

AKAMAI TECHNOLOGIES INC  
Form 10-Q  
May 09, 2016  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

FORM 10-Q

---

(Mark One)

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

For the quarterly period ended March 31, 2016

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-27275

---

Akamai Technologies, Inc.

(Exact name of registrant as specified in its charter)

Delaware 04-3432319  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

150 Broadway  
Cambridge, MA 02142  
(617) 444-3000  
(Address, Including Zip Code, and Telephone Number,  
Including Area Code, of Registrant's Principal Executive Offices)

---

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

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

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

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

Edgar Filing: AKAMAI TECHNOLOGIES INC - Form 10-Q

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

The number of shares outstanding of the registrant's common stock as of May 5, 2016: 175,591,774

---

Table of Contents

AKAMAI TECHNOLOGIES, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	<u>3</u>
Consolidated Balance Sheets at March 31, 2016 and December 31, 2015	<u>3</u>
Consolidated Statements of Income for the three months ended March 31, 2016 and 2015	<u>4</u>
Consolidated Statements of Comprehensive Income for the three months ended March 31, 2016 and 2015	<u>5</u>
Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015	<u>6</u>
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>8</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>16</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>31</u>
Item 4. <u>Controls and Procedures</u>	<u>32</u>
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>32</u>
Item 1A. <u>Risk Factors</u>	<u>32</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>43</u>
Item 6. <u>Exhibits</u>	<u>43</u>
<u>SIGNATURES</u>	<u>44</u>
<u>EXHIBIT INDEX</u>	<u>45</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

AKAMAI TECHNOLOGIES, INC.  
CONSOLIDATED BALANCE SHEETS

(in thousands, expect share data)	March 31, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$312,912	\$289,473
Marketable securities	524,958	460,088
Accounts receivable, net of reserves of \$9,380 and \$7,364 at March 31, 2016, and December 31, 2015, respectively	365,103	380,399
Prepaid expenses and other current assets	127,855	123,228
Total current assets	1,330,828	1,253,188
Property and equipment, net	770,197	753,180
Marketable securities	685,362	774,674
Goodwill	1,152,376	1,150,244
Acquired intangible assets, net	149,379	156,095
Deferred income tax assets	3,490	4,700
Other assets	92,120	89,603
Total assets	\$4,183,752	\$4,181,684
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$63,822	\$61,982
Accrued expenses	197,487	216,166
Deferred revenue	64,905	54,154
Other current liabilities	7,019	138
Total current liabilities	333,233	332,440
Deferred revenue	4,238	4,163
Deferred income tax liabilities	11,706	12,888
Convertible senior notes	623,485	618,047
Other liabilities	97,508	93,268
Total liabilities	1,070,170	1,060,806
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized; 700,000 shares designated as Series A Junior Participating Preferred Stock; no shares issued or outstanding	—	—
Common stock, \$0.01 par value; 700,000,000 shares authorized; 178,270,472 shares issued and 176,050,217 shares outstanding at March 31, 2016, and 177,212,181 shares issued and outstanding at December 31, 2015	1,783	1,772
Additional paid-in capital	4,451,319	4,437,420
Accumulated other comprehensive loss	(28,792 )	(41,453 )
Treasury stock, at cost, 2,220,255 shares at March 31, 2016, and no shares at December 31, 2015	(108,725 )	—
Accumulated deficit	(1,202,003 )	(1,276,861 )
Total stockholders' equity	3,113,582	3,120,878

Total liabilities and stockholders' equity	\$4,183,752	\$4,181,684
--	-------------	-------------

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

3

---

Table of ContentsAKAMAI TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)	For the Three Months Ended March 31,	
	2016	2015
Revenue	\$567,725	\$526,536
Costs and operating expenses:		
Cost of revenue (exclusive of amortization of acquired intangible assets shown below)	194,736	169,294
Research and development	40,842	35,828
Sales and marketing	102,211	103,479
General and administrative	102,283	89,592
Amortization of acquired intangible assets	6,716	6,780
Restructuring charges	6,818	42
Total costs and operating expenses	453,606	405,015
Income from operations	114,119	121,521
Interest income	3,320	3,001
Interest expense	(4,653 )	(4,576 )
Other expense, net	(189 )	(301 )
Income before provision for income taxes	112,597	119,645
Provision for income taxes	37,739	41,899
Net income	\$74,858	\$77,746
Net income per share:		
Basic	\$0.42	\$0.44
Diluted	\$0.42	\$0.43
Shares used in per share calculations:		
Basic	176,403	178,545
Diluted	177,539	180,825

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

Table of ContentsAKAMAI TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Three Months Ended March 31,	
(in thousands)	2016	2015
Net income	\$74,858	\$77,746
Other comprehensive income (loss):		
Foreign currency translation adjustments	9,653	(8,415 )
Unrealized gains on investments, net of income tax provision of \$1,783 and \$1,213 for the three months ended March 31, 2016 and 2015, respectively	3,008	2,113
Other comprehensive income (loss)	12,661	(6,302 )
Comprehensive income	\$87,519	\$71,444

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

Table of ContentsAKAMAI TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	For the Three Months Ended March 31, 2016	2015
Cash flows from operating activities:		
Net income	\$ 74,858	\$ 77,746
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	80,669	70,460
Stock-based compensation	31,741	29,669
Excess tax benefits from stock-based compensation	(1,135 )	(13,128 )
Provision for deferred income taxes	1,072	8,305
Amortization of debt discount and issuance costs	4,653	4,576
Other non-cash reconciling items, net	2,752	443
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	15,906	(32,552 )
Prepaid expenses and other current assets	(3,481 )	(1,817 )
Accounts payable and accrued expenses	(32,377 )	(52,703 )
Deferred revenue	10,653	6,947
Other current liabilities	6,876	42
Other non-current assets and liabilities	(1,949 )	1,741
Net cash provided by operating activities	190,238	99,729
Cash flows from investing activities:		
Cash paid for acquired businesses, net of cash — acquired		(16,062 )
Purchases of property and equipment	(41,806 )	(91,924 )



Edgar Filing: AKAMAI TECHNOLOGIES INC - Form 10-Q

Capitalization of internal-use software development costs	(40,534	)	(45,145	)
Purchases of short- and long-term marketable securities	(95,843	)	(97,304	)
Proceeds from sales of short- and long-term marketable securities	—		2,008	
Proceeds from maturities of short- and long-term marketable securities	125,109		305,647	
Other non-current assets and liabilities	(2,354	)	(82	)
Net cash (used in) provided by investing activities	(55,428	)	57,138	
Cash flows from financing activities:				
Proceeds related to the issuance of common stock under stock plans	18,350		24,440	
Excess tax benefits from stock-based compensation	1,135		13,128	
Employee taxes paid related to net share settlement of stock-based awards	(26,496	)	(31,101	)
Repurchases of common stock	(108,725	)	(62,680	)
Net cash used in financing activities	(115,736	)	(56,213	)
Effects of exchange rate changes on cash and cash equivalents	4,365		(6,747	)
Net increase in cash and cash equivalents	23,439		93,907	
Cash and cash equivalents at beginning of period	289,473		238,650	
Cash and cash equivalents at end of period	\$ 312,912		\$ 332,557	

Table of ContentsAKAMAI TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS, continued

(in thousands)	For the Three Months Ended March 31,	
	2016	2015
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$28,010	\$24,131
Non-cash investing activities:		
Purchases of property and equipment and capitalization of internal-use software development costs included in accounts payable and accrued expenses	19,518	31,565
Capitalization of stock-based compensation	5,203	4,144

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

Table of Contents

AKAMAI TECHNOLOGIES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business and Basis of Presentation

Akamai Technologies, Inc. (the "Company") provides cloud services for delivering, optimizing and securing content and business applications over the Internet. The Company's globally-distributed platform comprises over 216,000 servers in more than 1,500 networks in approximately 120 countries. The Company was incorporated in Delaware in 1998 and is headquartered in Cambridge, Massachusetts. The Company currently operates in one industry segment: providing cloud services for delivering, optimizing and securing content and business applications over the Internet.

The accompanying interim consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. These financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in the accompanying financial statements.

Certain information and footnote disclosures normally included in the Company's annual audited consolidated financial statements and accompanying notes have been condensed in, or omitted from, these interim financial statements. Accordingly, the unaudited consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's annual report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission (the "Commission") on February 29, 2016.

The results of operations presented in this quarterly report on Form 10-Q are not necessarily indicative of the results of operations that may be expected for any future periods. In the opinion of management, these unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, that are necessary for a fair statement of the results of all interim periods reported herein.

Newly-Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued updated guidance to simplify the presentation of debt issuance costs on the balance sheet. This guidance moved debt issuance costs from the assets section of the balance sheet to the liabilities section as a direct deduction from the carrying amount of the debt issued. The Company retrospectively adopted the guidance on January 1, 2016. The prior period consolidated balance sheet presented, as of December 31, 2015, was revised to reclassify \$6.2 million of debt issuance costs included in other assets to convertible senior notes. This had the impact of reducing the Company's total assets and total liabilities by \$6.2 million, as of December 31, 2015. The revision had no impact on the Company's results of operations, financial position or cash flows.

In September 2015, the FASB issued updated guidance that eliminates the requirement to restate prior period financial statements for measurement period adjustments. In an effort to reduce complexity in financial reporting, the new guidance requires that the cumulative impact of a measurement period adjustment, including the impact on prior periods, be recognized in the reporting period in which the adjustment is identified. The standard was effective for and adopted by the Company on January 1, 2016. This guidance did not have an impact on the Company's results of operations, financial condition or cash flows as the measurement periods for the Company's 2015 acquisitions were closed as of December 31, 2015.

Recent Accounting Pronouncements

In May 2014, the FASB issued updated guidance and disclosure requirements for recognizing revenue. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard will be effective for the Company on January 1, 2018, and may be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is evaluating the potential impact of adopting this new accounting guidance.

In February 2016, the FASB issued guidance that requires companies to present assets and liabilities arising from leases on the consolidated balance sheets. This new standard establishes a right-of-use model that requires a lessee to record a right-of-use asset and a corresponding lease liability on the consolidated balance sheets for all leases with terms longer than 12 months. This standard will be effective for the Company on January 1, 2019, and is to be applied using a modified retrospective

Table of Contents

approach. Early adoption is permitted. The Company is evaluating the potential impact of adopting this new accounting guidance.

In March 2016, the FASB issued guidance that is intended to simplify aspects of how share-based payments are accounted for and presented in financial statements. This guidance requires that entities record all tax effects of share-based payments at settlement or expiration through the income statement. The standard also amends how windfall tax benefits are recognized, the minimum statutory tax withholding requirements and how entities elect to recognize share-based payment forfeitures. This guidance will be effective for the Company on January 1, 2017, and portions will be required to be applied on a retrospective or modified retrospective basis. Early adoption is permitted. The Company is evaluating the potential impact of adopting this new accounting guidance.

