted demand is written down to its estimated realizable value based on historical usage, expected demand, and with respect to evaluation units, the historical conversion rate, the age of the units, and the estimated loss of utility. Inherent in our estimates of market value in determining inventory valuation are estimates related to economic trends, future demand for our products, the timing of new product introductions and technological obsolescence of our products. Inventory write-downs, including estimated loss of utility on evaluation units, are recognized as cost of product and amounted to approximately $8.0 million, $11.2 million and $6.7 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Service Inventory

We hold service inventory that is used to repair or replace defective hardware reported by our customers who purchase support services. We classify service inventory as Prepaid expenses and other current assets. At December 31, 2014 and 2013 our service inventory balance was $21.1 million and $20.8 million, respectively.

Internal-Use Software Development Costs

We capitalize qualifying costs for computer software developed for or obtained for internal-use, which are incurred during the application development stage, and amortize them over the software's estimated useful life, which is generally two to five years.

We capitalized $9.9 million, $7.7 million and $6.9 million in internal use software during the years ended December 31, 2014, 2013 and 2012, respectively. Amortization expense related to these assets totaled $8.2 million, $6.7 million and $4.8 million during the years ended December 31, 2014, 2013 and 2012, respectively. Software development costs required to be capitalized for software sold, leased, or otherwise marketed have not been material to date.

Impairment of Long-Lived Assets

We review long-lived assets and identifiable intangible assets, excluding goodwill, for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. We assess these assets for impairment based on estimated undiscounted future cash flows from these assets. If the carrying value of the assets exceeds the estimated future undiscounted cash flows, a loss is recorded for the excess of the asset's carrying value over the fair value. To date we have not recognized any impairment loss for long-lived assets.

Goodwill, Intangible Assets and Impairment Assessments

Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets. Goodwill is tested for impairment at least annually (more frequently if certain indicators are present). In the event that we determine that the fair value of a reporting unit is less than the reporting unit's carrying value, we will incur an impairment charge for the amount of the difference during the quarter in which the determination is made.

Intangible assets that are not considered to have an indefinite life are amortized over their useful lives. On a periodic basis, we evaluate the estimated remaining useful life of purchased intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. The carrying amounts of these assets are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate.

In the event that we determine that the fair value of an intangible asset is less than the carrying value, we will incur an impairment charge for the amount of the difference during the quarter in which the determination is made. We did not recognize any material goodwill or intangible asset impairment charges in the years ended December 31, 2014, 2013 or 2012.

Revenue Recognition

We recognize revenue when all of the following have occurred: (1) we have entered into a legally binding arrangement with a customer; (2) delivery has occurred; (3) customer payment is deemed fixed or determinable and free of contingencies and significant uncertainties; and (4) collection is reasonably assured.

The majority of our product revenue includes hardware appliances containing software components that function together to provide the essential functionality of the product. Therefore, our hardware appliances are considered non-software deliverables. Most non-software products and services qualify as separate units of accounting because they have value to the customer on a standalone basis and our revenue arrangements generally do not include a general right of return relative to delivered products. We account for non-software arrangements with multiple deliverables, which generally include support services sold with each of our hardware appliances, using the relative selling price method under the revenue recognition guidance for multiple deliverable arrangements.

Our product revenue also includes revenue from the sale of stand-alone software products. Stand-alone software may operate on our hardware appliance, but is not considered essential to the functionality of the hardware. Stand-alone software products generally include a perpetual license to our software. Stand-alone software sales are subject to the industry specific software revenue recognition guidance.

Certain arrangements with multiple deliverables may have stand-alone software deliverables that are subject to the software revenue recognition guidance along with non-software deliverables. The revenue for these multiple deliverable arrangements is allocated to the stand-alone software deliverables as a group and the non-software deliverables based on the relative selling prices of all of the deliverables in the arrangement.

The amount of product and services revenue recognized for arrangements with multiple deliverables is impacted by their relative selling prices. We apply the selling price hierarchy using vendor specific objective evidence (VSOE) when available, third-party evidence of selling price (TPE) if VSOE does not exist, and estimated selling price (ESP) if neither VSOE nor TPE is available.

VSOE of fair value for elements of an arrangement is based upon the normal pricing and discounting practices for a deliverable when sold separately, and VSOE for support services is measured by the renewal rate offered to the customer. In determining VSOE, we require that a substantial majority of the selling prices fall within a reasonably narrow pricing range, generally evidenced by a substantial majority of such historical stand-alone transactions falling within a reasonably narrow range of the median rates. In addition, we consider major service groups, geographies, customer classifications, and other variables in determining VSOE.

We are typically not able to determine TPE for our products or services. TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, our go-to-market strategy differs from that of our peers and our offerings contain a significant level of differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, we are unable to reliably determine what similar competitor products' selling prices are on a stand-alone basis.

When we are unable to establish the estimated stand-alone value of our non-software deliverables using VSOE or TPE, we use ESP in our allocation of arrangement consideration. The objective of ESP is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. We determine ESP for a product or service by considering multiple factors including, but not limited to, cost of products, gross margin objectives, pricing practices, geographies, customer classes and distribution channels.

For stand-alone software sales, we recognize revenue based on software revenue recognition guidance. Under the software revenue recognition guidance, we use the residual method to recognize revenue when an agreement includes one or more elements to be delivered at a future date and VSOE of the fair value of all undelivered elements exists. In the majority of our contracts, the only element that remains undelivered at the time of delivery of the product is support services. Under the residual method, the fair value of the undelivered stand-alone software, which is typically support services, is deferred and the remaining portion of the contract fee is recognized as product revenue. If evidence of the fair value of one or more undelivered stand-alone software elements does not exist, all revenue is generally deferred and recognized when delivery of those elements occurs or when fair value can be established. When the undelivered stand-alone element for which we do not have VSOE of fair value is support, revenue for the entire arrangement is bundled and recognized ratably over the support period.

For our non-software deliverables, we allocate the arrangement consideration based on the relative selling price of the deliverables. For our hardware appliances we use the ESP of the deliverable. For our support and services, we generally use VSOE as our relative selling price. When we are unable to establish VSOE for our support and services, we use ESP in our allocation of arrangement consideration. We regularly review VSOE and ESP. As our go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes in selling prices, including both VSOE and ESP.

For sales to direct end-users and channel partners, including value-added resellers, value-added distributors, service providers, and systems integrators, we recognize product revenue upon delivery, assuming all other revenue recognition criteria are met. For our hardware appliances, delivery occurs upon transfer of title and risk of loss, which is generally upon shipment. It is our practice to identify an end-user prior to shipment to a channel partner. For end-users and channel partners, we generally have no significant obligations for future performance such as rights of return or pricing credits. Shipping charges billed to customers are included in product revenue and the related shipping costs are included in cost of product revenue.

Support and services consist of support services, professional services, and training. Support services include repair and replacement of defective hardware appliances, software updates and access to technical support personnel. 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 on a when-and-if-available basis. Open-enrollment training services which are delivered on a when-and-if-available basis may be bundled with support services. Revenue for support services is recognized on a straight-line basis over the service contract term, which is typically one to three years. Professional services are recognized upon delivery or completion of performance. Professional service arrangements are typically short term in nature and are largely completed within 90 days from the start of service. Training services are recognized upon delivery of the training.

Our fees are typically considered to be fixed or determinable at the inception of an arrangement, generally based on specific products and quantities to be delivered. Substantially all of our contracts do not include rights of return or acceptance provisions. To the extent that our agreements contain such terms, we recognize revenue once the acceptance provisions or right of return lapses. Payment terms to customers generally range from net 30 to 90 days. In the event payment terms are provided that significantly differ from our standard business practices, the fees may be deemed to not be fixed or determinable and revenue is recognized when the payments become due, provided the remaining criteria for revenue recognition have been met.

We assess the ability to collect from our customers based on a number of factors, including credit worthiness of the customer and past transaction history of the customer. If the customer is not deemed credit worthy, we defer revenue from the arrangement until payment is received and all other revenue recognition criteria have been met.

Stock-Based Compensation

Stock-based awards granted include restricted stock units (RSUs), stock purchased under our Employee Stock Purchase Plan (the Purchase Plan) and stock options. Stock-based compensation expense is measured at the grant date, based on the fair value of the awards, and is recognized as expense over the requisite service period only for those equity awards expected to vest.

The fair value of the RSUs is determined based on the stock price on the date of grant. The fair value of the RSUs is amortized on a straight-line basis over the requisite service period of the awards, which is generally three to four years. We estimated the fair value of stock purchased under our Purchase Plan and stock options using the Black-Scholes model. This model utilizes the estimated fair value of common stock and requires that, at the date of grant, we use the expected term of the grant, the expected volatility of the price of our common stock, risk-free interest rates and expected dividend yield of our common stock. The fair value is amortized on a straight-line basis over the requisite service periods of the awards, which is generally three to four years for stock options, and six months to two years for stock purchased under our Purchase Plan.

The expected term represents the period that stock options are expected to be outstanding. We estimated the expected term based on historical exercise patterns and post vesting termination behavior. We estimated the expected volatility of stock options using a blended historical and implied volatility data. The computation of expected volatility for the Purchase Plan is based on our historical volatility.

Compensation costs are recognized only for those equity awards expected to vest. These compensation costs are determined at the aggregate grant level for service-based awards and at the individual vesting tranche level for awards with performance conditions.

Business Combinations

In our business combinations, we are required to recognize all the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. Further, acquisition-related costs are recognized separately from the acquisition and expensed as incurred; restructuring costs are generally expensed in periods subsequent to the acquisition date; changes in the estimated fair value of contingent consideration after the initial measurement on the acquisition date are recognized in earnings in the period of the change in estimate; and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period are recognized as a component of provision for (benefit from) income taxes. In addition, the fair value of in-process research and development (R&D) is recorded as an indefinite-lived intangible asset until the underlying project is completed, at which time the intangible asset is amortized over its estimated useful life, or abandoned, at which time the intangible asset is expensed.

Accounting for business combinations requires management to make significant estimates and assumptions, including the acquisition date fair value of intangible assets, estimated contingent consideration payments and pre-acquisition contingencies.

Although we believe the assumptions and estimates we have made have been reasonable and appropriate, they are based in part on historical experience and information obtained from management of the acquired company and are inherently uncertain. Examples of critical estimates in accounting for acquisitions include but are not limited to:

- the estimated fair value of the acquisition-related contingent consideration, which is performed using a probability-weighted discounted cash flow model based upon the forecasted achievement of post-acquisition bookings targets;
- the future expected cost to develop the in-process R&D into commercially viable products and the estimated cash flows from the products when completed;
- the future expected cash flows from product sales, support agreements, consulting contracts, other customer contracts and acquired developed technologies and patents; and
- the discount rates.

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

Accounting for Income Taxes

We use the asset and liability method of accounting for income taxes. Under this method, income tax expenses or benefits are recognized for the amount of taxes payable or refundable for the current year and for deferred tax liabilities and assets for the expected tax consequences of temporary differences between the tax bases of assets and liabilities for financial reporting purposes and amounts recognized for income tax purposes. The measurement of current and deferred tax assets and liabilities are based on provisions of currently enacted tax laws. The effects of future changes in tax laws or rates are not contemplated.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income tax expense and tax contingencies in each of the tax jurisdictions in which we operate. This process involves estimating current income tax expense together with assessing temporary differences in the treatment of items for tax purposes versus financial accounting purposes that may create net deferred tax assets and liabilities. We rely on estimates and assumptions in preparing our income tax provision.

We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including our recent earnings experience by jurisdiction, expectations of future taxable income, and the carryforward periods available to us for tax reporting purposes, as well as other relevant factors. We establish a valuation allowance to reduce deferred tax assets to the amount we believe is more likely than not to be realized. Due to inherent complexities arising from the nature of our businesses, future changes in income tax law, or variances between our actual and anticipated operating results, we make certain judgments and estimates. Therefore, actual income taxes could materially vary from these estimates.

