Revenue Trends
Q1’19 total revenue during was $239.9M, a 13.8% decrease sequentially and a 13.3% increase from a year ago in Q1’18. Total product revenue in Q1’19 was $177.7M, a 19.7% decrease sequentially and a 7.9% increase from a year ago Q1’18. Total services revenue in Q1’19 was $62.2M, a 9.1% increase sequentially and a 32.4% increase from a year ago Q1’18. Non-GAAP gross margin of 58.0% increased 0.4% sequentially and increased by 1.3% year over year from Q1’18. As a result of purchase accounting adjustments resulting from our campus fabric and data center acquisitions, we recognized $1.7 million less revenue on service maintenance contracts a smaller impact than $5.1 million impact to services revenue in FQ4’18.

The geographical split of revenues was as follows: The Americas contributed 53% to total revenue; EMEA contributed 38%; and APAC contributed 9%.

Gross margin and operating expenses
In Q1, GAAP gross margin was 55.1% compared to 54.0% in Q4’18 and 53.1% in Q1’18 last year. Non-GAAP gross margin was 58.0%, compared to 57.6% in Q4’18 and 56.7% in Q1’18 last year. This makes 10 consecutive quarters we have now increased our Non-GAAP gross margin compared to the same quarter year over year. Purchase accounting adjustments were a 30 basis point headwind to overall Non-GAAP gross margin.

Q1 GAAP operating expenses were $137.1 million compared to 154.1 million in Q4’18 and $107.9 million in Q1’18 last year. Q1 GAAP operating loss includes, amortization of intangibles of $7.0 million, stock-based compensation charges of $6.8 million, income tax adjustments of $0.5 million, restructuring charges of $0.8 million, and acquisition related expenses of $4.3 million.
Q1 non-GAAP operating expenses were $125.3 million and compare to $132.9 million in Q4’18 and $97.5 million in Q1’18. The sequential decrease in non-GAAP operating expenses was mainly attributable to lower sales and marketing expenses, tied to lower revenue, and accrued compensation expenses.

First quarter GAAP operating loss was $5.0 million, compared to an operating loss of $3.4 million, in Q4’18 and operating income of $4.5 million in Q1’18 last year.

First quarter non-GAAP operating income was $13.9 million, or 5.8% of total revenue, compared to $27.4 million, or 9.8% of total revenue in Q4’18 and $22.5 million, or 10.6% of total revenue, in Q1’18 last year.

**Net Income and Earnings Per Share**

GAAP net loss for Q1 was $9.1 million, or $0.08 per basis share compared to a net loss of $5.6 million, or $0.05 per basis share in Q4’18 and a net income of $4.4 million or $0.04 per diluted share, in Q1’18 last year.

Non-GAAP net income for the quarter was $9.4 million, or $0.08 per diluted share, compared to $24.0 million or $0.20 per diluted share in Q4’18 and $18.7 million or $0.16 per diluted share in Q1’18.

**Balance Sheet and Cash Flow**

Q1 total cash and cash equivalents ended the quarter at $140.2 million, up from $121 million at the end of Q4 and down from $154.1 million at the end of Q1 FY18. Please refer to slide 10 in our Earning Release presentation posted in the Investor Relations section of our website for additional details.

During the quarter, cash flow from operations was an inflow of $34.3 million, compared to $20.8 million in Q4’18 and an inflow of $18.6 million in Q1’18 last year. Free cash flow was an inflow of $26.9 million compared to $2.4 million quarter over quarter in Q4’18 and $11.2 million in Q1’18 last year.
Account receivables fell to $164.7 million at the end of Q1, down from $212.4 million at the end of Q4’18 on strong collections and up from $116.5 million from the end of Q1’18. DSO decreased by 6 days to 63 days this quarter compared to 69 days in Q4’18 and increased from 51 days in Q1’18. Our DSO benefited from final collections from Avaya following the completion of our Transition Services Agreement related to our acquisition of the campus fabric business.

Inventory ended at $55.6 million, down from $63.9 million at the end of Q4’18 and down from $58.1 million at the end of Q1’18, as we strive to achieve industry-leading inventory turns following our transition to a single hub procurement process.

Total debt outstanding net of loan fees at the end of Q1 was $187.6 million, down from $197.8 million in Q4’18, and up from $167.6 million at the end of Q1’18 last year. The increase is attributed to borrowings on the associated with the Campus Fabric acquisition and the new term loan and revolving line of credit we closed on May 1, 2018.

Total deferred revenue of $183.9 million grew from $174.5 million from Q4’18 and from $119.2 million in Q1’18 on greater scale and strong growth of our services bookings.

**FQ2’19 Guidance and Outlook**
We expect total Q2 revenue to be in a range of $239.0 million to $249.0 million.

Q2 GAAP gross margin is anticipated to be in a range of 55.1% and 57.1% and non-GAAP gross margin is targeted between 57.5% and 59.5%.

Q2 Operating expenses are targeted to be between $134.7 million and $137.7 million on a GAAP basis and $125.0 million to $128.0 million on a non-GAAP basis.

Interest expense / other is expected to be $3.0 million and Tax expense is expected to be $1.7 million.
Q2 GAAP net loss is expected to be in a range of $7.7 million to $0.1 million or a net loss of $0.06 to $0.00 per basis share. Non-GAAP net income is expected to be in a range of $7.8 million to $15.4 million, or $0.06 to $0.13 per diluted share.

In Q2 we expect average shares outstanding to be approximately 119.1 million on a GAAP basis and 121.6 million on a non-GAAP basis excluding the impact of any shares we may repurchase.