## 2. Fair Value Measurements

The following is a summary of available-for-sale marketable securities held as of March 31, 2016 and December 31, 2015 (in thousands):

	Amortized Cost	Gross Unrealized		Aggregate Fair Value	Classification on Balance Sheet	
		Gains	Losses		Short-Term Marketable Securities	Long-Term Marketable Securities
As of March 31, 2016						
Commercial paper	\$2,495	\$—	\$(1 )	\$2,494	\$2,494	\$—
Corporate bonds	962,932	1,203	(506 )	963,629	479,400	484,229
U.S. government agency obligations	241,315	289	(26 )	241,578	43,064	198,514
	\$1,206,742	\$1,492	\$(533 )	\$1,207,701	\$524,958	\$682,743
As of December 31, 2015						
Commercial paper	\$2,491	\$—	\$(4 )	\$2,487	\$2,487	\$—
Corporate bonds	995,100	73	(3,365 )	991,808	432,585	559,223
U.S. government agency obligations	239,587	41	(575 )	239,053	25,016	214,037
	\$1,237,178	\$114	\$(3,944 )	\$1,233,348	\$460,088	\$773,260

The Company offers certain qualified employees the ability to participate in a non-qualified deferred compensation plan. The mutual funds held by the Company that are associated with this plan are classified as restricted trading securities. These securities are not included in the available-for-sale securities table above but are included in marketable securities in the consolidated balance sheets.

Unrealized gains and unrealized temporary losses on investments classified as available-for-sale are included within accumulated other comprehensive loss in the consolidated balance sheets. Upon realization, those amounts are reclassified from accumulated other comprehensive loss to interest income in the statements of income. As of March 31, 2016, the Company held for investment corporate bonds with a fair value of \$76.4 million, which are classified as available-for-sale marketable securities and had been in a continuous unrealized loss position for more than 12 months. The unrealized losses are not significant and are attributable to changes in interest rates. The Company does not believe any unrealized losses represent other than temporary impairments based on the evaluation of available evidence. As of December 31, 2015, the Company held for investment corporate bonds with a fair value of \$71.4 million that had been in a continuous unrealized loss position for more than 12 months.



Table of Contents

The following table details the fair value measurements within the fair value hierarchy of the Company's financial assets at March 31, 2016 and December 31, 2015 (in thousands):

	Total Fair Value	Fair Value Measurements at Reporting Date		
		Using Level 1	Level 2	Level 3
As of March 31, 2016				
Cash Equivalents and Marketable Securities:				
Money market funds	\$22,035	\$ 22,035	\$ —	\$ —
Commercial paper	2,494	—	2,494	—
Corporate bonds	963,629	—	963,629	—
U.S. government agency obligations	241,578	—	241,578	—
Mutual funds	2,619	2,619	—	—
	\$1,232,355	\$ 24,654	\$ 1,207,701	\$ —
As of December 31, 2015				
Cash Equivalents and Marketable Securities:				
Money market funds	\$1,250	\$ 1,250	\$ —	\$ —
Commercial paper	2,487	—	2,487	—
Corporate bonds	991,808	—	991,808	—
U.S. government agency obligations	239,053	—	239,053	—
Mutual funds	1,414	1,414	—	—
	\$1,236,012	\$ 2,664	\$ 1,233,348	\$ —

As of March 31, 2016 and December 31, 2015, the Company grouped money market funds and mutual funds using a Level 1 valuation because market prices for such investments are readily available in active markets. As of March 31, 2016 and December 31, 2015, the Company grouped commercial paper, corporate bonds and U.S. government agency obligations using a Level 2 valuation because quoted prices for identical or similar assets are available in markets that are inactive. The Company did not have any transfers of assets between Level 1, Level 2 or Level 3 of the fair value measurement hierarchy during the three months ended March 31, 2016.

When developing fair value estimates, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs. When available, the Company uses quoted market prices to measure fair value. The valuation technique used to measure fair value for the Company's Level 1 and Level 2 assets is a market approach, using prices and other relevant information generated by market transactions involving identical or comparable assets. If market prices are not available, the fair value measurement is based on models that use primarily market-based parameters including yield curves, volatilities, credit ratings and currency rates. In certain cases where market rate assumptions are not available, the Company is required to make judgments about assumptions market participants would use to estimate the fair value of a financial instrument.

Contractual maturities of the Company's available-for-sale marketable securities held as of March 31, 2016 and December 31, 2015 were as follows (in thousands):

	March 31, 2016	December 31, 2015
Due in 1 year or less	\$524,958	\$ 460,088
Due after 1 year through 5 years	682,743	773,260
	\$1,207,701	\$ 1,233,348





Table of Contents

## 3. Accounts Receivable

Net accounts receivable consisted of the following as of March 31, 2016 and December 31, 2015 (in thousands):

	March 31, 2016	December 31, 2015
Trade accounts receivable	\$267,809	\$ 262,885
Unbilled accounts receivable	106,674	124,878
Gross accounts receivable	374,483	387,763
Allowance for doubtful accounts	(1,189 )	(906 )
Reserve for cash-basis customers	(8,191 )	(6,458 )
Total accounts receivable reserves	(9,380 )	(7,364 )
Accounts receivable, net	\$365,103	\$ 380,399

## 4. Goodwill and Acquired Intangible Assets

The change in the carrying amount of goodwill for the three months ended March 31, 2016 was as follows (in thousands):

Balance as of January 1, 2016	\$1,150,244
Foreign currency translation	2,132
Balance as of March 31, 2016	\$1,152,376

The Company tests goodwill for impairment at least annually. Through the date the consolidated financial statements were issued, no triggering events had occurred that would indicate a potential impairment exists.

Acquired intangible assets that are subject to amortization consisted of the following as of March 31, 2016 and December 31, 2015 (in thousands):

	March 31, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Completed technology	\$120,791	\$(61,792 )	\$58,999	\$120,791	\$(58,633 )	\$62,158
Customer-related intangible assets	191,710	(105,705 )	86,005	191,710	(102,872 )	88,838
Non-compete agreements	6,540	(3,949 )	2,591	6,540	(3,374 )	3,166
Trademarks and trade names	3,700	(1,916 )	1,784	3,700	(1,767 )	1,933
Acquired license rights	490	(490 )	—	490	(490 )	—
Total	\$323,231	\$(173,852 )	\$149,379	\$323,231	\$(167,136 )	\$156,095

Aggregate expense related to amortization of acquired intangible assets for the three months ended March 31, 2016 and 2015 was \$6.7 million and \$6.8 million, respectively. Based on the Company's acquired intangible assets as of March 31, 2016, aggregate expense related to amortization of acquired intangible assets is expected to be \$19.8 million for the remainder of 2016, and \$27.8 million, \$23.7 million, \$21.7 million and \$17.7 million for 2017, 2018, 2019 and 2020, respectively.

## 5. Convertible Senior Notes

In February 2014, the Company issued \$690.0 million in par value of convertible senior notes due 2019 (the "Notes"). The Notes are senior unsecured obligations of the Company, do not bear regular interest and mature on February 15, 2019, unless repurchased or converted prior to maturity.

Table of Contents

At their option, holders may convert their Notes prior to the close of business on the business day immediately preceding August 15, 2018 only under the following circumstances:

during any calendar quarter commencing after the calendar quarter ended June 30, 2014 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; or

during the five business day period after any five consecutive trading day period in which the trading price per \$1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; or upon the occurrence of specified corporate events.

On or after August 15, 2018, holders may convert all or any portion of their Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, regardless of the foregoing circumstances.

Upon conversion, the Company, at its election, may pay or deliver to holders cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock. The initial conversion rate is 11.1651 shares of the Company's common stock per \$1,000 principal amount, which is equivalent to an initial conversion price of approximately \$89.56 per share, subject to adjustments in certain events, and represents a potential conversion into 7.7 million shares.

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying cost of the liability component was calculated by measuring the fair value of a similar debt obligation that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the Notes. The difference between the principal amount of the Notes and the proceeds allocated to the liability component ("debt discount") is amortized to interest expense using the effective interest method over the term of the Notes. The equity component is recorded in additional paid-in capital in the consolidated balance sheet and will not be remeasured as long as it continues to meet the conditions for equity classification.

In accounting for the transaction costs related to the issuance of the Notes, the Company allocated the total transaction costs incurred to the liability and equity components based on their relative values. Transaction costs attributable to the liability component are being amortized to interest expense over the term of the Notes, and transaction costs attributable to the equity component are netted with the equity component of the Notes in stockholders' equity.

The Notes consist of the following components (in thousands):

	March 31, 2016	December 31, 2015
Liability component:		
Principal	\$ 690,000	\$ 690,000
Less: debt discount and issuance costs, net of amortization	(66,515 )	(71,953 )
Net carrying amount	\$ 623,485	\$ 618,047
Equity component:	\$ 101,276	\$ 101,276

The estimated fair value of the Notes at March 31, 2016 was \$673.3 million. The fair value was determined based on data points other than quoted prices that are observable, either directly or indirectly, and has been classified as Level 2 within the fair value hierarchy. Based on the closing price of the Company's common stock of \$55.57 on March 31, 2016, the value of the Notes if converted to common stock was less than the principal amount of \$690.0 million.

The Company used \$62.0 million of the proceeds from the offering to repurchase shares of its common stock, concurrently with the issuance of the Notes. The repurchases were made in accordance with the share repurchase program previously approved by the Board of Directors (Note 7). Additionally, \$23.3 million of the proceeds was used for the net cost of convertible note hedge and warrant transactions. The Company intends to use the remaining net proceeds for working capital,

Table of Contents

share repurchases and other general corporate purposes, as well as for potential additional acquisitions and strategic transactions.

## Note Hedge

To minimize the impact of potential dilution upon conversion of the Notes, the Company entered into convertible note hedge transactions with respect to its common stock in February 2014. The Company paid \$101.3 million for the note hedge transactions. The note hedge transactions cover approximately 7.7 million shares of the Company's common stock at a strike price that corresponds to the initial conversion price of the Notes, also subject to adjustment, and are exercisable upon conversion of the Notes. The note hedge transactions are intended to reduce dilution in the event of conversion of the Notes.

## Warrants

Separately, in February 2014, the Company entered into warrant transactions, whereby the Company sold warrants to acquire, subject to anti-dilution adjustments, up to 7.7 million shares of the Company's common stock at a strike price of approximately \$104.49 per share. The Company received aggregate proceeds of \$78.0 million from the sale of the warrants. The convertible note hedge and warrant transactions will generally have the effect of increasing the conversion price of the Notes to approximately \$104.49 per share.