As part of our accounting for business combinations, a portion of the purchase price was allocated to goodwill and intangible assets. Amortization expenses associated with acquired intangible assets are generally not tax deductible; however, deferred taxes have been recorded for non-deductible amortization expenses as a part of the purchase price allocation. In the event of an impairment charge associated with goodwill, such charges are generally not tax deductible and would increase the effective tax rate in the quarter any impairment is recorded.
We are subject to periodic audits by the Internal Revenue Service and other taxing authorities. These audits may challenge certain tax positions we have taken, such as the timing and amount of deductions and allocation of taxable income to the various tax jurisdictions. The accounting for income tax contingencies may require significant management judgment in estimating final outcomes. Actual results could differ materially from these estimates and

could significantly affect the effective tax rate and cash flows in future years. We have elected to record interest and penalties in the financial statements as a component of income taxes.

Concentrations of Risk

Financial instruments that are potentially subject to concentrations of credit risk consist primarily of cash, cash equivalents, marketable securities, and trade receivables. Investment policies have been implemented that limit investments to investment grade securities. The average portfolio maturity is currently less than a year. The risk with respect to trade receivables is mitigated by credit evaluations we perform on our customers and by the diversification of our customer base. One value-added distributor (VAD), Arrow Electronics, Inc. (Arrow) accounted for 16% of our trade receivables balance at December 31, 2014. One VAD, Avnet Inc. (Avnet), and one service provider partner, Orange Business Services, accounted for 17% and 13% of our trade receivables balance as of December 31, 2013, respectively. Two VADs, Arrow and Avnet, represented 20% and 14%, respectively, of our revenue for the year ended December 31, 2014; 18% and 13%, respectively, of our revenue for the year ended December 31, 2013; and 17% and 11% of our revenue for the year ended December 31, 2012.

We outsource the production of our inventory to third-party manufacturers. We rely on purchase orders or long-term contracts with our contract manufacturers. At December 31, 2014, we had no long-term contractual commitment with any manufacturer; however, we did have 90 day commitments totaling $11.0 million.

Changes in Accumulated Other Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. We include comprehensive income (loss) as part of our consolidated statement of changes in stockholders' equity, the components of which are included in the Statement of Comprehensive Income (Loss). Accumulated other comprehensive income (loss) includes net unrealized gains (losses) on available-for-sale securities, unrealized gains (losses) on derivative instruments that qualify for hedge accounting, and net foreign currency translation gains (losses).

The amounts reclassified out of Accumulated other comprehensive income (loss) to Net income (loss) are as follows:

(in thousands)	Unrealized gain (loss) on investments, net of tax	Foreign currency translation adjustment	Derivative instruments gain, net of tax	Total
Balance as of December 31, 2013	$ (30)	$ (59)	$ 505	$ 416
Other comprehensive loss before reclassifications	(74)	(2,144)	(4,890)	(7,108)
Amounts reclassified from accumulated other comprehensive income (loss)	30	—	998	1,028
Net current-period other comprehensive loss	(44)	(2,144)	(3,892)	(6,080)
Balance at December 31, 2014	$ (74)	$ (2,203)	$ (3,387)	$ (5,664)

Amounts reclassified from Accumulated other comprehensive income (loss) to Net income (loss) for unrealized gains (losses) on investments are recorded in Interest expense and other, net. Amounts reclassified from Accumulated other comprehensive income (loss) to Net income (loss) for derivatives instrument gains (losses) are recorded in Cost of support and services and Operating expenses.

Foreign Currency Translation

While the majority of our revenue contracts are denominated in U.S. dollars, we incur certain operating expenses in various foreign currencies. The functional currency of our foreign operations is generally the local country's currency. Consequently, expenses of operations outside the U.S. are translated into U.S. dollars using average exchange rates for the period reported while assets and liabilities of operations outside the U.S. are translated into U.S. dollars using end of period exchange rates. Foreign currency translation adjustments not affecting net income (loss) are included in stockholders' equity as a component of Accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets. The revaluation effect of foreign currency fluctuations on intercompany balances is recorded to foreign currency gain (loss) and included in Interest expense and other, net in the accompanying consolidated statements of operations. Foreign currency gains (losses) included in Interest expense and other, net included for the years ended December 31, 2014, 2013 and 2012, were a loss of $1.3 million, a gain of $0.1 million and a loss of $2.6 million, respectively.

Advertising

Advertising costs are expensed as incurred. Adverting expenses recorded as marketing expenses were $1.7 million, $2.6 million and $3.6 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Cooperative advertising obligations with customers are accrued and the costs expensed at the time the related revenue is recognized. Cooperative advertising expenses are recorded as marketing expenses to the extent that an advertising benefit separate from the revenue transaction can be identified and the cash paid does not exceed the fair value of that advertising benefit received. Otherwise, such cooperative advertising obligations with customers are recorded as a reduction of revenue. Cooperative advertising expenses recorded as a reduction of revenue were $5.4 million, $6.5 million and $6.5 million in the years ended December 31, 2014, 2013 and 2012, respectively.

Research and Development

All costs to develop our products are expensed as incurred.

Shipping and Handling Costs

Our shipping and handling costs for product sales are included in the cost of product revenue for all periods presented.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, to change the criteria for determining which disposals can be presented as discontinued operations and to enhance the related disclosure requirements for discontinued operations. We early adopted ASU 2014-08 in our fourth quarter of 2014 and applied the new guidance in accounting for the sale of our SteelStore and SteelApp product lines. We determined that the sale of the SteelStore product line and our plan to sell the SteelApp product line did not represent strategic shifts that have or will have a major effect on our operations and financial results, and accordingly neither was reported as a discontinued operation.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. ASU 2014-09 will be effective for the Company beginning in its first quarter of 2017. Early adoption is not permitted. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is currently evaluating the impact of adopting the new revenue standard on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.* ASU 2014-12 requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Accounting Standards Codification (ASC) 718, *Compensation Stock Compensation* (ASC 718), as it relates to such awards. ASU 2014-12 is effective for us in our first quarter of fiscal 2017 with early adoption permitted using either of two methods: (i) prospective to all awards granted or modified after the effective date; or (ii) retrospective to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter, with the cumulative effect of applying ASU 2014-12 as an adjustment to the opening retained earnings balance as of the beginning of the earliest annual period presented in the financial statements. We are currently evaluating the impact, if any, of our pending adoption on ASU 2014-12 on our consolidated financial statements.

In July 2013, the FASB released ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU No. 2013-11 requires that an unrecognized tax benefit should be presented as a reduction of a deferred tax asset for a net operating loss carryforward or other tax credit carryforward when settlement in this manner is available under the tax law. We are required to adopt this standard starting fiscal year 2015 and are currently in the process of determining the impact, if any, on our consolidated financial statements.

2. ACQUISITIONS AND DISPOSITIONS

Fiscal 2014 Dispositions

SteelStore product line

On October 27, 2014, we sold our SteelStore product line to NetApp, Inc. (NetApp) for $80.0 million. The Company received $65.8 million in cash, while approximately $12.0 million was held in escrow. The amount held in escrow, which is classified as Other assets on the Consolidated Balance Sheets was appropriately excluded from the proceeds from the sale of assets line on the Consolidated Statement of Cash Flows. The Company disposed of $21.0 million in net assets, which included the write-off of $19.4 million of goodwill related to the SteelStore product line. We recognized a gain of $57.4 million in Other income (expense), net. The revenues and costs of this product line are included in our results of operations through October 27, 2014. Revenues from the SteelStore product line were $4.6 million, $4.4 million, and $2.0 million in the years ended December 31, 2014, 2013 and 2012, respectively.

Fiscal 2014 Assets and Liabilities Held for Sale

SteelApp product line

Pursuant to our announced intention to seek strategic options, on February 4, 2015, we entered into a definitive agreement with Brocade Communication Systems, Inc. (Brocade) for the sale of our SteelApp product line. At December 31, 2014 we have classified the SteelApp related fixed assets, net, of $1.4 million, intangible assets, net, of $14.4 million, and goodwill of $15.2 million as Assets held for sale and deferred revenue of $9.6 million as Liabilities held for sale in our consolidated balance sheet. Revenues from the sale of the SteelApp products and services to be divested were $31.1 million, $35.8 million, and $28.4 million in 2014, 2013, and 2012, respectively.

Fiscal 2012 Acquisitions

OPNET Technologies, Inc.

On December 18, 2012, we completed our acquisition of OPNET Technologies, Inc. (OPNET) by means of a merger of one of our wholly-owned subsidiaries with and into OPNET such that OPNET became a wholly owned subsidiary of Riverbed. The addition of OPNET's broad-based family of Application Performance Management (APM) products enhances our position in the Network Performance Management (NPM) market and enables us to provide customers with an integrated solution that both monitors network and application performance and also accelerates it. We included the financial results of OPNET in our consolidated financial statements from the acquisition date.

The total purchase price for OPNET was approximately $980.2 million, which was comprised of a cash payment of $857.0 million, the fair value of Riverbed common stock issued of $122.6 million, and the fair value of stock options assumed of $0.6 million. In allocating the total purchase price based on estimated fair values as of the acquisition date, we initially recorded $582.2 million of goodwill, $458.5 million of identifiable intangible assets, $159.3 million of net deferred tax liabilities, and $98.8 million of net other tangible assets. In determining the final purchase price allocation, adjustments were recorded to goodwill, net deferred tax liabilities and net other tangible assets. The final purchase price allocation as of December 31, 2013 was $586.7 million of goodwill, $458.5 million of identifiable intangible assets, $166.1 million of net deferred tax liabilities, and $101.1 million of net other tangible assets.

Acquisition and Disposition-related Costs

Acquisition and disposition-related costs include transaction costs, integration and acquisition-related costs and changes in the fair value of the acquisition-related contingent consideration. Transaction costs include professional services fees paid to investment bankers, legal, accounting, and similar service providers. Transaction costs in the year ended December 31, 2014 include $9.9 million related to the Merger. Integration and acquisition-related costs include employee termination benefits, other acquired employee related retention costs, facilities exit and rationalization costs, integration related professional services, and the write-down of certain acquired in-progress research and development intangibles.

The following table summarizes the acquisition- and disposition-related costs recognized in Other costs in the consolidated statements of operations:

	Year ended December 31,		
(in thousands)	**2014**	**2013**	**2012**
Transaction costs	$ 10,992	$ —	$ 12,504
Integration and acquisition-related costs	5,688	18,322	3,412
Change in fair value of acquisition-related contingent consideration	—	—	(15,190)
Acquisition and disposition-related costs	$ 16,680	$ 18,322	$ 726

The following table shows the acquisition-related compensation costs that were recognized in operating expenses in the years 2014, 2013 and 2012:

	Year ended December 31,		
(in thousands)	**2014**	**2013**	**2012**
Sales and marketing	$ 3	$ 486	$ 788
Research and development	99	98	1,807
General and administrative	—	566	23
Total acquisition-related compensation costs	102	1,150	2,618
Acquisition and integration-related recorded in Other costs	16,680	18,322	726
Total acquisition and disposition-related costs	$ 16,782	$ 19,472	$ 3,344

3. NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share is computed by giving effect to all potential dilutive common shares, including stock awards.

The following table sets forth the computation of net income (loss) per share:

	Year ended December 31,		
(in thousands, except per share data)	**2014**	**2013**	**2012**
Net income (loss)	$ 71,268	$ (12,418)	$ 54,597
Weighted average common shares outstanding — basic	158,680	162,707	156,205
Dilutive effect of employee stock plans	4,512	—	8,365
Weighted average common shares outstanding — diluted	163,192	162,707	164,570
Basic net income (loss) per share	$ 0.45	$ (0.08)	$ 0.35
Diluted net income (loss) per share	$ 0.44	$ (0.08)	$ 0.33

Stock options outstanding with an exercise price higher than our average stock price for the periods presented, represent out-of-the-money awards and the anti-dilutive effect of other stock awards are excluded from the calculations of the diluted net income (loss) per common share since the effect would have been anti-dilutive under the treasury stock method.

In addition, stock options and other stock awards outstanding with an exercise price lower than our average stock price for the periods presented, representing in-the-money awards that would otherwise have a dilutive effect under the treasury stock method, are excluded from the calculations of the diluted loss per common share in periods with a loss since the effect in such periods would have been anti-dilutive.