## Interest Expense

The Notes do not bear regular interest, but have an effective interest rate of 3.2% attributable to the conversion feature. The following table sets forth total interest expense included in the statements of income related to the Notes (in thousands):

	For the Three Months Ended March 31, 2016		2015
Amortization of debt discount and issuance costs	\$5,438	\$5,251	
Capitalization of interest expense	(785 )	(675 )	
Total interest expense	\$4,653	\$4,576	

## 6. Contingencies

The Company is conducting an internal investigation, with the assistance of outside counsel, relating to sales practices in a country outside the U.S. that represented less than 1% of the Company's revenue during the three months ended March 31, 2016, and in each of the years ended December 31, 2015, 2014 and 2013. The internal investigation includes a review of compliance with the requirements of the U.S. Foreign Corrupt Practices Act and other applicable laws and regulations by employees in that market. In February 2015, the Company voluntarily contacted the Commission and Department of Justice to advise both agencies of this internal investigation. The Company is cooperating with those agencies. As of the filing of these financial statements, the Company cannot predict the outcome of this matter. During the first quarter of 2016, the Company recorded an immaterial provision in its consolidated financial statements reflecting amounts the Company expects it will be required to disgorge in connection with this matter.

## 7. Stockholders' Equity

Share Repurchase Program

In October 2013, the Board of Directors authorized a \$750.0 million share repurchase program, effective from October 16, 2013 through December 31, 2016. In February 2016, the Board of Directors authorized a new \$1.0 billion share repurchase program that superseded the October 2013 program and is effective from February 9, 2016 through December 31, 2018. The Company's goal for the share repurchase program is to offset the dilution created by its employee equity compensation programs and provide the flexibility to return capital to shareholders as business and market conditions warrant. During the three months ended March 31, 2016, the Company repurchased 2.2 million shares of its common stock for \$108.7 million.

Table of Contents

## Stock-Based Compensation

The following table summarizes stock-based compensation included in the Company's consolidated statements of income for the three months ended March 31, 2016 and 2015 (in thousands):

	For the Three Months Ended March 31,	
	2016	2015
Cost of revenue	\$3,970	\$3,163
Research and development	6,438	5,366
Sales and marketing	12,352	12,983
General and administrative	8,981	8,157
Total stock-based compensation	31,741	29,669
Provision for income taxes	(12,133 )	(11,702 )
Total stock-based compensation, net of income taxes	\$ 19,608	\$ 17,967

In addition to the amounts of stock-based compensation reported in the table above, the Company's consolidated statements of income for the three months ended March 31, 2016 and 2015 include stock-based compensation reflected as a component of amortization of capitalized internal-use software of \$3.3 million and \$3.0 million, respectively, before taxes.

## 8. Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated other comprehensive loss, which is reported as a component of stockholders' equity, for the three months ended March 31, 2016 (in thousands):

	Foreign Currency Translation	Net Unrealized Gains on Investments	Total
Balance as of January 1, 2016	\$ (44,936 )	\$ 3,483	\$(41,453)
Other comprehensive gain	9,653	3,008	12,661
Balance as of March 31, 2016	\$ (35,283 )	\$ 6,491	\$(28,792)

The tax effect on accumulated unrealized gain on investments was insignificant as of March 31, 2016 and December 31, 2015. Amounts reclassified from accumulated other comprehensive loss to net income were insignificant for the three months ended March 31, 2016.

## 9. Income Taxes

The Company's effective income tax rate was 33.5% and 35.0% for the three months ended March 31, 2016 and 2015, respectively. The effective income tax rate is based on estimated income for the year, the estimated composition of the income in different jurisdictions and discrete adjustments, if any, in the applicable quarterly periods, including retroactive changes in tax legislation, settlements of tax audits or assessments, the resolution or identification of tax position uncertainties and acquisitions of other companies.

For the three months ended March 31, 2016, the effective income tax rate was lower than the federal statutory tax rate due to the composition of income from foreign jurisdictions that is taxed at lower rates compared to the statutory tax

rates in the U.S. and the U.S. federal, state and foreign research and development credits, partially offset by the effects of accounting for stock-based compensation in accordance with the authoritative guidance for share-based payments and state income taxes. For the three months ended March 31, 2015, the effective income tax rate equaled the federal statutory tax rate. The effects of accounting for stock-based compensation in accordance with the authoritative guidance for share-based payments and state income taxes caused the Company's tax rate to be higher than the federal statutory tax rate; however, those items were offset by the composition of income from foreign jurisdictions that is taxed at lower rates compared to the statutory tax rates in the U.S and the domestic production activities deduction.



Table of Contents

## 10. Net Income per Share

Basic net income per share is computed using the weighted average number of common shares outstanding during the applicable period. Diluted net income per share is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of potential common stock. Potential common stock consists of shares issuable pursuant to stock options, restricted stock units ("RSUs"), deferred stock units ("DSUs"), convertible senior notes and warrants issued by the Company. The dilutive effect of outstanding awards and convertible securities is reflected in diluted earnings per share by application of the treasury stock method.

The following table sets forth the components used in the computation of basic and diluted net income per share for the three months ended March 31, 2016 and 2015 (in thousands, except per share data):

	For the Three Months Ended March 31, 2016    2015	
Numerator:		
Net income	\$74,858	\$77,746
Denominator:		
Shares used for basic net income per share	176,403	178,545
Effect of dilutive securities:		
Stock options	403	996
RSUs and DSUs	733	1,284
Convertible senior notes	—	—
Warrants related to issuance of convertible senior notes	—	—
Shares used for diluted net income per share	177,539	180,825
Basic net income per share	\$0.42	\$0.44
Diluted net income per share	\$0.42	\$0.43

For the three months ended March 31, 2016 and 2015, certain potential outstanding shares from stock options, service-based RSUs, convertible notes and warrants were excluded from the computation of diluted net income per share because the effect of including these items was anti-dilutive. Additionally, certain performance-based RSUs were excluded from the computation of diluted net income per share because the underlying performance conditions for such RSUs had not been met as of these dates. The number of potentially outstanding shares excluded from the computation of diluted net income per share for the three months ended March 31, 2016 and 2015 (in thousands) are as follows:

	For the Three Months Ended March 31, 2016    2015	
Stock options	104	26
Service-based RSUs	4,662	622
Performance-based RSUs	1,348	1,148
Convertible senior notes	7,704	7,704
Warrants related to issuance of convertible senior notes	7,704	7,704

The calculation of assumed proceeds used to determine the diluted weighted average shares outstanding under the treasury stock method in the periods presented was adjusted by tax windfalls and shortfalls associated with all of the Company's outstanding stock awards. Such windfalls and shortfalls are computed by comparing the tax deductible amount of outstanding stock awards to their grant-date fair values and multiplying the results by the applicable statutory tax rate. A positive result creates a windfall, which increases the assumed proceeds, and a negative result creates a shortfall, which reduces the assumed proceeds.

## Table of Contents

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

This quarterly report on Form 10-Q, particularly Management's Discussion and Analysis of Financial Condition and Results of Operations set forth below, and notes to our unaudited consolidated financial statements included herein contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management as of the date hereof based on information currently available to our management. Use of words such as "believes," "expects," "anticipates," "intends," "plans," "estimates," "should," "forecasts," "if," "continues," "goal," "likely" or similar expressions in this report constitute forward-looking statements. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions. Actual results may differ materially from the forward-looking statements we make. See "Risk Factors" elsewhere in this quarterly report on Form 10-Q for a discussion of certain risks associated with our business. We disclaim any obligation to update forward-looking statements as a result of new information, future events or otherwise.

Our management's discussion and analysis of our financial condition and results of operations is based upon our unaudited consolidated financial statements included elsewhere in this quarterly report on Form 10-Q, which we have prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim periods and with Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. The preparation of these unaudited consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related items, including, but not limited to, revenue recognition, accounts receivable and related reserves, valuation and impairment of marketable securities, goodwill and acquired intangible assets, capitalized internal-use software development costs, impairment and useful lives of long-lived assets, income tax, and stock-based compensation. We base our estimates and judgments on historical experience and on various other assumptions that we believe to be reasonable under the circumstances at the time they are made. Actual results may differ from our estimates. See the section entitled "Application of Critical Accounting Policies and Estimates" in our annual report on Form 10-K for the year ended December 31, 2015 for further discussion of our critical accounting policies and estimates.

#### Overview

We provide cloud services for delivering, optimizing and securing content and business applications over the Internet. For many of our core solutions, we rely on a recurring revenue model with customers executing contracts having terms of one year or longer. We believe this emphasis on longer-term contracts allows us to have a consistent and predictable base level of revenue, which is important to our financial success. We are also dependent on media customers where usage of our services is less predictable; as a result, our revenue is impacted by the amount of media and software download traffic we serve on our network, the rate of adoption of social media and video platform capabilities, the timing and variability of customer-specific one-time events and the impact of seasonal variations on our business. The prices we are able to charge for our services is also a key variable impacting income.

We have observed the following trends related to our revenue in recent years:

- Increased sales of our Cloud Security Solutions have made a significant contribution to our increased revenue, and we expect to continue our focus on security solutions in the future.

We have increased committed recurring revenue by adding new customers and increasing sales of incremental services to our existing customers. These increases helped to limit the impact of reductions in usage of our services and contract terminations by certain customers, as well as the effect of price decreases negotiated as part of contract renewals.

We have experienced increases in the amount of traffic delivered for our customers that use our solutions for video, gaming, social media and software downloads. In the second half of 2015 and the first quarter of 2016, however, we experienced a slower growth rate in revenue from these services and expect this trend to continue in the second quarter of 2016 and possibly the second half of the year. We believe that this development is primarily attributable to an increase in the use of "do-it-yourself" approaches by our two largest media customers based in the U.S., which has led to a moderation in the overall rate of growth of customer traffic on our network.

The unit prices paid by some of our customers have declined, reflecting the impact of competition. Our profitability would have been higher absent these price declines.

Table of Contents

We have experienced variations in certain types of revenue from quarter to quarter. In particular, we experience higher revenue in the fourth quarter of the year for some of our solutions as a result of holiday season activity. We also experience lower revenue in the summer months, particularly in Europe, from both e-commerce and media customers because overall Internet use declines during that time. In addition, we experience quarterly variations in revenue attributable to the nature and timing of software and gaming releases by our customers using our software download solutions and the frequency and timing of purchases of custom services.

Our level of profitability is impacted by our revenue as well as expense levels, including direct costs to support our revenue such as bandwidth and co-location costs. We have observed the following trends related to our profitability in recent years:

Network bandwidth costs represent a significant portion of our cost of revenue. Historically, we have been able to mitigate increases in these costs by reducing our network bandwidth costs per unit and investing in internal-use software development to improve the performance and efficiency of our network. Our total bandwidth costs may increase in the future as a result of expected higher traffic levels, and we will need to continue to effectively manage our bandwidth costs to maintain current levels of profitability.