The following weighted average outstanding shares of common stock from stock options and other awards options were excluded from the computation of diluted net income (loss) per common share for the periods presented because including them would have had an anti-dilutive effect:

	Year ended December 31,		
(in thousands)	**2014**	**2013**	**2012**
Total potential shares of common stock	12,557	21,717	10,368

4. FAIR VALUE OF ASSETS AND LIABILITIES

As of December 31, 2014, the fair value of our cash, cash equivalents, investments, derivative assets and liabilities, and borrowings measured on a recurring basis consisted of the following:

(in thousands)	Total	Level 1	Level 2
Assets:			
Corporate bonds and notes	$ 24,637	$ —	$ 24,637
U.S. government-sponsored enterprise obligations	27,548	—	27,548
Money market funds	28,283	28,283	—
Cash	215,916	—	—
Total cash and cash equivalents	$ 296,384	$ 28,283	$ 52,185
Corporate bonds and notes	$ 75,845	$ —	$ 75,845
U.S. government backed securities	43,736	43,736	—
U.S. government-sponsored enterprise obligations	178,287	—	178,287
FDIC-backed certificates of deposit	19,654	—	19,654
Total investments	$ 317,522	$ 43,736	$ 273,786
Total assets	$ 613,906	$ 72,019	$ 325,971
Liabilities:			
Derivative liability	$ 2,298	$ —	$ 2,298
Borrowings	$ 510,000	$ —	$ 510,000
Total liabilities	$ 512,298	$ —	$ 512,298

As of December 31, 2014 and 2013, there were no Level 3 instruments.

As of December 31, 2013, the fair value measurements of our cash and cash equivalents, investments, derivative assets and liabilities, and borrowings consisted of the following:

(in thousands)	Total	Level 1	Level 2
Assets:			
Corporate bonds and notes	$ 28,545	$ —	$ 28,545
U.S. government-sponsored enterprise obligations	18,775	—	18,775
Money market funds	30,009	30,009	—
Cash	130,693	—	—
Total cash and cash equivalents	$ 208,022	$ 30,009	$ 47,320
Corporate bonds and notes	$ 74,648	$ —	$ 74,648
U.S. government backed securities	23,210	23,210	—
U.S. government-sponsored enterprise obligations	211,094	—	211,094
FDIC-backed certificates of deposit	15,062	—	15,062
Total investments	$ 324,014	$ 23,210	$ 300,804
Derivative asset	$ 331	$ —	$ 331
Total assets	$ 532,367	$ 53,219	$ 348,455
Liabilities:			
Derivative liability	$ 103	$ —	$ 103
Borrowings	$ 525,000	$ —	$ 525,000
Total liabilities	$ 525,103	$ —	$ 525,103

The following tables present the gross unrealized gains and losses as of December 31, 2014 and 2013:

(in thousands)	Fair Value	Unrealized Gains	Unrealized Losses
Corporate bonds and notes	$ 100,482	$ —	$ (16)
U.S. government backed securities	43,736	4	(29)
U.S. government-sponsored enterprise obligations	205,835	16	(103)
Total investments at December 31, 2014	$ 350,053	$ 20	$ (148)
Corporate bonds and notes	$ 103,193	$ 1	$ (24)
U.S. government backed securities	23,210	7	(2)
U.S. government-sponsored enterprise obligations	229,869	55	(30)
FDIC-backed certificates of deposit	15,062	1	—
Total investments at December 31, 2013	$ 371,334	$ 64	$ (56)

We regularly review our investment portfolio to determine if any security is other-than-temporarily impaired, which would require us to record an impairment charge in the period any such determination is made. In making this judgment, we evaluate, among other things, the duration and extent to which the fair value of a security is less than its cost; the financial condition of the issuer and any changes thereto; and our intent and ability to sell, or whether we will more likely than not be required to sell, the security before recovery of its amortized cost basis. We have evaluated our investments as of December 31, 2014 and have determined that no investments with unrealized losses are other-than-temporarily impaired. No investments have been in a continuous loss position greater than one year.

Cash, Cash Equivalents and Investments

Cash and cash equivalents consist primarily of highly liquid investments in money market mutual funds, government-sponsored enterprise obligations, treasury bills, commercial paper and corporate bonds and notes with remaining maturities at date of purchase of 90 days or less. The carrying value of cash and cash equivalents at December 31, 2014 and 2013 was $296.4 million and $208.0 million, respectively. The carrying value approximates fair value at December 31, 2014 and 2013.

Investments, which are classified as available for sale at December 31, 2014, are carried at fair value, with the unrealized gains and losses, net of tax, reported in Accumulated other comprehensive income (loss) in stockholders' equity. Investments consist of government-sponsored enterprise obligations, municipal bonds, treasury bills, FDIC-backed certificates of deposit, commercial paper and corporate bonds and notes. The fair value of our investments is determined as the exit price in the principal market in which we would transact. Level 1 instruments are valued based on quoted market prices in active markets and include treasury bills and money market funds. Level 2 instruments are valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency and include commercial paper, corporate bonds and notes, municipal bonds, government-sponsored enterprise obligations and FDIC-backed certificates of deposit. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect our own assumptions in measuring fair value. Generally our investments have maturity dates up to two years from our date of purchase and active markets for these investments exist.

Restricted Cash

Restricted cash primarily represents the $12.0 million escrow from the sale of our SteelStore product line and collateralized letters of credit established in connection with lease agreements for our facilities. Current restricted cash totaled $1.6 million and $3.3 million as of December 31, 2014 and 2013, respectively. Current restricted cash is included in Prepaid expenses and other current assets in the consolidated balance sheet. Long-term restricted cash totaled $20.6 million and $9.1 million at December 31, 2014 and 2013, respectively. Long-term restricted cash is included in Other assets in the consolidated balance sheets and consists primarily of funds held in escrow related to the sale of our SteelStore product line and as collateral for letters of credit for the security deposit on the certain leases.

Fair Value of Derivative Instruments

We use derivative instruments to partially offset our market exposures to fluctuations in certain foreign currency exchange rates, which exist as part of ongoing business operations. These derivatives are considered Level 2 instruments. Derivative assets are included in Prepaid expenses and other current assets in the consolidated balance sheet. Derivative liabilities are included in Other accrued liabilities in the consolidated balance sheet. Refer to Note 13 - *Derivative Financial Instruments* for additional derivative financial instrument disclosure.

Borrowings

Our borrowings are classified as short-term and long-term and are considered Level 2 instruments. The fair value of these borrowings has been valued using an estimate of the interest rate that we would be required to pay on the issuance of debt with similar terms and discounting the cash flows at that rate. Refer to Note 14 - *Borrowings* for the carrying value and additional disclosures on our borrowings.

5. INVENTORY

Inventories consist primarily of hardware and related component parts and evaluation units located at customer locations, and are stated at the lower of cost (on a first-in, first-out basis) or market. Inventory is comprised of the following:

	As of December 31,	
(in thousands)	**2014**	**2013**
Raw materials	$ 2,387	$ 5,069
Finished goods	11,587	15,430
Evaluation units	812	4,526
Total	$ 14,786	$ 25,025

6. GOODWILL AND INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets. We consider the acquired businesses as additions to our product portfolio. We record goodwill adjustments pursuant to changes to net assets acquired during the measurement period, which is up to one year from the date of acquisition. A portion of the goodwill associated with the acquisition of OPNET, Expand, Global Protocols, LLC, Zeus and Aptimize will be deductible for income tax purposes.

Goodwill consisted of the following:

(in thousands)		
Balance at December 31, 2012	$	699,785
Other adjustments		4,520
Balance at December 31, 2013	$	704,305
Disposition of goodwill related to the sale of the SteelStore product line		(19,368)
Reclassification to Assets held for sale		(15,221)
Balance at December 31, 2014	$	669,716

Intangible Assets

Intangible assets are recorded at their estimated fair value as of the acquisition date of the related acquired business. Intangible assets that have a finite life are amortized over their useful lives.

Intangible assets, net, consisted of the following:

	As of December 31, 2014					
(in thousands)		Gross		Accumulated Amortization		Net
Existing technology	$	205,453	$	(92,765)	$	112,688
Patents		3,299		(3,049)		250
Maintenance agreements		216,800		(63,103)		153,697
Customer contracts		49,603		(20,679)		28,924
Trademarks		12,500		(5,181)		7,319
Non-compete agreements		5,300		(3,634)		1,666
Currency translation adjustment		—		—		—
Total intangible assets, net	$	492,955	$	(188,411)	$	304,544

Intangible Assets to be disposed of were included in Assets held for sale on the consolidated balance sheet as of December 31, 2014 and, accordingly, were not included in the table above. The amortization of these intangible assets ceased as of the date they were deemed to be held for sale. Accordingly, our intangible assets as of December 31, 2014 were recorded as:

(in thousands)		
Intangibles, net	$	304,544
Assets held for sale		14,386
Total intangibles assets	$	318,930

RIVERBED TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

		As of December 31, 2013		
	Weighted Average Useful Life	Gross	Accumulated Amortization	Net
Existing technology	5.4 years	$ 237,353	$ (73,111)	$ 164,242
Patents	5.1 years	8,799	(5,414)	3,385
Maintenance agreements	7.4 years	230,100	(41,353)	188,747
Customer contracts	6.3 years	51,103	(13,737)	37,366
Trademarks	5.6 years	12,800	(3,561)	9,239
Non-compete agreements	3.0 years	5,300	(1,900)	3,400
Currency translation adjustment	N/A	—	—	(1,912)
Total intangible assets, net		$ 545,455	$ (139,076)	$ 404,467

Amortization expense was $85.5 million, $103.0 million and $25.9 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Estimated future amortization expense related to the above intangible assets subject to amortization, excluding those intangibles recorded as Assets held for sale, at December 31, 2014 is as follows:

Fiscal Year	In thousands
2015	$ 71,609
2016	68,337
2017	59,013
2018	57,795
2019	27,040
Thereafter	20,750
Total remaining amortization of intangibles	$ 304,544

7. FIXED ASSETS

Fixed assets are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets, which is typically two to five years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset. Repair and maintenance costs are expensed as incurred.

Fixed assets consisted of the following:

(in thousands)	Estimated Useful Lives	As of December 31, 2014	2013
Computer hardware and equipment	3 years	$ 53,595	$ 53,417
Leasehold improvements	2-5 years	48,840	37,733
Furniture and fixtures	3-5 years	14,871	10,207
Software	2-5 years	48,061	38,173
Total fixed assets		165,367	139,530
Accumulated depreciation and amortization		(94,567)	(81,720)
Fixed assets, net		$ 70,800	$ 57,810

Property and equipment of approximately $1.4 million to be disposed of were included in Assets held for sale on the consolidated balance sheet as of December 31, 2014 and, accordingly, were not included in the table above. Depreciation and amortization of these assets ceased as of the date they were deemed to be held for sale.

Depreciation and amortization expense of fixed assets was $28.2 million, $23.2 million and $14.6 million for the years ended December 31, 2014, 2013 and 2012, respectively.

8. ACCRUED LIABILITIES

Current liabilities

Accrued compensation and benefits consisted of the following:

(in thousands)	As of December 31, 2014	2013
Accrued commissions	$ 12,428	$ 14,850
Vacation liability	$ 15,089	$ 14,218
Other accrued compensation and benefits	21,223	22,920
Total accrued compensation and benefits	$ 48,740	$ 51,988

Other accrued liabilities consisted of the following:

(in thousands)	As of December 31, 2014	2013
Deferred rent liability	$ 36,119	$ 12,342
Other accrued liabilities	26,016	24,178
Total other accrued liabilities	$ 62,135	$ 36,520

Other long-term liabilities

Other long-term liabilities consisted of the following:

	As of December 31,	
(in thousands)	2014	2013
Other long-term liabilities	$ 1,622	$ 445
Unrecognized tax benefit obligation	45,713	48,465
Total other long-term liabilities	$ 47,335	$ 48,910

9. DEFERRED REVENUE

Deferred revenue consisted of the following:

	As of December 31,	
(in thousands)	2014	2013
Product	$ 40,547	$ 58,692
Support and services	283,191	253,783
Total deferred revenue	$ 323,738	$ 312,475
Reported as:		
Deferred revenue, current	$ 219,600	$ 217,131
Liabilities held for sale	9,586	—
Deferred revenue, non-current	94,552	95,344
Total deferred revenue	$ 323,738	$ 312,475

Deferred revenue of approximately $9.6 million to be disposed of was included in Liabilities held for sale on the consolidated balance sheet as of December 31, 2014 and, accordingly, was not included in the table above. Amortization ceased as of the date the deferred revenue was deemed to be held for sale.

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

10. RESTRUCTURING

As of December 31, 2014, current and non-current restructuring liabilities were $3.6 million and consisted of obligations under excess facility operating leases, net of projected future sublease receipts, and one-time employee termination benefits, as shown in the table below.

During 2013, we recorded facilities exit costs of $1.9 million related to rationalizing and exiting certain redundant facilities obtained in the OPNET acquisition. During 2014, we recorded restructuring charges of $5.2 million. The restructuring charges included excess facilities charges of $0.9 million, and one-time employee termination benefits of $4.3 million related to a reduction in total staff during the fourth quarter of 2014 of approximately 80 people, or 3% of the total workforce. The restructuring plan was completed in the fourth quarter of 2014, therefore additional charges are not anticipated.

Restructuring liabilities, recorded in Other costs on the consolidated statements of operations, consisted of (in thousands):

	Termination Benefits	Excess Facilities	Total
Balance at December 31, 2012	$ —	$ —	$ —
Charges in 2013	—	1,873	1,873
Cash payments	—	(45)	(45)
Balance at December 31, 2013	—	1,828	1,828
Charges in 2014	4,333	1,113	5,446
Cash payments	(3,018)	(682)	(3,700)
Balance at December 31, 2014	$ 1,315	$ 2,259	$ 3,574

As reported in (in thousands) as of December 31, 2014:

	Termination Benefits	Excess Facilities	Total
Other accrued liabilities	$ 1,315	$ 1,359	$ 2,674
Other long-term liabilities	—	900	900
Total restructuring liability	$ 1,315	$ 2,259	$ 3,574

11. jGUARANTEES

Our agreements with customers, as well as our channel partner agreements, generally include certain provisions for indemnifying customers and channel partners and their affiliated parties against liabilities if our products infringe a third party's intellectual property rights or for other mutually agreed upon liabilities. To date, we have not incurred any material costs as a result of such indemnifications and have not accrued any liabilities related to such obligations in our consolidated financial statements.

As permitted or required under Delaware law and to the maximum extent allowable under that law, we have certain obligations to indemnify our officers, directors and certain key employees for certain events or occurrences while the officer, director or employee is or was serving at our request in such capacity. These indemnification obligations are valid as long as the director, officer or employee acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. The maximum potential amount of future payments we could be required to make under these indemnification obligations is unlimited; however, we have a director and officer insurance policy that mitigates our exposure and enables us to recover a portion of any future amounts paid.

12. LEASE COMMITMENTS

We lease our facilities under non-cancelable operating lease agreements. Future minimum commitments for these operating leases in place as of December 31, 2014 with a remaining non-cancelable lease term in excess of one year are as follows:

(in thousands)	December 31, 2014
2015	$ 28,634
2016	27,145
2017	25,303
2018	23,645
2019	21,328
Thereafter	72,249
Total	$ 198,304

The terms of certain lease agreements provide for rental payments on a graduated basis. We recognize rent expense on the straight-line basis over the lease period and have accrued for rent expense incurred but not paid. Rent expense under operating leases was $27.8 million, $22.5 million and $13.6 million for the years ended December 31, 2014, 2013 and 2012, respectively.

13. DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative instruments to partially offset our market exposures to fluctuations in certain foreign currency exchange rates, which exist as part of ongoing business operations. Our general practice is to hedge a majority of transaction exposures denominated in British pounds, Euros, Australian dollars and Singapore dollars. These instruments have maturities up to twelve months in the future. We do not enter into derivative instrument transactions for trading or speculative purposes.

Foreign currency contracts designated as cash flow hedges

We utilize foreign currency forward contracts to hedge certain forecasted foreign currency transactions relating to cost of service and operating expense. These contracts are designated and documented as cash flow hedges at their inception. All changes in time value are excluded from the cash flow hedge and recorded to Interest expense and other, net in the period incurred. The effective portion of derivative's gains or losses on these hedges is initially included in Accumulated other comprehensive income (loss) and is subsequently reclassified into the cost of service or operating expense, to which the hedged transaction relates, upon the occurrence of the forecasted transaction. We record any ineffectiveness of the hedging instruments in Interest expense and other, net in our consolidated financial statements in the period incurred. No ineffectiveness was recorded during the years ended December 31, 2014 and 2013.

The notional amount of these contracts was $71.4 million at December 31, 2014 and $49.0 million at December 31, 2013. Outstanding contracts are recognized as either assets or liabilities on the balance sheet at fair value. The amount remaining in Accumulated other comprehensive income (loss) as of December 31, 2014 was not significant and is expected to be recognized into earnings within the next twelve months.

Derivatives not designated as hedging instruments

We use foreign currency forward contracts to reduce the variability in gains and losses generated from the re-measurement of certain monetary assets and liabilities denominated in foreign currencies. These hedges do not qualify for hedge accounting treatment. These derivatives are carried at fair value with gains and losses recognized as Interest expense and other, net. Changes in the fair value of the derivatives are largely offset within the consolidated statement of operations by re-measurement of the underlying assets and liabilities. We had a notional value of $13.2 million in derivative instruments that were non-designated hedges at December 31, 2014 and $11.7 million at December 31, 2013.

Fair Value of Derivative Instruments

The fair value of derivative instruments in our consolidated balance sheets was as follows as of December 31, 2014 and 2013:

	As of December 31,	
(in thousands)	2014	2013
Derivative assets:		
Foreign currency contracts designated as cash flow hedges	$ —	$ 162
Derivatives not designated as hedging instruments	—	169
Total derivative assets	$ —	$ 331
Derivative liabilities:		
Foreign currency contracts designated as cash flow hedges	$ 1,928	$ 57
Derivatives not designated as hedging instruments	370	46
Total derivative liabilities	$ 2,298	$ 103

The effects of derivatives designated as hedging instruments on our consolidated statements of operations were as follows for the years ended December 31, 2014 and 2013:

	Year ended December 31,	
(in thousands)	2014	2013
Amount of gain (loss) recognized in Accumulated other comprehensive income (loss) on derivatives (effective portion)	$ (5,095)	$ 191
Amount and location of losses reclassified from Accumulated other comprehensive income (loss) into earnings (effective portion)		
Cost of support and services	$ (130)	$ (90)
Sales and marketing	(829)	(154)
Research and development	(19)	(36)
General and administrative	(20)	(29)
Total	$ (998)	$ (309)
Amount and location of gain recognized in earnings on derivatives (ineffective portion and amount excluded from effectiveness testing)		
Interest expense and other, net	$ 214	$ 91

The effects of derivatives not designated as hedging instruments on our consolidated statements of operations were as follows for the year ended December 31, 2014 and 2013:

	Year ended December 31,	
(in thousands)	2014	2013
Interest expense and other, net	$ (864)	$ 192

We enter into master netting arrangements with certain counterparties, which reduce credit risk by permitting net settlement of transactions with the same counterparty. A master netting arrangement may allow counterparties to net settle amounts owed to each other as a result of multiple, separate derivative transactions. These agreements also provide a right to offset corresponding amounts at the option of the non-defaulting party or non-affected party upon the early termination of these agreements by default or upon certain other termination events. For presentation on the consolidated balance sheets, it is our policy to not offset fair value amounts recognized for derivative instruments under master netting arrangements. As of December 31, 2014, we have posted no collateral for derivative instruments, therefore no amounts exist to offset the fair value amounts recognized for derivative instruments under master netting arrangements.

14. BORROWINGS

In December 2013, we entered into a credit agreement and related security and other agreements for a $600.0 million credit facility (the 2013 Credit Facility) providing for a $300.0 million senior secured term credit facility and a $300.0 million senior secured revolving credit facility. The 2013 Credit Facility has a five year term. On December 20, 2013, we drew down $300.0 million in term loans, and $225.0 million under the revolving credit facility. The proceeds were used to pay-off all obligations under the credit agreement and related security and other agreements, dated as of December 18, 2012 (the 2012 Credit Facility), whereby we borrowed $575.0 million to facilitate the acquisition of OPNET. Pursuant to the issuance of the 2013 Credit Facility, we incurred debt issuance costs of approximately $4.2 million, which is recorded as a deferred asset and will be amortized to interest expense using the effective interest rate method.

Borrowings under the 2013 Credit Facility bear interest based on the daily balance outstanding at LIBOR (with no rate floor) plus an applicable margin (varying from 1.25% to 2.00%) or, in the certain cases a base rate (based on a certain lending institution's Prime Rate or as otherwise specified in the credit agreement, with no rate floor) plus an applicable margin (varying from 0.25% to 1.00%). The revolving credit facility also carries a commitment fee equal to the unused borrowings multiplied by an applicable margin (varying from 0.25% to 0.30%). The applicable margins are calculated quarterly and vary based on our leverage ratio as set forth in the credit agreement. The initial interest rate on both the term and revolving loans is LIBOR + 175 basis points, or 2.0% as of December 31, 2013. Beginning in 2014, 5% of the initial term loan value is to be paid annually in quarterly installments.

The term loan contains various customary representations and warranties by us, which include customary use of materiality, material adverse effect and knowledge qualifiers. The 2013 Credit Facility also contains customary affirmative and negative covenants including, among other requirements, negative covenants that restrict our ability to dispose of assets, create liens, incur indebtedness, repurchase stock, pay dividends, make acquisitions and make investments. Further, the 2013 Credit Facility contains financial covenants that require the maintenance of minimum consolidated interest coverage and maximum consolidated leverage ratios. Specifically, we must maintain, as of the end of each fiscal quarter, an interest coverage ratio of (a) EBITDA (as defined in the 2013 Credit Facility) to (b) interest expense for the most recently ended period of four fiscal quarters of not less than 3.50 to 1.00. We must also maintain, at the end of each fiscal quarter, a consolidated leverage ratio of (x) consolidated funded debt to (y) consolidated EBITDA (as defined in the 2013 Credit Facility) as of the last day of any fiscal quarter of the Borrower as set forth in the table below:

Fiscal Quarter Ending	Consolidated Leverage Ratio
December 31, 2013 to December 31, 2014	3.50 to 1.00
March 31, 2015 to December 31, 2015	3.25 to 1.00
March 31, 2016 and thereafter	3.00 to 1.00

We were in compliance with all restrictive covenants of the term loan agreements as of December 31, 2014.

In the year ended December 31, 2014 and 2013, total interest expense was $11.1 million and $23.7 million, respectively. In December 2013, we recognized a $12.3 million charge to Interest expense and other, net for the write-off of deferred debt issuance costs upon the pay-off of the 2012 Credit Facility.

The following table summarizes the future minimum principal payments on the 2013 Credit Facility outstanding as of December 31, 2014:

Fiscal year	(in thousands)
2015	$ 15,000
2016	30,000
2017	30,000
2018	435,000
Thereafter	—
Total	$ 510,000

15. COMMON STOCK

On November 10, 2013, our Board of Directors authorized and declared a dividend distribution of one right (a Right) for each outstanding share of common stock to stockholders of record at the close of business on November 21, 2013 (the Record Date). Each Right entitles the registered holder to purchase from us one one-thousandth of a share of Series A Participating Preferred Stock, par value $0.0001 per share (the Preferred Shares), at an exercise price of $75.00 per one one-thousandth of a Preferred Share, subject to adjustment (the Exercise Price). The complete terms of the Rights are set forth in a Preferred Shares Rights Agreement (the Rights Agreement), dated as of November 11, 2013 and as amended November 27, 2013, between Riverbed and Computershare Trust Company, N.A., as rights agent. Subject to certain exceptions specified in the Rights Agreement, the Rights will separate from the common stock and become exercisable following (i) the 10th business day (or such later date as may be determined by the Board of Directors) after the public announcement that a person or group of affiliated or associated persons (an Acquiring Person) has acquired beneficial ownership of 10% (or 20% in the case of certain institutional investors who report their holdings on Schedule 13G) or more of the common stock or (ii) the 10th business day (or such later date as may be determined by the Board of Directors) after a person or group announces a tender or exchange offer that would result in ownership by a person or group of 10% (or 20% in the case of certain institutional investors who report their holdings on Schedule 13G) or more of the common stock. Until such a time, the Rights are inseparable from our common stock. The Rights have a de minimus fair value. In November 2014, the expiration of the Rights Agreement was extended to November 11, 2015.