Co-location costs are also a significant portion of our cost of revenue. By improving our internal-use software and managing our hardware deployments to enable us to use servers more efficiently, we have been able to manage the growth of co-location costs. We expect to continue to scale our network in the future and will also need to effectively manage our co-location costs to maintain current levels of profitability.

We have made investments to support the potential future growth of over the top, or OTT, media offerings and to support other strategic initiatives that we anticipate will generate revenue in the future. On a relative basis, these investments have increased our expenses ahead of expected revenue benefits.

Payroll and related compensation costs have increased as we have increased headcount to support our revenue growth and strategic initiatives. We increased our headcount by 979 employees during the year ended December 31, 2015. We expect to continue to hire additional employees in 2016, but at a slower rate, both domestically and internationally, in support of our strategic initiatives.

Table of Contents

## Results of Operations

The following table sets forth, as a percentage of revenue, consolidated statements of income data for the periods indicated:

	For the Three Months Ended March 31,	
	2016	2015
Revenue	100.0 %	100.0 %
Costs and operating expenses:		
Cost of revenue (exclusive of amortization of acquired intangible assets shown below)	34.3	32.2
Research and development	7.2	6.8
Sales and marketing	18.0	19.7
General and administrative	18.0	17.0
Amortization of acquired intangible assets	1.2	1.3
Restructuring charges	1.2	—
Total costs and operating expenses	79.9	77.0
Income from operations	20.1	23.0
Interest income	0.6	0.6
Interest expense	(0.8 )	(0.9 )
Other expense, net	—	(0.1 )
Income before provision for income taxes	19.9	22.6
Provision for income taxes	6.6	8.0
Net income	13.3 %	14.6 %

## Revenue

Revenue during the periods presented was as follows (in thousands):

For the Three Months Ended March 31,				
2016	2015	% Change	% Change at Constant Currency	
Revenue	\$567,725	\$526,536	7.8 %	8.6 %

During the three-month period ended March 31, 2016, the increase in our revenue as compared to the same period in 2015 was primarily the result of continued strong growth from our Cloud Security Solutions, which grew 46%. Changes in foreign currency exchange rates negatively impacted our revenue by \$4 million during the three-month period ended March 31, 2016 as compared to the same period in 2015. For the three-month periods ended March 31, 2016 and 2015, no single customer accounted for 10% or more of revenue.

Table of Contents

As part of the reorganization we announced on February 9, 2016, we have adjusted the categorization of our revenue solution categories. Certain of our services that were previously included in Media Delivery Solutions are now presented in Performance and Security Solutions. Beginning in the first quarter of 2016, revenue from these services were classified in their respective product solution categories; accordingly, we have revised prior period amounts in the following table.

The following table quantifies the contribution to revenue during the periods presented from our solution categories (in thousands):

	For the Three Months Ended March 31,		% Change	% Change at Constant Currency
	2016	2015		
Performance and Security Solutions	\$315,863	\$271,959	16.1 %	17.0 %
Media Delivery Solutions	205,939	214,865	(4.2 )	(3.5 )
Services and Support Solutions	45,923	39,712	15.6	16.3
Total revenue	\$567,725	\$526,536	7.8 %	8.6 %

The increase in Performance and Security Solutions revenue for the three-month period ended March 31, 2016, as compared to the same period in 2015, was due to increased demand across all major product lines, with especially strong growth in our Cloud Security Solutions. Cloud Security Solutions revenue for the three-month period ended March 31, 2016 was \$81 million as compared to \$55 million for the three-month period ended March 31, 2015.

The decline in the year-over-year revenue growth rate in Media Delivery Solutions revenue for the three-month period ended March 31, 2016 was primarily the result of decreased traffic from our two largest media customers resulting from their "do-it-yourself" efforts in delivering their content. Excluding these customers, the rest of our Media Delivery Solutions revenue grew 11% for the three-month period ended March 31, 2016, as compared to the same period in 2015.

The increase in Services and Support Solutions revenue for the three-month period ended March 31, 2016, as compared to the same period in 2015, was due to strong customer attachment rates for our higher-end enterprise class professional services.

As a result of our reorganization in 2016, we are now organized into three divisions. The following table quantifies the contribution to revenue during the periods presented from the customers in each division (in thousands):

	For the Three Months Ended March 31,		% Change	% Change at Constant Currency
	2016	2015		
Media Division	\$291,933	\$293,966	(0.7 )%	— %
Web Division	263,743	224,240	17.6	18.5
Enterprise and Carrier Division	12,049	8,330	44.6	44.4
Total revenue	\$567,725	\$526,536	7.8 %	8.6 %

The decline in the year-over-year revenue growth rate in Media Division revenue for the three-month period ended March 31, 2016 was the result of decreased traffic from our two largest media customers as discussed above. The increase in Web Division revenue during the three-month period ended March 31, 2016, as compared to the same period in 2015, was due to strong growth and penetration of our entire product portfolio into this customer base.



Table of Contents

The following table quantifies revenue derived in the U.S. and internationally (in thousands):

	For the Three Months Ended March 31,					
	2016	2015	% Change	% Change at Constant Currency		
U.S.	\$397,283	\$388,973	2.1	% 2.1	%	
International	170,442	137,563	23.9	26.8		
Total revenue	\$567,725	\$526,536	7.8	% 8.6	%	

Revenue from our operations in the U.S. was negatively impacted by the reduced revenue from our two largest media customers, which contributed to the slowing of the growth rate of our U.S. revenue during the three-month period ended March 31, 2016, as compared to the same period in 2015.

Revenue derived from our operations located outside of the U.S. for the three-month period ended March 31, 2016 was approximately 30% of total revenue, as compared to 26% for the three-month period ended March 31, 2015. No single country outside of the U.S. accounted for 10% or more of revenue during these periods. During the first three months of 2016, we experienced strong revenue growth from our operations in the Asia Pacific region.

#### Cost of Revenue

Cost of revenue consisted of the following for the periods presented (in thousands):

	For the Three Months Ended March 31,		
	2016	2015	% Change
Bandwidth fees	\$41,180	\$35,513	16.0 %
Co-location fees	32,594	29,691	9.8
Network build-out and supporting services	13,777	11,427	20.6
Payroll and related costs	44,690	37,552	19.0
Stock-based compensation, including amortization of prior capitalized amounts	7,013	5,978	17.3
Depreciation of network equipment	34,570	31,499	9.7
Amortization of internal-use software	20,912	17,634	18.6
Total cost of revenue	\$194,736	\$169,294	15.0 %
As a percentage of revenue	34.3	% 32.2	%

The increase in total cost of revenue for the three-month period ended March 31, 2016, as compared to the same period in 2015, was primarily due to increases in:

- amounts paid to network providers for bandwidth fees to support the increase in traffic served on our network;
- amounts paid for network build-out and supporting services related to the increase in server deployments and investments in network expansion;
- payroll and related costs of service personnel due to headcount growth in our services organization to support our increase in Services revenue, and our network operations personnel to support our other solution revenue; and
-

depreciation of network equipment and amortization of internal-use software as we continued to invest in our infrastructure and release internally developed software onto our network.

Our cost of revenue as a percentage of revenue also increased during the three-month period ended March 31, 2016, as compared to the same period in 2015. The increase was primarily the result of our increased investments in the strategic expansion of our network.

We have long-term purchase commitments for co-location services and bandwidth usage with various vendors and network and Internet service providers. Our minimum commitments related to bandwidth usage and co-location services may

Table of Contents

vary from period to period depending on the timing and length of contract renewals with our service providers. There have been no significant changes to the commitments reported in our annual report on Form 10-K for the year ended December 31, 2015, other than normal period-to-period variations.

We believe that cost of revenue will increase during 2016 as compared to 2015 primarily because we expect to deploy more servers and deliver more traffic on our network, which will result in higher expenses associated with the increased traffic. Additionally, during 2016, we anticipate amortization of internal-use software development costs to increase as compared to 2015, along with increased payroll and related costs associated with our network and professional services personnel and related expenses. We plan to continue making investments in our network with the expectation that our customer base will continue to expand and that we will continue to deliver more traffic to existing customers.

## Research and Development Expenses

Research and development expenses consisted of the following for the periods presented (in thousands):

	For the Three Months Ended March 31,		
	2016	2015	% Change
Payroll and related costs	\$64,634	\$54,935	17.7 %
Stock-based compensation	6,438	5,366	20.0
Capitalized salaries and related costs	(31,511 )	(26,242 )	20.1
Other expenses	1,281	1,769	(27.6)
Total research and development	\$40,842	\$35,828	14.0 %
As a percentage of revenue	7.2	% 6.8	%

The increase in research and development expenses during the three-month period ended March 31, 2016, as compared to the same period in 2015, was due to increases in payroll and related costs as a result of continued growth in headcount to support investments in new product development and network scaling, partially offset by increases in capitalized salaries and related costs.

Research and development costs are expensed as incurred, other than certain internal-use software development costs eligible for capitalization. These development costs consist of payroll and related costs for personnel and external consulting expenses involved in the development of internal-use software used to deliver our services and operate our network. During the three-month periods ended March 31, 2016 and 2015, we capitalized \$4.9 million and \$3.7 million, respectively, of stock-based compensation. These capitalized internal-use software development costs are amortized to cost of revenue over their estimated useful lives, which is generally two years.

We believe that research and development expenses will increase in absolute dollars during the remaining quarters of 2016 as compared to the first quarter of 2016, as we expect to continue to hire additional development personnel in order to make improvements to our core technology and support the development of new services and engineering innovation.

Table of Contents

## Sales and Marketing Expenses

Sales and marketing expenses consisted of the following for the periods presented (in thousands):

	For the Three Months Ended March 31,		
	2016	2015	% Change
Payroll and related costs	\$75,880	\$72,068	5.3 %
Stock-based compensation	12,352	12,983	(4.9 )
Marketing programs and related costs	6,113	11,776	(48.1)
Other expenses	7,866	6,652	18.3
Total sales and marketing	\$102,211	\$103,479	(1.2 )%
As a percentage of revenue	18.0	% 19.7	%

The decrease in sales and marketing expenses during the three-month period ended March 31, 2016, as compared to the same period in 2015, was primarily due to a large marketing program that occurred during the three months ended March 31, 2015 and did not repeat during the same period in 2016. This factor was partially offset by higher payroll and related costs in the three-month period ended March 31, 2016, as we continued to invest in our sales and marketing organization. Other expenses, which consists primarily of sales and marketing events and related travel expenses, also increased as we grew our sales and marketing organization but at a slower pace than we have historically.