Stock Plans

In July 2002, our Board of Directors adopted the 2002 Stock Plan (the 2002 Plan). In April and May 2006, our Board of Directors approved the 2006 Equity Incentive Plan (the 2006 Plan), the 2006 Employee Stock Purchase Plan (the Purchase Plan), and the 2006 Director Option Plan, which became effective upon our Initial Public Offering. In September 2006, all shares of common stock available for grant under the 2002 Plan transferred to the 2006 Plan. In May 2014, our Board of Directors adopted the 2014 Equity Incentive Plan (the 2014 Plan), which replaced the 2006 Plan, the 2006 Director Plan, and the 2012 Stock Incentive Plan.

The Plans provide for automatic replenishments as follows:

- 2006 Employee Stock Purchase Plan — Through January 2013, the Purchase Plan increased on January 1 of each year by a number of shares equal to the lesser of (i) 1,500,000 shares or (ii) 1% of the shares of common stock outstanding at that time or (iii) the number of shares determined by the Board. Effective May 22, 2013, the stockholders approved a 10,000,000 share increase to the Purchase Plan and the annual evergreen provision was discontinued.

In February 2009, our Board of Directors adopted the 2009 Inducement Equity Incentive Plan (the 2009 Plan). The objective of the 2009 Plan is to provide incentives to attract, retain, and motivate eligible persons whose potential contributions are important to promote our long-term success and the creation of stockholder value. The 2009 Plan is intended to comply with NASDAQ Rule 5635(c)(4), which governs granting certain awards as a material inducement to an individual entering into employment with us. The 2009 Plan may be used for new hire equity grants should the Board of Directors determine to do so in the future.

Pursuant to our December 2012 acquisition of OPNET, we assumed the Riverbed 2012 Stock Incentive Plan (2012 Plan) (formerly named the OPNET Technologies, Inc. 2010 Stock Incentive Plan), including all outstanding shares of restricted stock, all outstanding restricted stock units, and all shares available for future issuance under the Riverbed 2012 Stock Incentive Plan, and all of such securities became issuable for shares of our common stock, subject to appropriate adjustments to the number of shares pursuant to the Merger Agreement. The Riverbed 2012 Stock Incentive Plan provides for the number of shares of common stock available for issuance under the 2012 Plan to automatically increase on the first trading day of each calendar year, beginning with the 2013 calendar year and continuing through the term of the 2012 Plan, by an amount equal to the lesser of (i) 1,631,762 shares of common stock, or (ii) an amount determined by the Board.

Also pursuant to our December 2012 acquisition of OPNET, we assumed certain outstanding options to purchase common stock of OPNET granted under the OPNET Technologies, Inc. Amended and Restated 2000 Stock Incentive Plan, and such options became exercisable to purchase shares of our common stock, subject to appropriate adjustments to the number of shares and exercise price of each assumed option pursuant to the Merger Agreement.

A summary of shares available for grant as of December 31, 2014 is as follows:

(in thousands)	Year ended December 31, 2014
2014 Plan	11,902
2009 Inducement equity incentive plan	787
Purchase plan	8,493
Total	21,182

Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense for stock options, RSUs and the Purchase Plan recorded in our statement of operations:

	Year ended December 31,		
(in thousands)	2014	2013	2012
Cost of product	$ 1,461	$ 1,212	$ 942
Cost of support and services	8,642	8,832	6,853
Sales and marketing	36,113	40,991	35,668
Research and development	28,677	25,183	28,645
General and administrative	15,614	14,339	17,186
Total stock-based compensation expense	$ 90,507	$ 90,557	$ 89,294

Share-Based Payments Valuation Assumptions

The fair value of options granted and Purchase Plan shares granted was estimated at the date of grant using the following assumptions:

	Year ended December 31,		
	2014	2013	2012
Employee Stock Options			
Expected term in years	4.3 - 4.4	4.3 - 4.4	4.2 - 4.3
Risk-free interest rate	1.3% - 1.4%	0.7% - 1.2%	0.6% - 0.7%
Volatility	48% - 52%	53% - 63%	62% - 66%

	Year ended December 31,		
	2014	2013	2012
Purchase Plan			
Expected term in years	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0
Risk-free interest rate	0.05% - 0.50%	0.08% - 0.30%	0.14% - 0.29%
Volatility	22% - 43%	40% - 64%	63% - 74%

Stock Options

Options issued under our stock option plans are generally for periods not to exceed 10 years and are issued with an exercise price equal to the market value of our common stock on the date of grant, as determined by the last sale price of such stock on the Nasdaq Global Select Market. Options typically vest either 25% of the shares one year after the options' vesting commencement date and the remainder ratably on a monthly basis over the following three to four years. Options granted under the 2002 Plan prior to May 31, 2006 have a maximum term of ten years, and beginning May 31, 2006 have a maximum term of seven years. Options granted under the 2006 Plan have a maximum term of seven years. Options granted under the 2006 Director Option Plan prior to March 4, 2008 have a maximum term of ten years, and options granted beginning March 4, 2008 have a maximum term of seven years. Options granted under the 2009 Plan have a maximum term of seven years.

As of December 31, 2014, total compensation cost related to stock options granted to employees and directors not yet recognized was $14.9 million, net of estimated forfeitures. This cost will be recognized on a straight-line basis over the remaining weighted-average service period of 2.0 years.

The following table summarizes information about stock options activity under all stock option plans:

(in thousands, except per share amounts)	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Balance at December 31, 2013	11,951	$ 16.84	3.67	$ 48,405
Granted	134	$ 19.77		
Exercised	(3,767)	$ 11.55		
Forfeited or expired	(1,081)	$ 22.55		
Balance at December 31, 2014	7,237	$ 18.79	3.29	$ 32,783
Exercisable	5,446	$ 18.94	2.70	$ 27,225
Vested and expected to vest	6,999	$ 18.80	3.19	$ 32,067

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock option awards and the closing price of our common stock at December 31, 2014. During the years ended December 31, 2014, 2013 and 2012, the aggregate intrinsic value of stock option awards exercised was $31.2 million, $37.8 million, and $45.9 million, respectively, determined at the date of option exercise.

The weighted average grant-date fair value of options granted for the years ended December 31, 2014, 2013 and 2012, was $7.53, $6.30, and $10.19 per share, respectively.

Stock Purchase Plan

Under the Purchase Plan, employees may purchase shares of common stock through payroll deductions at a price per share that is 85% of the lesser of the fair market value of our common stock as of the beginning of an applicable offering period or the applicable purchase date. Offering periods are generally 24 months with purchases generally every 6 months. Employees' payroll deductions may not exceed 15% of their compensation. Employees may purchase up to 4,000 shares per purchase period provided that the value of the shares purchased in any calendar year does not exceed IRS limitations.

As of December 31, 2014, there was $7.0 million of total compensation cost, net of estimated forfeitures, left to be recognized under our Purchase Plan, which will be recognized over the remaining Purchase Plan offering period, which is up to 22 months.

The weighted average fair value of grants for the years ended December 31, 2014, 2013 and 2012, was $5.69, $5.85, and $8.67 per share, respectively.

Restricted Stock Units

RSUs, which include performance-based RSUs, are granted to our employees and eligible executives, under the 2006 Plan. We expense the cost of nonvested RSUs, which is determined to be the fair market value of the shares of our common stock at the date of grant, ratably over the service period.

The number of performance-based RSUs that are earned is generally variable based upon meeting certain annual performance targets, and vesting occurs three years from the date of grant.

RSUs generally vest over a period of three to four years from the date of grant. Until vested, RSUs do not have the voting rights of common stock and the shares underlying the awards are not considered issued and outstanding.

As of December 31, 2014, total unrecognized compensation cost related to nonvested RSUs to employees and directors not yet recognized was $126.3 million, net of estimated forfeitures. This cost will be recognized over the remaining weighted-average service period of 2.6 years.

The following table summarizes information about RSU activity for the year ended as of December 31, 2014:

(in thousands, except per share amounts)	Number of Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2013	9,126	$ 17.67
Granted	6,488	$ 19.31
Vested	(3,151)	$ 18.96
Forfeited	(2,548)	$ 17.11
Balance at December 31, 2014	9,915	$ 17.69

The weighted average grant-date fair value of RSUs granted in the years ended December 31, 2014, 2013 and 2012 were $19.31, $16.94, and $20.85, respectively.

Share Repurchase Program

On August 19, 2011, our Board of Directors authorized a Share Repurchase Program (the Program), which authorized us to repurchase up to $150.0 million of our outstanding common stock. On May 17, 2012, our Board of Directors approved a $150.0 million increase to the Program. On August 19, 2013, our Board announced a $200.0 million increase to the Program. On March 4, 2014, the Board announced a $250.0 million increase, for a total authorized repurchase amount under the program of $750.0 million. The Program does not require us to purchase a minimum number of shares, and may be suspended, modified or discontinued at any time without prior notice. The timing and amounts of these purchases are based on market conditions and other factors, including price, regulatory requirements and capital availability. The share repurchases were financed by available cash balances and cash from operations.

For the year ended December 31, 2014, we repurchased 10.2 million shares of common stock under the Program on the open market for an aggregate purchase price of $195.6 million, or a weighted average of $19.24 per share. For the year ended December 31, 2013, we repurchased 12.4 million shares of common stock under the Program on the open market for an aggregate purchase price of $200.1 million, or a weighted average of $16.11 per share. For the year ended December 31, 2012, we repurchased 7.4 million shares of common stock under the Program on the open market for an aggregate purchase price of $127.1 million, or a weighted average of $17.24 per share. The amount remaining available under the program was $192.2 million as of December 31, 2014.

The timing and amounts of these purchases were based on market conditions and other factors including price, regulatory requirements and capital availability. The share repurchases were financed by available cash balances and cash from operations.

16. INCOME TAXES

A geographical breakdown of income (loss) before provision for (benefit from) income taxes is shown in the following table:

	Year ended December 31,		
(in thousands)	2014	2013	2012
Domestic	$ 44,359	$ (46,884)	$ 50,095
Foreign	50,511	20,319	43,938
Total	$ 94,870	$ (26,565)	$ 94,033

The provision for (benefit from) income tax expense consists of the following:

	Year ended December 31,		
(in thousands)	2014	2013	2012
Current:			
Federal	$ 37,482	$ 25,396	$ 24,105
State	6,163	2,971	2,629
Foreign	9,066	6,423	7,267
Total current	$ 52,711	$ 34,790	$ 34,001
Deferred:			
Federal	$ (23,719)	$ (35,731)	$ 6,483
State	(4,752)	(12,920)	917
Foreign	(638)	(286)	(1,965)
Total deferred	$ (29,109)	$ (48,937)	$ 5,435
Total provision for (benefit from) income taxes	$ 23,602	$ (14,147)	$ 39,436

Our effective tax rate was 24.9%, 53.3%, and 41.9%, for the years ended December 31, 2014, 2013 and 2012, respectively.