During the remaining quarters of 2016, we believe that sales and marketing expenses will increase in absolute dollars as compared to the first quarter of 2016, due to increased payroll and related costs as a result of anticipated headcount growth throughout 2016. Our headcount growth in 2016 is expected to be at a slower pace than we experienced in 2015.

## General and Administrative Expenses

General and administrative expenses consisted of the following for the periods presented (in thousands):

	For the Three Months Ended March 31,		
	2016	2015	% Change
Payroll and related costs	\$41,188	\$41,137	0.1 %
Stock-based compensation	8,981	8,157	10.1
Depreciation and amortization	15,429	11,733	31.5
Facilities-related costs	17,408	14,232	22.3
Provision for doubtful accounts	486	(9 )	nm
Acquisition-related costs	38	718	(94.7)
Professional fees and other expenses	18,753	13,624	37.6
Total general and administrative	\$102,283	\$89,592	14.2 %
As a percentage of revenue	18.0	% 17.0	%

The increase in general and administrative expenses for the three-month period ended March 31, 2016, as compared to the same period in 2015, was primarily due to the expansion of company infrastructure throughout 2015 to support investments in engineering, go-to-market capacity and enterprise expansion initiatives. In particular, we increased our facility footprint, which increased facilities-related costs and depreciation and amortization. In the three-month period

ended March 31, 2016, we also incurred higher legal fees due to ongoing litigation and higher other professional fees to support our operations, as compared to the same period in 2015.

During the remaining quarters of 2016, we expect general and administrative expenses to increase in absolute dollars as compared to the first quarter of 2016, due to anticipated increased payroll and related costs and facilities-related costs attributable to increased hiring, investment in information technology and planned facility expansion. We also anticipate that legal fees associated with ongoing litigation will continue to increase during 2016.

Table of Contents

## Amortization of Acquired Intangible Assets

(in thousands)	For the Three Months Ended March 31,		
	2016	2015	% Change
Amortization of acquired intangible assets	\$6,716	\$6,780	(0.9 )%
As a percentage of revenue	1.2	% 1.3	%

The decrease in amortization of acquired intangible assets for the three-month period ended March 31, 2016, as compared to the same period in 2015, was driven by the finalization of amortization of intangible assets acquired in earlier years, offset by amortization of intangible assets acquired in 2015. Based on our intangible assets at March 31, 2016, we expect amortization of acquired intangible assets to be approximately \$19.8 million for the remainder of 2016, and \$27.8 million, \$23.7 million, \$21.7 million and \$17.7 million for 2017, 2018, 2019 and 2020, respectively.

## Restructuring Charges

(in thousands)	For the Three Months Ended March 31,		
	2016	2015	% Change
Restructuring charges	\$6,818	\$42	nm
As a percentage of revenue	1.2	% —	%

The restructuring charges for the three-month period ended March 31, 2016 were primarily the result of changes to our organizational structure to realign our products and development groups and global sales, services and marketing teams into divisions centered on our solutions. The restructuring charges relate to severance expenses for impacted employees and also reflect a charge for internal-use software not yet placed into service that will not be completed and launched due to changing priorities as part of the realignment.

## Non-Operating Income (Expense)

(in thousands)	For the Three Months Ended March 31,		
	2016	2015	% Change
Interest income	\$3,320	\$3,001	10.6 %
As a percentage of revenue	0.6	% 0.6	%
Interest expense	\$(4,653)	\$(4,576)	1.7
As a percentage of revenue	(0.8 )%	(0.9 )%	
Other expense, net	\$(189 )	\$(301 )	(37.2)
As a percentage of revenue	—	% (0.1 )%	

For the periods presented, interest income consists of interest earned on invested cash balances and marketable securities, and interest expense consists of the amortization of the debt discount and debt issuance costs related to our convertible senior notes issued in February 2014.

Other expense, net primarily represents net foreign exchange gains and losses and other non-operating expense and income items. The fluctuations in other expense, net for the three-month period ended March 31, 2016, as compared to the same period in 2015, were primarily due to foreign currency exchange rate fluctuations on intercompany and

other non-functional currency transactions. Other expense, net may fluctuate in the future based on changes in foreign currency exchange rates or other events.

Table of Contents

## Provision for Income Taxes

(in thousands)	For the Three Months Ended March 31,		
	2016	2015	% Change
Provision for income taxes	\$37,739	\$41,899	(9.9 )%
As a percentage of revenue	6.6	% 8.0	%
Effective income tax rate	33.5	% 35.0	%

For the three months ended March 31, 2016, our effective income tax rate was lower than the federal statutory tax rate due to the composition of income from foreign jurisdictions that is taxed at lower rates compared to the statutory tax rates in the U.S., the domestic production activities deduction and the treatment of stock-based compensation in intercompany arrangements. These benefits were partially offset by the effects of accounting for stock-based compensation in accordance with the authoritative guidance for share-based payments and state income taxes.

For the three months ended March 31, 2015, our effective income tax rate equaled the federal statutory tax rate. The effects of accounting for stock-based compensation in accordance with the authoritative guidance for share-based payments and state income taxes caused our tax rate to be higher than the federal statutory tax rate; however, those items were offset by the domestic production activities deduction and the composition of income from foreign jurisdictions that is taxed at lower rates compared to the statutory tax rates in the U.S. during the first quarter of 2015.

We expect our full-year effective income tax rate to decrease slightly during the remaining quarters of 2016. This expectation does not take into consideration the effect of potential one-time discrete items that may be recorded in the future. The effective tax rate could also be different depending on the nature and timing of dispositions of incentive stock options and other employee equity awards. Further, our effective tax rate may fluctuate within a fiscal year and from quarter to quarter due to items arising from discrete events, including settlements of tax audits and assessments, the resolution or identification of tax position uncertainties and acquisitions of other companies.

In determining our net deferred tax assets and valuation allowances, annualized effective tax rates and cash paid for income taxes, management is required to make judgments and estimates about domestic and foreign profitability, the timing and extent of the utilization of net operating loss carryforwards, applicable tax rates, transfer pricing methodologies and tax planning strategies. Judgments and estimates related to our projections and assumptions are inherently uncertain; therefore, actual results could differ materially from our projections.

We have recorded certain tax reserves to address potential exposures involving our income tax and sales and use tax positions. These potential tax liabilities result from the varying application of statutes, rules, regulations and interpretations by different taxing jurisdictions. Our estimate of the value of these tax reserves reflects assumptions based on past experiences and judgments about the interpretation of statutes, rules and regulations by taxing jurisdictions. It is possible that the ultimate tax liability or benefit from these matters may be materially greater or less than the amount that we have estimated.

## Non-GAAP Financial Measures

In addition to providing financial measurements based on GAAP, we publicly discuss additional financial measures that are not prepared in accordance with GAAP, or non-GAAP financial measures. Management uses non-GAAP financial measures, in addition to GAAP financial measures, to understand and compare operating results across accounting periods, for financial and operational decision making, for planning and forecasting purposes and to evaluate our financial performance. These non-GAAP financial measures are: non-GAAP income from operations,



non-GAAP operating margin, non-GAAP net income, non-GAAP net income per diluted share, Adjusted EBITDA, Adjusted EBITDA margin and impact of foreign currency exchange rates, as discussed below.

Management believes that these non-GAAP financial measures reflect our ongoing business in a manner that allows for meaningful comparisons and analysis of trends in the business, as they exclude expenses and gains that may be infrequent, unusual in nature or not reflective of our ongoing operating results. Management also believes that these non-GAAP financial measures enable investors to evaluate our operating results and future prospects in the same manner as management. These non-GAAP financial measures may also facilitate comparing financial results across accounting periods and to those of peer companies.

## Table of Contents

The non-GAAP financial measures do not replace the presentation of our GAAP financial measures and should only be used as a supplement to, not as a substitute for, our financial results presented in accordance with GAAP.

The non-GAAP adjustments, and our basis for excluding them from non-GAAP financial measures, are outlined below:

**Amortization of acquired intangible assets** – We have incurred amortization of intangible assets, included in our GAAP financial statements, related to various acquisitions we made. The amount of an acquisition's purchase price allocated to intangible assets and term of its related amortization can vary significantly and are unique to each acquisition; therefore, we exclude amortization of acquired intangible assets from our non-GAAP financial measures to provide investors with a consistent basis for comparing pre- and post-acquisition operating results.

**Stock-based compensation and amortization of capitalized stock-based compensation** – Although stock-based compensation is an important aspect of the compensation paid to our employees, the grant date fair value varies based on the stock price at the time of grant, varying valuation methodologies, subjective assumptions and the variety of award types. This makes the comparison of our current financial results to previous and future periods difficult to interpret; therefore, we believe it is useful to exclude stock-based compensation and amortization of capitalized stock-based compensation from our non-GAAP financial measures in order to highlight the performance of our core business and to be consistent with the way many investors evaluate our performance and compare our operating results to peer companies.

**Acquisition-related costs** – Acquisition-related costs include transaction fees, due diligence costs and other direct costs associated with strategic activities. In addition, subsequent adjustments to our initial estimated amounts of contingent consideration and indemnification associated with specific acquisitions are included within acquisition-related costs. These amounts are impacted by the timing and size of the acquisitions. We exclude acquisition-related costs from our non-GAAP financial measures to provide a useful comparison of our operating results to prior periods and to our peer companies because such amounts vary significantly based on the magnitude of our acquisition transactions.

**Restructuring charges** – We have incurred restructuring charges that are included in our GAAP financial statements, primarily related to workforce reductions and estimated costs of exiting facility lease commitments. We exclude these items from our non-GAAP financial measures when evaluating our continuing business performance as such items vary significantly based on the magnitude of the restructuring action and do not reflect expected future operating expenses. In addition, these charges do not necessarily provide meaningful insight into the fundamentals of current or past operations of our business.

**Amortization of debt discount and issuance costs and amortization of capitalized interest expense** – In February 2014, we issued \$690 million of convertible senior notes due 2019 with a coupon interest rate of 0%. The imputed interest rate of the convertible senior notes was approximately 3.2%. This is a result of the debt discount recorded for the conversion feature that is required to be separately accounted for as equity under GAAP, thereby reducing the carrying value of the convertible debt instrument. The debt discount is amortized as interest expense together with the issuance costs of the debt. All of our interest expense is comprised of these non-cash components and is excluded from management's assessment of our operating performance because management believes the non-cash expense is not indicative of ongoing operating performance.

**Loss on investments and legal matters** – We have incurred losses from the impairment of certain investments and the settlement of legal matters. In addition, we have incurred costs with respect to our internal investigation related to sales practices in a country outside of the U.S. We believe excluding these amounts from our non-GAAP financial measures is useful to investors as the types of events giving rise to them occur infrequently and are not representative of our core business operations.

Income tax effect of non-GAAP adjustments and certain discrete tax items – The non-GAAP adjustments described above are reported on a pre-tax basis. The income tax effect of non-GAAP adjustments is the difference between GAAP and non-GAAP income tax expense. Non-GAAP income tax expense is computed on non-GAAP pre-tax income (GAAP pre-tax income adjusted for non-GAAP adjustments) and excludes certain discrete tax items (such as recording or release of valuation allowances), if any. We believe that applying the non-GAAP adjustments and their related income tax effect allows us to highlight income attributable to our core operations.

Table of Contents

The following table reconciles GAAP income from operations to non-GAAP income from operations and non-GAAP operating margin for the periods presented (in thousands):

	For the Three Months Ended March 31,		
	2016	2015	
Income from operations	\$114,119	\$121,521	
Amortization of acquired intangible assets	6,716	6,780	
Stock-based compensation	31,741	29,669	
Amortization of capitalized stock-based compensation and capitalized interest expense	3,608	3,108	
Restructuring charges	6,818	42	
Acquisition-related (benefits) costs	(79 )	395	
Legal matter costs	789	1,272	
Non-GAAP income from operations	\$163,712	\$162,787	
GAAP operating margin	20	% 23	%
Non-GAAP operating margin	29	% 31	%

The following table reconciles GAAP net income to non-GAAP net income and non-GAAP net income per diluted share for the periods presented (in thousands, except per share data):

	For the Three Months Ended March 31,		
	2016	2015	
Net income	\$74,858	\$77,746	
Amortization of acquired intangible assets	6,716	6,780	
Stock-based compensation	31,741	29,669	
Amortization of capitalized stock-based compensation and capitalized interest expense	3,608	3,108	
Restructuring charges	6,818	42	
Acquisition-related (benefits) costs	(79 )	395	
Legal matter costs	789	1,272	
Amortization of debt discount and issuance costs	4,653	4,576	
Loss on investments	—	25	
Income tax effect of above non-GAAP adjustments and certain discrete tax items	(11,323 )	(12,437 )	
Non-GAAP net income	\$117,781	\$111,176	
GAAP net income per diluted share	\$0.42	\$0.43	
Non-GAAP net income per diluted share	\$0.66	\$0.61	
Shares used in diluted per share calculations	177,539	180,825	

Non-GAAP net income per diluted share is calculated as non-GAAP net income divided by diluted weighted average common shares outstanding. GAAP diluted weighted average shares outstanding are adjusted in non-GAAP per share calculations for the shares that would be delivered to us pursuant to the note hedge transactions entered into in connection with the issuance of \$690.0 million in par value of convertible senior notes due 2019. Under GAAP, shares delivered under hedge transactions are not considered offsetting shares in the fully-diluted share calculation until they are delivered. However, we would receive a benefit from the note hedge transactions and would not allow the dilution to occur, so management believes that adjusting for this benefit provides a meaningful view of net income per share. Unless and until our weighted average stock price is greater than \$89.56, the initial conversion price, there will be no difference between our GAAP and non-GAAP diluted weighted average common shares outstanding.



Table of Contents

We consider Adjusted EBITDA to be another important indicator of the operational strength and performance of our business and a good measure of our historical operating trends. Adjusted EBITDA eliminates items that are either not part of our core operations or do not require a cash outlay. We define Adjusted EBITDA as GAAP net income excluding the following items: interest income; income taxes; depreciation and amortization of tangible and intangible assets; stock-based compensation; amortization of capitalized stock-based compensation; acquisition-related (benefits) costs; restructuring charges; benefit from adoption of software development activities; gains and other activity related to divestiture of a business; gains and losses on legal settlements; costs incurred with respect to our internal investigation relating to sales practices in a country outside the U.S.; foreign exchange gains and losses; loss on early extinguishment of debt; amortization of debt discount and issuance costs; amortization of capitalized interest expense; certain gains and losses on investments; and other non-recurring or unusual items that may arise from time to time. Adjusted EBITDA margin represents Adjusted EBITDA stated as a percentage of revenue.

The following table reconciles GAAP net income to Adjusted EBITDA and Adjusted EBITDA margin for the periods presented (in thousands):

	For the Three Months Ended March 31,	
	2016	2015
Net income	\$74,858	\$77,746
Amortization of acquired intangible assets	6,716	6,780
Stock-based compensation	31,741	29,669
Amortization of capitalized stock-based compensation and capitalized interest expense	3,608	3,108
Restructuring charges	6,818	42
Acquisition-related (benefits) costs	(79	) 395
Legal matter costs	789	1,272
Interest income	(3,320	) (3,001
Amortization of debt discount and issuance costs	4,653	4,576
Provision for income taxes	37,739	41,899
Depreciation and amortization	70,345	60,572
Other expense, net	189	301
Adjusted EBITDA	\$234,057	\$223,359
Adjusted EBITDA margin	41	% 42
		%

## Impact of Foreign Currency Exchange Rates

Revenue and earnings from our international operations have historically been an important contributor to our financial results. Consequently, our financial results have been impacted, and management expects they will continue to be impacted, by fluctuations in foreign currency exchange rates. For example, when the local currencies of our foreign subsidiaries weaken, our consolidated results stated in U.S. dollars are negatively impacted.

Because exchange rates are a meaningful factor in understanding period-to-period comparisons, management believes the presentation of the impact of foreign currency exchange rates on revenue and earnings enhances the understanding of our financial results and evaluation of performance in comparison to prior periods. The dollar impact of changes in foreign currency exchange rates presented is calculated by translating current period results using monthly average foreign currency exchange rates from the comparative period and comparing them to the reported amount. The percentage change at constant currency presented is calculated by comparing the prior period amounts as reported and the current period amounts translated using the same monthly average foreign currency exchange rates from the comparative period.

Liquidity and Capital Resources

To date, we have financed our operations primarily through public and private sales of debt and equity securities and cash generated by operations. As of March 31, 2016, our cash, cash equivalents and marketable securities, which consisted primarily of corporate bonds and U.S. government agency securities, totaled \$1.5 billion. Factoring in our convertible senior notes, our net cash is \$833.2 million. We place our cash investments in instruments that meet high-quality credit standards, as

Table of Contents

specified in our investment policy. Our investment policy also limits the amount of our credit exposure to any one issue or issuer and seeks to manage these assets to achieve our goals of preserving principal and maintaining adequate liquidity at all times.

Changes in cash, cash equivalents and marketable securities are dependent upon changes in, among other things, working capital items such as deferred revenues, accounts payable, accounts receivable and various accrued expenses, as well as changes in our capital and financial structure due to common stock repurchases, debt repurchases and issuances, stock option exercises, purchases and sales of marketable securities and similar events. We believe our strong balance sheet and cash position are important competitive differentiators that provide the financial flexibility necessary to make investments at opportune times. We expect to continue to evaluate strategic investments to strengthen our business on an ongoing basis.

As of March 31, 2016, we had cash and cash equivalents of \$200.0 million held in accounts outside the U.S. An immaterial amount of these funds would be subject to U.S. federal taxation if repatriated, with such tax liability partially offset by foreign tax credits. The remainder of our cash and cash equivalents held outside the U.S. are subject to, or offset by, intercompany obligations to our parent company in the U.S. and, therefore, are not subject to U.S. federal taxation. As a result, our liquidity is not materially impacted by the amount of cash and cash equivalents held in accounts outside the U.S.

## Cash Provided by Operating Activities

(in thousands)	For the Three Months Ended March 31,	
	2016	2015
Net income	\$74,858	\$77,746
Non-cash reconciling items included in net income	119,752	100,325
Changes in operating assets and liabilities	(4,372 )	(78,342 )
Net cash flows provided by operating activities	\$190,238	\$99,729

The increase in cash provided by operating activities for the three-month period ended March 31, 2016, as compared to the same period in 2015, was primarily due to strong cash collection from customers and also lower commissions and annual bonus payments due to lower attainment.

## Cash (Used in) Provided by Investing Activities

(in thousands)	For the Three Months Ended March 31,	
	2016	2015
Cash paid for acquired businesses, net of cash acquired	\$—	\$(16,062)
Purchases of property and equipment and capitalization of internal-use software development costs	(82,340 )	(137,069 )
Net marketable securities activity	29,266	210,351
Other investing activity	(2,354 )	(82 )
Net cash (used in) provided by investing activities	\$(55,428)	\$57,138

The change in cash (used in) provided by investing activities partially relates to the acquisition of Xerocolle, Inc. during the three-month period ended March 31, 2015, with no corresponding acquisition in the three-month period



ended March 31, 2016. Net marketable securities activity also contributed to the change. During the three months ended March 31, 2016, we reinvested the majority of the proceeds from maturities of our marketable securities, as compared to the three months ended March 31, 2015, where we did not reinvest a portion of our proceeds in order to fund the acquisition of Codemate ApS, which occurred in April 2015. The increase in cash used in investing activities was partially offset by a decrease in purchases of property and equipment during the three-month period ended March 31, 2016, as compared to the same period in 2015, as we moderated investment in our network.

Table of Contents

During the three-month period ended March 31, 2015, we completed large planned investments in our network infrastructure to support the continued growth of our customer base and expected increases in traffic growth. Additionally, during the three-month period ended March 31, 2015, we expanded our facilities footprint and company infrastructure in support of growth in our engineering operations and go-to market strategy.

## Cash Used in Financing Activities

(in thousands)	For the Three Months Ended March 31,	
	2016	2015
Activity related to stock-based compensation	\$(7,011 )	\$6,467
Repurchases of common stock	(108,725 )	(62,680 )
Net cash used in financing activities	\$(115,736)	\$(56,213)

The increase in cash used in financing activities during the three-month period ended March 31, 2016, as compared to the same period in 2015, was primarily the result of increased share repurchases.

In October 2013, the Board of Directors authorized a \$750.0 million share repurchase program, effective from October 16, 2013 through December 31, 2016. In February 2016, the Board of Directors authorized a new \$1.0 billion share repurchase program that superseded the October 2013 repurchase program and is effective from February 11, 2016 through December 31, 2018. The goal of the repurchase program is both to offset dilution from our equity compensation plans and to provide the flexibility to increase return of capital to shareholders as business and market conditions warrant.

During the three-month period ended March 31, 2016, we repurchased 2.2 million shares of common stock at a weighted average price of \$48.97 per share for an aggregate of \$108.7 million. During the three-month period ended March 31, 2015, we repurchased 0.9 million shares of common stock at a weighted average price of \$67.24 per share for an aggregate of \$62.7 million. The timing and amount of any future share repurchases will be determined by our management based on its evaluation of market conditions and other factors.

## Convertible Senior Notes

In February 2014, we issued \$690.0 million in par value of convertible senior notes due 2019 and entered into related convertible note hedge and warrant transactions. The terms of the notes, hedge and warrant transactions are discussed more fully in Note 5 to the consolidated financial statements included elsewhere in this quarterly report on Form 10-Q. We intend to use the net proceeds of the offering for share repurchases, working capital and general corporate purposes, including potential additional acquisitions and other strategic transactions.