RIVERBED TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The difference between the provision for (benefit from) income taxes and the amount computed by applying the federal statutory income tax rate to income before taxes is as follows:

(in thousands)	Year ended December 31, 2014	2013	2012
Expected provision at federal statutory rate	$ 33,204	$ (9,298)	$ 32,910
State taxes, net of federal benefit	788	(6,425)	2,172
Stock-based compensation expense	10,212	12,606	9,088
Intercompany transfers of intellectual property	(4,020)	3,552	6,614
Acquisition related expenses	—	—	2,230
Research and development tax credits	(5,692)	(8,392)	(964)
Foreign rate differential	(14,012)	(6,172)	(11,920)
Domestic production activities deduction	(3,221)	(2,227)	(299)
Meals and entertainment	523	494	400
Change in uncertain tax positions, including interest	(489)	1,167	122
Disposition of non-deductible goodwill related to sale of product line	6,779	—	—
Other (net)	(470)	548	(917)
Total	$ 23,602	$ (14,147)	$ 39,436

The components of our deferred tax assets and liabilities consisted of the following:

(in thousands)	As of December 31, 2014	2013
Deferred tax liabilities:		
Depreciation and amortization	$ (8,194)	$ (4,604)
Intangible Assets	(81,637)	(101,925)
Total deferred tax liabilities	$ (89,831)	$ (106,529)
Deferred tax assets:		
Deferred compensation	$ 26,702	$ 29,863
Credit carryforwards	20,161	16,763
Deferred revenue	5,588	915
Net operating losses	8,631	9,967
Other accrued liabilities and reserves	31,637	20,809
State taxes	1,393	3,128
Total deferred tax assets	$ 94,112	$ 81,445
Valuation allowance	$ (19,411)	$ (16,168)
Total net deferred tax liabilities	$ (15,130)	$ (41,252)

The components of our deferred tax assets and liabilities consisted of the following:

	As of December 31,	
(in thousands)	2014	2013
Current deferred tax assets	$ 31,802	$ 7,222
Non-current deferred tax assets	1	74
Non-current deferred tax liabilities	(46,933)	(48,548)
Net deferred tax liabilities	$ (15,130)	$ (41,252)

We have not provided U.S. taxes for our foreign earnings, which are intended to be indefinitely reinvested outside the U.S. As of December 31, 2014, we had cumulative undistributed earnings of foreign subsidiaries of approximately $159.4 million, which are intended to be reinvested and for which no U.S. income or foreign withholding taxes have been recorded. Determination of the amount of unrecognized deferred tax liability with respect to such earnings is not practicable. The additional taxes on the earnings of foreign subsidiaries, if remitted, would be partially offset by U.S. tax credits for foreign taxes already paid.

We are subject to a reduced income tax rate in Singapore as a result of certain employment and spending commitments. The reduced tax rate is effective through 2020. For the years ended December 31, 2014, 2013 and 2012, we realized a tax benefit of $5.0 million ($0.03 per diluted share), $1.7 million ($0.01 per diluted share), and $3.8 million ($0.02 per diluted share), respectively.

During the year ended December 31, 2013, the American Taxpayer Relief Act of 2012 reinstated the U.S. federal R&D tax credit through December 31, 2013, retroactive to January 1, 2012. As a result, the tax provision for the year ended December 31, 2013 includes a tax benefit of $4.4 million related to the federal R&D tax credit for the year ended December 31, 2012.

During 2013, we completed the integration of the OPNET business into our existing tax structure and intercompany relationships to more closely align with the international nature of our business activities. Our corporate restructuring activities may cause volatility to our overall effective tax rate in the short term but is expected to reduce our overall effective tax rate over the long term.

During the year ended December 31, 2013, we changed the tax status of certain OPNET subsidiaries to entities that are disregarded for federal and state income tax purposes. As a result of the change in tax status, we recorded a state income tax benefit of $4.4 million, net of federal benefit, to record the revaluation of OPNET's deferred tax assets and liabilities resulting from the change.

Based on our forecasted future income allocated to California, it is more likely than not the California income tax credit carryforwards will not be utilized in the foreseeable future. Accordingly, we have established a full valuation allowance against the tax credits. The amount of the valuation allowance against the California credits was $12.6 million and $10.5 million, net of federal benefit, for the years ended December 31, 2014 and 2013, respectively.

As of December 31, 2014, we had net operating loss carryforwards for federal, state and foreign income tax purposes of $22.5 million, $4.9 million and $1.4 million, respectively. The utilization of the federal loss and a majority of state loss carryforwards are subject to limitation under Section 382 of the Internal Revenue Code. As of December 31, 2014, we also had federal and state R&D tax credit carryforwards of approximately $0.5 million and $32.9 million, respectively. If not utilized, the federal and state net operating loss carryforwards will expire between 2024 and 2027. The federal R&D tax credit carryforwards will expire between 2026 and 2030. The state R&D tax credit carryforwards and the foreign net operating loss carryforwards do not expire.

During the year ended December 31, 2014, we reduced our current federal, foreign and state taxes payable by $2.3 million for the excess tax benefits from stock option exercises and other employee stock programs, offsetting additional paid-in capital. In addition, we have unrecorded excess tax benefits from stock option exercises and other employee stock programs of approximately $5.9 million as of December 31, 2014. These amounts will be credited to additional paid-in-capital when such amounts reduce cash taxes payable.

Uncertain Income Tax Positions

A reconciliation of the beginning and ending amount of the consolidated liability for unrecognized income tax benefits during the year is as follows:

	Year ended December 31,		
(in thousands)	**2014**	**2013**	**2012**
Beginning balance	$ 53,115	$ 30,690	$ 26,995
Additions for tax positions of prior years	175	2,485	930
Additions for tax positions related to current year	6,699	21,306	3,810
Reductions for tax positions of prior year	(8,422)	(1,351)	(979)
Settlements	—	(15)	(66)
Ending balance	$ 51,567	$ 53,115	$ 30,690

As of December 31, 2014, 2013 and 2012, the unrecognized tax benefits of $51.6 million, $53.1 million and $30.7 million, respectively, included tax benefits that, if recognized, would reduce our effective tax rate by $39.8 million, $43.4 million and $21.9 million, respectively. As of December 31, 2014, 2013 and 2012, the ending balance of accrued interest and penalties associated with uncertain tax positions is $2.2 million, $1.8 million and $0.5 million, respectively. For the years ended December 31, 2014, 2013 and 2012, we accrued $0.7 million, $1.1 million, and $0.2 million of interest and penalties. Over the next 12 months, our unrecognized tax benefits could be reduced by up to $14.5 million.

As of December 31, 2014, we had $53.8 million of unrecognized tax benefits (including $2.2 million related to interest and penalties) related to our uncertain tax positions. Of this amount, $45.7 million is included in Other long-term liabilities. The remaining $8.1 million is reported as a reduction of deferred tax assets.

We are subject to income tax in the U.S. as well as numerous state and foreign jurisdictions. We are no longer subject to federal examinations for years before 2009. With the exception of several states, we are no longer subject to state and local income tax examinations for years before 2011, although carryforward attributes that were generated prior to 2011 may still be adjusted upon examination by the California Franchise Tax Board if the attributes either have been or will be used in a future period. In addition, we file tax returns in multiple foreign taxing jurisdictions. In our most significant foreign jurisdictions, the UK and Singapore, the open tax years range from 2011 to 2013.

17. SEGMENT AND GEOGRAPHIC INFORMATION

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. Our chief operating decision maker is our Chief Executive Officer. While our Chief Executive Officer evaluates the financial information for certain of our product lines, the information for all product lines is aggregated for analysis on a consolidated level as the primary basis for the allocation of resources and assessment of financial results. Accordingly, the consolidated business is considered to be one operating segment.

Revenue by Product Line

We have two product lines: Application Acceleration and Performance Management. Application Acceleration includes our wide area network (WAN) optimization products, including SteelHead and SteelFusion (formerly Granite), our SteelApp (formerly Stingray; In February 2015, Riverbed and Brocade signed a definitive agreement pursuant to which Brocade will, at closing, purchase the SteelApp product line) virtual application delivery controllers (ADCs), and our SteelStore (formerly Whitewater, sold to NetApp in October 2014) cloud storage delivery products. Performance Management includes our SteelCentral performance management and control suite. The Performance Management product line combines our former Cascade products and the products acquired from OPNET.

The following table presents revenue by product line:

(in thousands)	Year ended December 31, 2014	2013	2012
Application Acceleration	$ 831,765	$ 807,469	$ 767,037
Performance Management	257,443	233,564	69,823
Total revenue	$ 1,089,208	$ 1,041,033	$ 836,860

Revenue by geography is based on the billing address of the customer. The following table sets forth revenue by geographic area.

Revenue by Geography

(in thousands)	Year ended December 31, 2014	2013	2012
Americas			
United States	$ 621,209	$ 611,469	$ 463,534
Other Americas	33,893	38,351	31,373
Total Americas	655,102	649,820	494,907
Europe, Middle East and Africa			
United Kingdom	147,069	118,022	124,458
Other Europe, Middle East and Africa	145,645	140,335	101,194
Total Europe, Middle East and Africa	292,714	258,357	225,652
Asia Pacific	141,392	132,856	116,301
Total revenue	$ 1,089,208	$ 1,041,033	$ 836,860

18. EMPLOYEE BENEFIT PLAN

We have a 401(k) plan covering all eligible employees. At our discretion, we may match a portion of the employees’ eligible contributions. Contributions to the plan during the years ended December 31, 2014, 2013 and 2012, were $8.1 million, $7.8 million and $5.1 million, respectively.

19. LEGAL MATTERS

On June 1, 2011, we served Silver Peak Systems, Inc. with a lawsuit, filed in the United States District Court for the District of Delaware, alleging infringement of certain patents. The lawsuit seeks unspecified damages and injunctive relief. On July 22, 2011, Silver Peak Systems denied the allegations and requested declaratory judgments of invalidity and non-infringement. On December 21, 2011, we amended our lawsuit against Silver Peak Systems to allege infringement of an additional patent. Our lawsuit against Silver Peak Systems currently alleges infringement of three patents. Trial of our claims against Silver Peak Systems in this matter is currently stayed pending a separate U.S. Patent and Trademark Office proceeding.

On August 17, 2011, Silver Peak Systems amended its counterclaims against us, alleging infringement by Riverbed of three U.S. patents: 7,630,295, titled “Network Device Continuity”; 7,945,736, titled “Dynamic Load Management of Network Memory”; and 7,948,921, titled “Automatic Network Optimization.” Silver Peak subsequently dropped its claims with respect to U.S. patent 7,630,295. The trial on the remaining two patents commenced on March 24, 2014. On April 1, 2014, the jury rendered a verdict of infringement on U.S. patents 7,948,921 and 7,945,736 based on certain features offered on Riverbed SteelHead products. We disagree with the verdict, and we intend to appeal to the Federal Circuit. There has been no trial or discovery on damages, and we expect that such a trial and discovery would be scheduled only if we lose on appeal to the Federal Circuit.

At this time we are unable to estimate any range of reasonably possible loss relating to these actions.

On June 28, 2013, we served Silver Peak Systems with an additional lawsuit, filed in the United States District Court for the Northern District of California, alleging infringement of two patents that are not covered by the lawsuit in Delaware. The California lawsuit seeks unspecified damages and injunctive relief. On July 22, 2013, Silver Peak Systems denied the allegations and requested declaratory judgments of invalidity and non-infringement. On August 12, 2013, Silver Peak Systems amended its counterclaims against us, alleging infringement by Riverbed of U.S. patent 8,392,684, titled "Data Encryption in a Network Memory Architecture for Providing Data Based on Local Accessibility". On August 26, 2013 we denied Silver Peak Systems' allegations and requested declaratory judgments of invalidity and non-infringement. On July 29, 2014, the Court lifted the stay that was in place on our action against Silver Peak, though no trial date has been set. The action against us is currently stayed pending a separate U.S. Patent and Trademark Office proceeding. At this time we are unable to estimate any range of reasonably possible loss relating to these actions. We believe that we have meritorious defenses to the counterclaims against us, and we intend to vigorously contest these counterclaims.

In connection with our July 2011 acquisition of the outstanding securities of Zeus Technology Limited (Zeus), the share purchase agreement provided for certain additional potential payments (acquisition-related contingent consideration) totaling up to $27.0 million in cash, based on achievement of certain bookings targets related to Zeus products for the period from July 20, 2011 through July 31, 2012 (the Zeus Earn-Out period). The share purchase agreement also provided for a potential $3.0 million payment as an incentive bonus to former employees of Zeus, based on achievement of certain bookings targets related to Zeus products for the Zeus Earn-Out period.