## Liquidity Outlook

We believe, based on our present business plan, that our current cash, cash equivalents and marketable securities balances and our forecasted cash flows from operations will be sufficient to meet our foreseeable cash needs for at least the next 12 months. Our foreseeable cash needs, in addition to our recurring operating costs, include our planned capital expenditures, investments in information technology and facility expansion, as well as anticipated share repurchases, lease and purchase commitments and settlements of other long-term liabilities.

## Contractual Obligations

Our principal commitments consist of obligations under leases for office space, service agreements with co-location facilities for data center capacity and bandwidth usage and open vendor purchase orders. Our minimum commitments related to bandwidth usage and co-location services may vary from period to period depending on the timing and length of contract renewals with our service providers. As of March 31, 2016, there have been no significant changes in our future non-cancelable minimum payments under these commitments from those reported in our annual report on Form 10-K for the year ended December 31, 2015, other than normal period-to-period variations.

## Table of Contents

### Off-Balance Sheet Arrangements

We have entered into indemnification agreements with third parties, including vendors, customers, landlords, our officers and directors, shareholders of acquired companies, joint venture partners and third parties to which we license technology. Generally, these indemnification agreements require us to reimburse losses suffered by a third party due to various events, such as lawsuits arising from patent or copyright infringement or our negligence. These indemnification obligations are considered off-balance sheet arrangements in accordance with the authoritative guidance for guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others. See also Note 10 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2015 for further discussion of these indemnification agreements. The fair value of guarantees issued or modified during the three months ended March 31, 2016 was determined to be immaterial.

As of March 31, 2016, we did not have any additional material off-balance sheet arrangements.

### Legal Matters

We are party to various litigation matters that management considers routine and incidental to our business. Management does not expect the results of any of these routine actions to have a material effect on our business, results of operations, financial condition or cash flows.

As first disclosed in our annual report on Form 10-K for the year ended December 31, 2014 filed with the Commission on March 2, 2015, we are conducting an internal investigation, with the assistance of outside counsel, relating to sales practices in a country outside the U.S. that represented less than 1% of our revenue during the three months ended March 31, 2016 and in each of the years ended December 31, 2015, 2014 and 2013. The internal investigation includes a review of compliance with the requirements of the U.S. Foreign Corrupt Practices Act and other applicable laws and regulations by employees in that market. In February 2015, we voluntarily contacted the Commission and Department of Justice to advise both agencies of this internal investigation. We are cooperating with those agencies. As of the filing of these financial statements, we cannot predict the outcome of this matter. During the first quarter of 2016, we recorded an immaterial provision in our consolidated financial statements reflecting amounts we expect we will be required to disgorge in connection with this matter.

### Newly-Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board, or FASB, issued updated guidance to simplify the presentation of debt issuance costs on the balance sheet. This guidance moved debt issuance costs from the assets section of the balance sheet to the liabilities section as a direct deduction from the carrying amount of the debt issued. We retrospectively adopted the guidance on January 1, 2016. The prior period consolidated balance sheet presented, as of December 31, 2015, was revised to reclassify \$6.2 million of debt issuance costs included in other assets to convertible senior notes. This had the impact of reducing total assets and total liabilities by \$6.2 million, as of December 31, 2015. The revision had no impact on our results of operations, financial position or cash flows.

In September 2015, the FASB issued updated guidance that eliminates the requirement to restate prior period financial statements for measurement period adjustments. In an effort to reduce complexity in financial reporting, the new guidance requires that the cumulative impact of a measurement period adjustment, including the impact on prior periods, be recognized in the reporting period in which the adjustment is identified. The standard was effective for and adopted by us on January 1, 2016. This guidance did not have an impact on our results of operations, financial condition or cash flows as the measurement periods for our 2015 acquisitions were closed as of December 31, 2015.

Recent Accounting Pronouncements

In May 2014, the FASB issued updated guidance and disclosure requirements for recognizing revenue. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard will be effective for us on January 1, 2018, and may be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are evaluating the potential impact of adopting this new accounting guidance.

## Table of Contents

In February 2016, the FASB issued guidance that requires companies to present assets and liabilities arising from leases on the consolidated balance sheets. This new standard establishes a right-of-use model that requires a lessee to record a right-of-use asset and a corresponding lease liability on the consolidated balance sheets for all leases with terms longer than 12 months. This standard will be effective for us on January 1, 2019, and is to be applied using a modified retrospective approach. Early adoption is permitted. We are evaluating the potential impact of adopting this new accounting guidance.

In March 2016, the FASB issued guidance that is intended to simplify aspects of how share-based payments are accounted for and presented in the financial statements. This guidance requires that entities record all tax effects of share-based payments at settlement or expiration through the income statement. The standard also amends how windfall tax benefits are recognized, minimum statutory tax withholding requirements and how entities elect to recognize share-based payment forfeitures. This guidance will be effective for us on January 1, 2017 and portions will be required to be applied on a retrospective or modified retrospective basis. Early adoption is permitted. We are evaluating the potential impact of adopting this new accounting guidance.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

#### Interest Rate Risk

Our portfolio of cash equivalents and short- and long-term investments is maintained in a variety of securities, including U.S. government agency obligations, high-quality corporate debt securities, commercial paper, mutual funds and money market funds. The majority of our investments are classified as available-for-sale securities and carried at fair market value with cumulative unrealized gains or losses recorded as a component of accumulated other comprehensive loss within stockholders' equity. A sharp rise in interest rates could have an adverse impact on the fair market value of certain securities in our portfolio. We do not currently hedge our interest rate exposure and do not enter into financial instruments for trading or speculative purposes.

#### Foreign Currency Risk

Growth in our international operations will incrementally increase our exposure to foreign currency fluctuations as well as other risks typical of international operations that could impact our business, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures and other regulations and restrictions.

#### Transaction Exposure

Foreign exchange rate fluctuations may adversely impact our consolidated results of operations as exchange rate fluctuations on transactions denominated in currencies other than our functional currencies result in gains and losses that are reflected in our consolidated statements of income. We enter into short-term foreign currency forward contracts to offset foreign exchange gains and losses generated by the re-measurement of certain assets and liabilities recorded in non-functional currencies. Changes in the fair value of these derivatives, as well as re-measurement gains and losses, are recognized in our statements of income within other expense, net. Foreign currency transaction gains and losses from these forward contracts were determined to be immaterial during the three months ended March 31, 2016. We do not enter into derivative financial instruments for trading or speculative purposes.

#### Translation Exposure

To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency-denominated transactions will result in increased revenue and decreased operating expenses. Conversely, our

revenue will decrease and our operating expenses will increase when the U.S. dollar strengthens against foreign currencies.

Foreign exchange rate fluctuations may also adversely impact our consolidated financial condition as the assets and liabilities of our foreign operations are translated into U.S. dollars in preparing our consolidated balance sheet. These gains or losses are recorded as a component of accumulated other comprehensive loss within stockholders' equity.

## Table of Contents

### Credit Risk

Concentrations of credit risk with respect to accounts receivable are limited to certain customers to which we make substantial sales. Our customer base consists of a large number of geographically dispersed customers diversified across numerous industries. We believe that our accounts receivable credit risk exposure is limited. As of March 31, 2016 and December 31, 2015, no customer had an accounts receivable balance of 10% or more of our accounts receivable. We believe that at March 31, 2016, the concentration of credit risk related to accounts receivable was insignificant.

### Item 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2016. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2016, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended March 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

We are party to litigation that we consider routine and incidental to our business. We do not currently expect the results of any of these litigation matters to have a material effect on our business, results of operations, financial condition or cash flows.

### Item 1A. Risk Factors

The following are important factors that could cause our actual operating results to differ materially from those indicated or suggested by forward-looking statements made in this quarterly report on Form 10-Q or presented elsewhere by management from time to time. We have not made any material changes to the risk factors previously disclosed in our annual report on Form 10-K for the year ended December 31, 2015.

If we do not continue to innovate and develop solutions and technologies that are useful for our customers or that improve our operating efficiencies, our operating results may suffer.



We have been in business for more than 17 years and consider ourselves pioneers in the development of content and application delivery solutions. As the information technology industry evolves, however, it may become increasingly difficult for us to maintain a technological advantage. In particular, our traditional offerings risk becoming commoditized as competitors or even current or former customers seek to replicate them such that we must lower the prices we charge, reducing the profitability of such offerings, or risk losing such business. We believe, therefore, that developing innovative, high-margin solutions is key to our revenue growth and profitability. We must do so in a rapidly-changing technology environment where it can be difficult to anticipate the needs of potential customers and where competitors may develop products and services that are, or may be viewed as, better than ours. The process of developing new solutions is complex and uncertain; we must commit significant resources to developing new services or features without knowing whether our investments will result in services the market will accept. This could cause our expenses to grow more rapidly than our revenue. Furthermore, we may not successfully execute our technology initiatives because of errors in planning, timing or execution, technical or operational hurdles that we fail to overcome in a timely fashion, misunderstandings about market demand or a lack of appropriate resources. Failure to adequately develop, on a cost-effective basis, innovative new or enhanced solutions that are attractive to customers and to keep pace with rapid technological and market changes could have a material effect on our business, results of operations, financial condition and cash flows.

Slower traffic growth on our network and numerous other factors could cause our revenue growth rate to slow and profitability to decline.

We base our decisions about expense levels and investments on estimates of our future revenue and future anticipated rate of growth. Many of our expenses are fixed cost in nature for some minimum amount of time, such as with co-location and bandwidth providers, so it may not be possible to reduce costs in a timely manner or without the payment of fees to exit certain obligations early. If we experience slower traffic growth on our network than we expect or than we have experienced in recent years, our revenue growth rate will slow, and we may not be able to maintain our current level of profitability in 2016 or on a quarterly or annual basis thereafter. Numerous factors can impact traffic growth including:

- decisions by our media customers to delay introduction of over the top (OTT) video delivery initiatives;
- customers, particularly larger media customers, implementing their own data centers and delivery approaches to limit their reliance on third party providers like us; and
- macro-economic market and industry pressures.

Our revenue growth rate may slow and profitability may decline in future periods as a result of a number of other factors unrelated to traffic growth, including:

- inability to increase sales of our core services and advanced features;
- increased headcount expenses;
- changes in our customers' business models that we do not fully anticipate or that we fail to address adequately; and
- increased reliance by customers on our secure socket layer, or SSL, network which is more expensive to maintain and operate.

Table of Contents

The information technology industry and the markets in which we compete are constantly evolving, which makes our future business strategies, practices and results difficult to predict.