In October 2012 we served the representative of the Zeus shareholders, as lead defendant and proposed defendant class representative for all other similarly situated former shareholders of Zeus, with a lawsuit, filed in the Superior Court of the State of California, for declaratory relief. The lawsuit seeks declaratory judgment that, among other things, (a) Riverbed is not in breach of the share purchase agreement, and (b) Riverbed does not owe any acquisition-related contingent consideration under the share purchase agreement because the necessary conditions precedent to the payment of acquisition-related contingent consideration did not occur. In November 2012, the representative of the Zeus shareholders filed a cross-complaint against Riverbed and Riverbed Technology Limited in the Superior Court of the State of California. The cross-complaint claims breach of contract and breach of the covenant of good faith and fair dealing, and seeks declaratory judgment that Riverbed has breached the share purchase agreement and that the entire $27.0 million in contingent consideration is payable to Zeus shareholders. Discovery is ongoing, and the Court has approved a class treatment of the former shareholders, though several have declined to participate. The trial is currently scheduled for August 31, 2015, though may be rescheduled to an earlier date pending the Court's availability. We believe that the contention of the representative of the Zeus shareholders, and the Court-appointed class representatives for shareholders, is without merit and intend to vigorously defend our determination.

In November 2012 we received a grand jury subpoena issued by the United States District Court for the Eastern District of Virginia. The subpoena requested documents related to certain federal government contracting matters, including a $19 million transaction involving the sale of our products and services by a Riverbed reseller to an agency of the federal government in 2009. In January 2014 we received a notice that the Civil Division of the United States Attorney's Office for the Eastern District of Virginia has opened a civil investigation into the same matters.

In connection with the merger agreement and the transactions contemplated thereby, ten purported class action lawsuits have been filed. Seven complaints, captioned *Gary Merryman, Individually and On Behalf of All Others Similarly Situated v. Riverbed Technology, Inc., et al.*, filed on December 19, 2014 and amended on January 21, 2015, *Kamesh Bathla, On Behalf of Himself and All Others Similarly Situated v. Riverbed Technology, Inc. et al.*, filed on December 22, 2014 and amended on January 14, 2015, *Domenico Carlucci, Individually and On Behalf of All Others, Similarly Situated v. Riverbed Technology, Inc. et al.*, filed on December 23, 2014 and amended on January 15, 2015, *First Financial Trust, Individually and On Behalf of All Others Similarly Situated v. Riverbed Technology, Inc. et al.*, filed on December 23, 2014, *Gerard Byrne, Individually and On Behalf of All Others Similarly Situated v. Boustridge et al.*, filed on December 24, 2014, *Richard Krol, On Behalf of Himself and All Others Similarly Situated v. Riverbed Technology, Inc. et al.*, filed on January 8, 2015 and amended on January 15, 2015, *and David Jessen v. Riverbed Technology, Inc. et al.*, filed on January 15, 2015, were filed in the Court of Chancery of the State of Delaware. On January 30 and February 2, 2015, the Delaware actions were consolidated as *In Re Riverbed Technology Inc. Shareholder Litigation*. Two complaints, captioned *Ken Steiger, On Behalf of Himself and All Others Similarly Situated v. Riverbed Technology, Inc., et al.*, filed on January 16, 2015, and *Louis Benson, On*

Behalf of Himself and All Others Similarly Situated v. Riverbed Technology, Inc., et al., filed January 20, 2015, were filed in the San Francisco Superior Court, in the State of California. One complaint captioned *Seth Olson, Individually and On Behalf of All Others Similarly Situated v. Riverbed Technology, Inc., et al.*, filed February 5, 2015, was filed in the United States District Court for the Northern District of California, San Francisco Division. In general, the complaints assert that, among other things, the members of the Board of Directors breached their fiduciary duties to stockholders by initiating a process that undervalues Riverbed, by agreeing to a transaction that does not adequately reflect Riverbed's true value, and/or by failing to disclose material information relating thereto, and that Riverbed, Newco, Merger Sub, Thoma Bravo, Ontario Teachers' Pension Plan Board, and/or Elliott aided and abetted the Board of Directors' breaches of fiduciary duties. The federal complaint further asserts violations of federal securities laws related to the dissemination of the purportedly false and materially misleading proxy and seeks a declaration that certain provisions in the Company's amended and restated bylaws concerning forum selection and fee shifting are invalid. The complaints generally seek to enjoin the merger or, alternatively, seek rescission of the merger in the event the defendants are able to consummate it. We intend to vigorously contest these claims.

From time to time, we are subject to various legal proceedings, claims and litigation arising in the ordinary course of business. We do not believe we are party to any currently pending legal proceedings the outcome of which would have a material adverse effect on our financial position, results of operations, or cash flows. There can be no assurance that existing or future legal proceedings arising in the ordinary course of business or otherwise will not have a material adverse effect on our financial position, results of operations, or cash flows.

20. RELATED PARTIES

There were no significant related party transactions occurred in the years ended December 31, 2014, 2013 and 2012.

21. SUBSEQUENT EVENT

On February 4, 2015, we entered into a definitive agreement with Brocade for the sale of our SteelApp product line. Revenues from the sale of the SteelApp products and services to be divested were $31.1 million, $35.8 million, and $28.4 million in 2014, 2013, and 2012, respectively.

As of December 31, 2014 we have classified the SteelApp related assets and liabilities as Assets and Liabilities held for sale in our consolidated balance sheet.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no disagreements with accountants on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures required to be reported under this item.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2014, the end of the period covered by this Annual Report on Form 10-K. This controls evaluation was done under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act.

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed such that information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Based upon the controls evaluation, our CEO and CFO have concluded that as of December 31, 2014, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission and to ensure that material information relating to us and our consolidated subsidiaries is made known to management, including the CEO and CFO.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our management, with the participation of our CEO and CFO, has evaluated the effectiveness of our internal control over financial reporting as of December 31, 2014. In making this assessment, management used guidelines established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission's 2013 framework. Based on our assessment, using those criteria, our management concluded that our internal control over financial reporting was effective as of December 31, 2014. The attestation report concerning the effectiveness of our internal control over financial reporting as of December 31, 2014, issued by Ernst & Young, LLP, Independent Registered Public Accounting Firm, appears in Part II, Item 8 of the Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fourth quarter of 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). 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.

Inherent Limitations of Internal Controls

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

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information regarding our directors required by this item is included under the caption "Election of Directors" in Riverbed's Proxy Statement for its 2015 Annual Meeting of Stockholders to be filed within 120 days after the end of the fiscal year ended December 31, 2014 (the "2015 Proxy Statement") and is incorporated herein by reference. The information regarding our executive officers required by this item is included under the caption "Executive Officers" in the 2015 Proxy Statement and is incorporated herein by reference. The information regarding compliance with Section 16(a) of the Exchange Act required by this item is included under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2015 Proxy Statement and is incorporated herein by reference. The information regarding our code of ethics, nominating committee and audit committee required by this item is included under the caption "Corporate Governance" in the 2015 Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation

The information regarding executive compensation required by this item is included under the caption "Compensation of Executive Officers" in the 2015 Proxy Statement and is incorporated herein by reference.

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

The information regarding securities authorized for issuance under equity compensation plans required by this item is included under the caption "Equity Compensation Plan Information" in the 2015 Proxy Statement and is incorporated herein by reference. The information regarding security ownership of certain beneficial owners and management required by this item is included under the caption "Security Ownership of Certain Beneficial Owners and Management" in the 2015 Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information regarding transactions with related persons required by this item is included under the caption "Review, Approval or Ratification of Transactions with Related Persons" in the 2015 Proxy Statement and is incorporated herein by reference. The information regarding director independence required by this item is included under the caption "Corporate Governance" in the 2015 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated under the captions "Independent Registered Public Accounting Firm's Fees" and "Pre-Approval Policies and Procedures" in the 2015 Proxy Statement and is incorporated herein by reference.

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) Financial Statements

The financial statements filed as part of this report are listed on the index to financial statements on page 62.

(a) (2) Financial Statement Schedules

The following financial statement schedule is filed as a part of this Annual Report on Form 10-K

Schedule II — Valuation and Qualifying Accounts

SCHEDULE II

Valuation and Qualifying Accounts

	Year ended December 31,		
(in thousands)	**2014**	**2013**	**2012**
Trade Receivables Allowance			
Beginning balance	$ 1,996	$ 2,064	$ 1,586
Additions charged to operations	24	919	825
Write-offs	(476)	(987)	(347)
Ending balance	$ 1,544	$ 1,996	$ 2,064

All other schedules are omitted because they are not required or the required information is shown in the financial statements or notes thereto.

(a) (3) Exhibits

The following exhibits are incorporated by reference or filed herewith.

Exhibit No.	Description
2.2	Share Purchase Agreement dated as of July 19, 2011, by and among Riverbed Technology Limited, a private limited company formed under the laws of England, Riverbed Technology, Inc., a Delaware corporation, the Sellers listed therein, the Cash Cancel Sellers listed therein, and Scottish Equity Partners LLP, a limited liability partnership formed under the laws of Scotland (as the Sellers' Agent) (incorporated by reference to Exhibit 2.1 of Registrant's Current Report on Form 8-K (No. 001-33023), filed with the SEC on July 25, 2011.
2.3	Agreement and Plan of Merger, dated as of October 28, 2012, by and among the Registrant, Octagon Acquisition Corp. and OPNET Technologies, Inc. (incorporated by reference to Exhibit 2.1 of Registrant's Current Report on Form 8-K (No. 001-33023), filed with the SEC on October 29, 2012).
2.4	Agreement and Plan of Merger, dated as of December 14, 2014, by and among Project Homestake Holdings, LLC, Project Homestake Merger Corp., and Riverbed Technology, Inc. (incorporated by reference to Exhibit 2.1 of Registrant's Current Report on Form 8-K (No. 001-33023), filed with the SEC on December 15, 2014).
3.1	Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.2 of Registrant's Form S-1 Registration No. 333-133437).
3.2	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (No. 001-33023), filed with the SEC on November 12, 2013).
3.3	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K (No. 001-33023), filed with the SEC on February 22, 2011).
4.1	Reference is made to Exhibits 3.1 and 3.2.
4.2	Form of Common Stock certificate (incorporated by reference to Exhibit 4.2 of Registrant's Form S-1 Registration No. 333-133437).

Exhibit No.	Description
4.3	Amended and Restated Investors' Rights Agreement, dated February 10, 2006, by and among the Registrant and the investors listed on the signature pages thereto (incorporated by reference to Exhibit 4.3 of Registrant's Form S-1 Registration No. 333-133437).
4.4	Preferred Shares Rights Agreement, dated as of November 11, 2013, by and between Riverbed Technology, Inc. and Computershare Trust Company, N.A., as rights agent (incorporated by reference to Exhibit 4.1 of Registrant's Current Report on Form 8-K (No. 001-33023), filed with the SEC on November 12, 2013).
4.5	Amendment No. 1 to the Preferred Shares Rights Agreement, dated as of November 27, 2013, by and between Riverbed Technology, Inc. and Computershare Trust Company, N.A., as rights agent (incorporated by reference to Exhibit 4.5 of Registrant's Annual Report on Form 10-K (No. 001-33023), filed with the SEC on February 14, 2014).
4.6	Amendment No. 2 to the Preferred Shares Rights Agreement, dated as of November 11, 2014, by and between Riverbed Technology, Inc. and Computershare Trust Company, N.A., as rights agent (incorporated by reference to Exhibit 4.3 of Registrant's Current Report on Form 8-K (No. 001-33023), filed with the SEC on November 7, 2014).
4.7	Amendment No. 3 to the Preferred Shares Rights Agreement, dated as of December 15, 2014, by and between Riverbed Technology, Inc. and Computershare Trust Company, N.A., as rights agent (incorporated by reference to Exhibit 4.4 of Registrant's Current Report on Form 8-K (No. 001-33023), filed with the SEC on December 15, 2014).
10.1	Form of Indemnification Agreement between the Registrant and each of its directors, executive officers and certain key employees (incorporated by reference to Exhibit 10.1 of Registrant's Form S-1 Registration No. 333-133437).*
10.2	Riverbed Technology, Inc. 2002 Stock Plan (incorporated by reference to Exhibit 10.2 of Registrant's Annual Report on Form 10-K (No. 001-33023), filed with the SEC on February 8, 2011).*
10.3	Form of 2002 Stock Plan Stock Option Agreement (incorporated by reference to Exhibit 10.3 of Registrant's Form S-1 Registration No. 333-133437).*
10.4	Form of 2002 Stock Plan Stock Option Agreement (Officers and Key Employees) (incorporated by reference to Exhibit 10.4 of Registrant's Form S-1 Registration No. 333-133437).*
10.5	Form of 2002 Stock Plan Stock Option Agreement (Installment Vesting) (incorporated by reference to Exhibit 10.34 of Registrant's Form S-1 Registration No. 333-133437).*
10.6	Form of 2002 Stock Plan Stock Option Agreement (Officers and Key Employees) (Installment Vesting) (incorporated by reference to Exhibit 10.35 of Registrant's Form S-1 Registration No. 333-133437).*
10.7	2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.7 of Registrant's Annual Report on Form 10-K (No. 001-33023), filed with the SEC on February 8, 2011).*
10.8	Form of 2006 Equity Incentive Plan Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K (No 001-33023), filed with the SEC on May 7, 2008).*
10.9	Form of 2006 Equity Incentive Plan Notice of Stock Option Grant and Stock Option Agreement (incorporated by reference to Exhibit 10.42 of Registrant's Quarterly Report on Form 10-Q (No 001-33023), filed with the SEC on July 30, 2007). *
10.10	2006 Director Option Plan, as amended and restated on May 16, 2013 (incorporated by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q (No. 001-33023), filed with the SEC on August 1, 2013).*
10.11	Forms of agreements under the 2006 Director Option Plan (incorporated by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q (No. 001-33023), filed with the SEC on July 29, 2011).*
10.12	Form of 2006 Director Option Plan Notice of Stock Option Grant (incorporated by reference to Exhibit 10.45 of Registrant's Quarterly Report on Form 10-Q (No. 001-33023), filed with the SEC on October 25, 2007).*

Exhibit No.	Description
10.13	2006 Employee Stock Purchase Plan, as amended and restated on May 22, 2013 (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A), filed with the SEC on April 9, 2013.*
10.14	Riverbed Technology, Inc. Management Bonus Plan (incorporated by reference to Exhibit 10.43 of Registrant’s Quarterly Report on Form 10-Q (No. 001-33023), filed with the SEC on July 30, 2007).*
10.15	Amendment to Riverbed Technology, Inc. Management Bonus Plan (incorporated by reference to Exhibit 10.15 of Registrant’s Annual Report on Form 10-K (No. 001-33023), filed with the SEC on February 23, 2009).*
10.16	Riverbed Technology, Inc. 2009 Inducement Equity Incentive Plan (incorporated by reference to Exhibit 10.16 of Registrant’s Annual Report on Form 10-K (No. 001-33023), filed with the SEC on February 8, 2011).*
10.17	Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 of Registrant’s Current Report on Form 8-K (No. 001-33023), filed with the SEC on February 19, 2009).*
10.18	Amended and Restated Change in Control Severance Agreement, dated as of December 19, 2008, with Jerry M. Kennelly (incorporated by reference to Exhibit 10.16 of Registrant’s Annual Report on Form 10-K (No. 001-33023), filed with the SEC on February 23, 2009).*
10.19	Amended and Restated Change in Control Severance Agreement, dated as of December 19, 2008, with Randy S. Gottfried (incorporated by reference to Exhibit 10.17 of Registrant’s Annual Report on Form 10-K (No. 001-33023), filed with the SEC on February 23, 2009).*
10.20	Offer Letter with David M. Peranich, dated July 7, 2006 (incorporated by reference to Exhibit 10.39 of Registrant’s Form S-1 Registration No. 333-133437).*
10.21	Change in Control Severance Agreement, dated as of May 12, 2013, with Ernest E. Maddock (incorporated by reference to Exhibit 10.1 of Registrant’s Quarterly Report on Form 10-Q (No. 001-33023), filed with the SEC on August 1, 2013).*
10.22	Agreement of Sublease dated September 26, 2006 between PricewaterhouseCoopers LLP and the Registrant (incorporated by reference to Exhibit 10.1 of Registrant’s Current Report on Form 8-K (No. 001-33023), filed with the SEC on October 2, 2006).
10.23	Lease agreement for 199 Fremont Street dated March 21, 2007 between GLL Fremont Street Partners, Inc. and the Registrant (incorporated by reference to Exhibit 10.22 of Registrant’s Annual Report on Form 10-K (No. 001-33023), filed with the SEC on February 15, 2008).
10.24	Lease agreement dated June 28, 2007 between W2005 RPS Realty, L.L.C. and the Registrant (incorporated by reference to Exhibit 10.44 of Registrant’s Quarterly Report on Form 10-Q (No. 001-33023), filed with the SEC on July 30, 2007).
10.25	Forms of agreement under the Riverbed Technology, Inc. 2009 Inducement Equity Incentive Plan (Incorporated by reference to Exhibit 10.1 of Registrant’s Current Report on Form 8-K (No. 001-33023), filed with the SEC on February 20, 2009).*
10.26	Form of 2006 Equity Incentive Plan RSU Agreement (Non-Employee Directors) (incorporated by reference to Exhibit 10.2 of Registrant’s Quarterly Report on Form 10-Q (No. 001-33023), filed with the SEC on July 29, 2011).*
10.27	Lease agreement dated as of February 2, 2012, between 680 Folsom Owner LLC and the Registrant (incorporated by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q (No. 001-33023), filed with the SEC on April 30, 2012).
10.28	First Amendment to Lease dated as of April 13, 2012, pursuant to Lease agreement dated as of February 2, 2012, between 680 Folsom Owner LLC and the Registrant (incorporated by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q (No. 001-33023), filed with the SEC on July 27, 2012).
10.29	Credit Agreement, dated as of December 20, 2013, among Riverbed Technology, Inc., certain lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent, Wells Fargo Bank, National Association, as syndication agent, HSBC Bank USA, N.A., as documentation agent, and J.P. Morgan Securities LLC and Wells Fargo Securities LLC, as joint lead arrangers and joint bookrunners (incorporated by reference to Exhibit 10.1 of Registrant Riverbed Technology, Inc., certain lenders party thereto, JPMorgan December 26, 2013).

Exhibit No.	Description
10.30	Guarantee and Collateral Agreement, dated as of December 20, 2013, made by Riverbed Technology, Inc. and the other Grantors party thereto in favor of JPMorgan Chase Bank, N.A., as administrative agent and collateral agent (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K (No. 001-33023), filed with the SEC on December 26, 2013).
10.31	OPNET Technologies, Inc. Amended and Restated 2000 Stock Incentive Plan (incorporated by reference to Exhibit 4.3 of Registrant's Form S-8 Registration No. 333-185855).*
10.32	2012 Stock Incentive Plan, as amended and restated on January 2, 2013 (incorporated by reference to Exhibit 4.4 of Registrant's Form S-8 Registration No. 333-185855).*
10.33	Amendment to Non-Employee Director Stock Option Agreements, dated May 7, 2012, by and between Stanley J. Meresman and the Registrant (incorporated by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q (No. 001-33023), filed with the SEC on July 27, 2012).*
10.34	Riverbed Technology, Inc. 2014 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K (No. 001-33023), filed with the SEC on May 23, 2014).*
21.1	List of subsidiaries.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certifications
31.2	Certifications
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

* Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

RIVERBED TECHNOLOGY, INC.

By: /S/ JERRY M. KENNELLY

Jerry M. Kennelly,
Chief Executive Officer

Date: February 13, 2015

RIVERBED TECHNOLOGY, INC.

By: /S/ ERNEST E. MADDOCK

Ernest E. Maddock,
Chief Financial Officer

Date: February 13, 2015

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

Signature	Title	Date
/S/ JERRY M. KENNELLY Jerry M. Kennelly	Chief Executive Officer and Chairman *(Principal Executive Officer)*	February 13, 2015
/S/ ERNEST E. MADDOCK Ernest E. Maddock	Chief Financial Officer *(Principal Financial and Accounting Officer)*	February 13, 2015
/S/ MICHAEL BOUSTRIDGE Michael Boustridge	Director	February 13, 2015
/S/ MARK A. FLOYD Mark A. Floyd	Director	February 13, 2015
/S/ STEFFAN TOMLINSON Steffan Tomlinson	Director	February 13, 2015
/S/ MARK LEWIS Mark Lewis	Director	February 13, 2015
/s/ MIKE NEFKENS Mike Nefkins	Director	February 13, 2015
/S/ CHRISTOPHER J. SCHAEPE Christopher J. Schaepe	Director	February 13, 2015
/S/ KIMBERLY S. STEVENSON Kimberly S. Stevenson	Director	February 13, 2015
/S/ ERIC S. WOLFORD Eric S. Wolford	Director	February 13, 2015

EXHIBIT 21.1

Subsidiaries of the Company

Riverbed Technology Limited (UK)
Riverbed Technology Sarl (France)
Riverbed Technology Pte. Ltd. (Singapore)
Riverbed Technology GmbH (Germany)
Riverbed Technology Pty Ltd. (Australia)
Riverbed Technology Korea, Inc. (Korea)
Riverbed Technology Limited (Hong Kong)
Riverbed Technology K.K. (Japan)
Riverbed Technology B.V. (Netherlands)
Riverbed Technology India Private Limited (India)
Riverbed Technology International, Inc. (Delaware)
Riverbed Technology AG (Switzerland)
Riverbed Technology SL (Spain)
Riverbed Technology Canada LTD (Canada)
Riverbed Technology South Africa (Proprietary) Limited (South Africa)
Riverbed Technology S.r.l. (Italy)
Riverbed Technology Limited (New Zealand)
Riverbed Technology AB (Sweden)
Riverbed Technology Sdn. Bhd. (Malaysia)
Riverbed Technology S. de R.L. de C.V. (Mexico)
Riverbed Technology FZ-LLC (Dubai)
Riverbed Tecnologia De Informacao Ltda (Brazil)
Riverbed Technology Sp. z o.o. (Poland)
Riverbed Technology Ltd. (Thailand)
Riverbed Technology Ltd. (Israel)
Riverbed Technology LLC (Russia)
Riverbed Technology S.R.L. (Argentina)
Riverbed Technology GmbH (Austria)
Riverbed Technology (Beijing) Limited
Riverbed Technology S A S (Colombia)
Riverbed Technology Chile SpA
PT Riverbed Technology (Indonesia)
OPNET Technologies, LLC
OPNET Analysis, Inc.
Clarus Systems, LLC
OPNET Technologies bvba

EXHIBIT 23.1

Consent of Ernst & Young LLP,
Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-196289, 333-193980, 333-190314, 333-186727, 333-185855, 333-179482, 333-172306, 333-164923, 333-157492, 333-149602, 333-141260, and 333-137502) pertaining to the OPNET Technologies, Inc. Amended and Restated 2000 Stock Incentive Plan, the 2014 Equity Incentive Plan, the 2012 Stock Incentive Plan, the 2006 Equity Incentive Plan, the 2006 Director Option Plan, the 2006 Employee Stock Purchase Plan, and the 2009 Inducement Equity Incentive Plan of Riverbed Technology, Inc. of our reports dated February 13, 2015, with respect to the consolidated financial statements and schedule of Riverbed Technology, Inc., and the effectiveness of internal control over financial reporting of Riverbed Technology, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2014.

/s/ Ernst & Young LLP

San Jose, California
February 13, 2015

EXHIBIT 31.1

CERTIFICATIONS

I, Jerry M. Kennelly, certify that:

1. I have reviewed this Annual Report on Form 10-K of Riverbed Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 13, 2015

/s/ Jerry M. Kennelly

Jerry M. Kennelly
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATIONS

I, Ernest E. Maddock, certify that:

1. I have reviewed this Annual Report on Form 10-K of Riverbed Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 13, 2015

/s/ Ernest E. Maddock

Ernest E. Maddock
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATION 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

In connection with the Annual Report on Form 10-K of Riverbed Technology, Inc. for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof, Jerry M. Kennelly, as President, and Chief Executive Officer, and Ernest E. Maddock, as Chief Financial Officer, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Annual Report on Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Riverbed Technology, Inc.

Date: February 13, 2015

/s/ JERRY M. KENNELLY
Jerry M. Kennelly
Chief Executive Officer
(Principal Executive Officer)

Date: February 13, 2015

/s/ ERNEST E. MADDOCK
Ernest E. Maddock
Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Riverbed Technology, Inc. and will be retained by Riverbed Technology, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.