The information technology industry and the markets in which we compete have grown rapidly over the life of our company and continue to evolve in response to new technological advances, changing business models and other factors. We and the other companies that compete in this industry and these markets experience continually shifting business relationships, commercial focuses and business priorities, all of which occur in reaction to industry and market forces and the emergence of new opportunities. These shifts have led or could lead to:

- our customers or partners becoming our competitors;
- our network suppliers becoming partners with us or, conversely, no longer seeking to work with us;
- our working more closely with hardware providers;
- large technology companies that previously did not appear to show interest in the markets we seek to address entering into those markets as competitors; and
- needing to expand into new lines of business or to change or abandon existing strategies.

As a result of this constantly changing environment, our future business strategies, practices and results may be difficult to predict, and we may face operational difficulties in adjusting to the changes.

Our technological approach to addressing the challenges of conducting business over the Internet may not be adequate or cost effective to handle evolving market forces.

We believe that the Internet has the potential to experience dramatic growth in the future. For example, only a minority of individuals watch television over the Internet now, but many predict that the Internet will become the dominant medium for delivery of video content in the future. In addition, the use of mobile devices has increased rapidly in recent years and is expected to continue to grow in the future. There could develop an inflection point above which global usage of the Internet increases to a level that our current approaches to the delivery of content and applications may not be sustainable at current levels of profitability or at all. It is expensive to deploy dedicated servers in data centers around the world; therefore, that approach of deploying at the "edge" of the Internet may be inadequate to fully address our customers' evolving needs or we may no longer be able to maintain our current approach to delivery. If we are unable to develop or acquire scalable new technologies to address the expected growth and other changes we expect, our business and financial statements may suffer.

If we are unable to compete effectively, our business will be adversely affected.

We compete in markets that are intensely competitive and rapidly changing. Our current and potential competitors vary by size, product and service offerings and geographic region and range from start-ups that offer solutions competing with a discrete part of our business to large technology or telecommunications companies that offer, or may be planning to introduce, products and services that are broadly competitive with what we do. The primary competitive factors in our market are: excellence of technology, global presence, customer service, technical expertise, security, ease-of-use, breadth of services offered, price and financial strength. Competitors include some of our current partners and customers.

Many of our current and potential competitors have substantially greater financial, technical and marketing resources, larger customer bases, longer operating histories, greater brand recognition and more established relationships in the industry than we do. As a result, some of these competitors may be able to:

- develop superior products or services, gain greater market acceptance, and expand their service offerings more efficiently or more rapidly;

- adapt to new or emerging technologies and changes in customer requirements more quickly;
- take advantage of acquisition and other opportunities more readily;
- adopt more aggressive pricing policies and allocate greater resources to the promotion, marketing, and sales of their services; and
- dedicate greater resources to the research and development of their products and services.

Smaller and more nimble competitors may be able to:

- attract customers by offering less-sophisticated versions of services than we provide at lower prices than those we charge;
- develop new business models that are disruptive to us; and

Table of Contents

respond more quickly than we can to new or emerging technologies, changes in customer requirements and market and industry developments, resulting in superior offerings.

Existing and potential customers may not purchase our services, or may limit their use of them, because they:

- pursue a "do-it-yourself" approach by putting in place equipment, software and other technology solutions for content and application delivery within their internal systems;
- enter into relationships directly with network providers instead of relying on an overlay network like ours; or
- implement multi-vendor policies to reduce reliance on external providers like us.

Ultimately, increased competition of all types could result in price and revenue reductions, loss of customers and loss of market share, each of which could materially impact our business, profitability, financial condition, results of operations and cash flows.

Our operating results can be impacted by the actions and business life cycles of a small number of large customers.

Historically, our operating results have been subject to fluctuations related to dependence on several large customers, particularly media companies, for a significant portion of our revenues. The amount of traffic we deliver on behalf of those customers can vary significantly based on decisions they make about their businesses, including whether to start or delay new business initiatives, build out their own networks to handle delivery, or implement or maintain multiple vendor strategies. These approaches can change rapidly and unpredictably. While we believe that we will be less reliant on individual customers in the future, we are likely to continue to face some uncertainty in forecasting our revenues from quarter to quarter or over longer periods related to these customers and could also experience inconsistent revenue growth patterns and earnings.

We may be unable to replace lost revenue due to customer cancellations, renewals at lower rates or other less favorable terms.

It is key to our profitability that we offset lost committed recurring revenue due to customer cancellations, terminations, price reductions or other less favorable terms by adding new customers and increasing the number of high-margin services, features and functionalities that our existing customers purchase. We cannot predict our renewal rates. Some customers may elect not to renew and others may renew at lower prices, lower committed traffic levels, or for shorter contract lengths. Historically, a significant percentage of our renewals, particularly with larger customers, has led to unit price declines as competition has increased and the market for certain parts of our business has matured. Our renewal rates may decline as a result of a number of factors, including competitive pressures, customer dissatisfaction with our services, customers' inability to continue their operations and spending levels, the impact of multi-vendor policies, customers implementing or increasing their use of in-house technology solutions and general economic conditions. In addition, our customer contracting models may change to move away from a committed revenue structure to a "pay-as-you-go" approach. The absence of a commitment would make it easier for customers to stop doing business with us, which would negatively impact revenue.

Security breaches and other unplanned interruptions in the functioning of our network or services could lead to significant costs and disruptions that could harm our business, financial results and reputation.

Our business is dependent on providing our customers with fast, efficient and reliable distribution of applications and content over the Internet. We transmit and store our customers' information and data as well as our own. Maintaining the security and availability of our services, network and internal IT systems is a critical issue for us and our customers. The costs to us to avoid or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities are significant, and our efforts to address these problems may not be

successful and could result in interruptions, delays, cessation of service, loss of existing or potential customers, liability to third parties and regulatory sanctions. As we expand our emphasis on selling security-related solutions, we may become a more attractive target for attacks on our infrastructure intended to steal information about our technology, financial data or customer information or take other actions that would be damaging to our customers and us. Our network or services could also be disrupted by numerous other events, including failure or refusal of our third party network providers to provide the necessary capacity, natural disasters, power losses and human error. Any significant breach of our security measures or other disruptions to our network or IT systems would threaten our ability to provide our customers with fast, efficient and reliable distribution of applications and content over the Internet, would harm our reputation and could lead to customer credits, loss of customers, higher expenses and increased legal liability.

## Table of Contents

Acquisitions and other strategic transactions we complete could result in operating difficulties, dilution, diversion of management attention and other harmful consequences that may adversely impact our business and results of operations.

Acquisitions are an important part of our corporate strategy. We may also enter into other types of strategic relationships that involve technology sharing or close cooperation with other companies. Acquisitions and other complex transactions are accompanied by a number of risks, including the following:

- difficulty integrating the operations and personnel of acquired companies;
- potential disruption of our ongoing business;
- potential distraction of management;
- diversion of business resources from core operations;
- expenses related to the transactions;
- failure to realize synergies or other expected benefits;
- increased accounting charges such as impairment of goodwill or intangible assets, amortization of intangible assets acquired and a reduction in the useful lives of intangible assets acquired; and
- potential unknown liabilities associated with acquired businesses.

Any inability to integrate completed acquisitions or combinations in an efficient and timely manner could have an adverse impact on our results of operations. As we complete acquisitions, we may encounter difficulty in incorporating acquired technologies into our offerings while maintaining the quality standards that are consistent with our brand and reputation. If we are not successful in completing acquisitions or other strategic transactions that we may pursue in the future, we may incur substantial expenses and devote significant management time and resources without a successful result. Future acquisitions could require use of substantial portions of our available cash or result in dilutive issuances of securities. Technology sharing or other strategic relationships we enter into may give rise to disputes over intellectual property ownership, operational responsibilities and other significant matters. Such disputes may be expensive and time-consuming to resolve.

Our failure to effectively manage our operations as our business evolves could harm us.

Our future operating results will depend on our ability to manage our operations. As a result of the diversification of our business, personnel growth, acquisitions and international expansion in recent years, many of our employees are now based outside of our Cambridge, Massachusetts headquarters; however, most key management decisions are made by a relatively small group of individuals based primarily at our headquarters. If we are unable to appropriately increase management depth, enhance succession planning and decentralize our decision-making at a pace commensurate with our actual or desired growth rates, we may not be able to achieve our financial or operational goals. It is also important to our continued success that we hire qualified employees, properly train them and manage out poorly-performing personnel, all while maintaining our corporate culture and spirit of innovation. If we are not successful at these efforts, our growth and operations could be adversely affected.

In April 2016, we implemented a realignment of our products and development and global sales, channels and marketing organizations into new groups focused on our Media, Web and Enterprise & Carrier customers and solutions. Our goal is to improve alignment between customer feedback and product innovation, making Akamai easier to do business with and increasing productivity. Structural changes like these can be distracting to management and the rest of the employee base, and we may not ultimately realize the intended benefits, even after incurring expenses in carrying out the realignment.

As our business evolves, we must also expand and adapt our IT and operational infrastructure. Our business relies on our data systems, billing systems and other operational and financial reporting and control systems. All of these

systems have become increasingly complex due to the diversification and complexity of our business, acquisitions of new businesses with different systems and increased regulation over controls and procedures. To manage our technical support infrastructure effectively and improve our sales efficiency, we will need to continue to upgrade and improve our data systems, billing systems, ordering processes and other operational and financial systems, procedures and controls. These upgrades and improvements may be difficult and costly. If we are unable to adapt our systems and organization in a timely, efficient and cost-effective manner to accommodate changing circumstances, our business may be adversely affected. If the third parties we rely on for hosted data solutions for our internal network and information systems are subject to a security breach or otherwise suffer disruptions that impact the services we utilize, the integrity and availability of our internal information could be compromised causing the loss of confidential or proprietary information, damage to our reputation and economic loss.

## Table of Contents

If we are unable to retain our key employees and hire and retain qualified sales, technical, marketing and support personnel, our ability to compete could be harmed.

Our future success depends upon the services of our executive officers and other key technology, sales, marketing and support personnel who have critical industry experience and relationships. There is significant competition for talented individuals in the regions in which our primary offices are located, which affects both our ability to retain key employees and hire new ones. In making employment decisions, particularly in our industry, job candidates and current personnel often consider the value of stock-based compensation. Declines in the price of our stock could adversely affect our ability to attract or retain key employees.

None of our officers or key employees is bound by an employment agreement for any specific term. Members of our senior management team have left Akamai over the years for a variety of reasons, and we cannot be certain that there will not be additional departures, which may be disruptive to our operations and detrimental to our future outlook. The loss of the services of any of our key employees or our inability to attract and retain new talent could hinder or delay the implementation of our business model and the development and introduction of, and negatively impact our ability to sell, our services.

Our stock price has been, and may continue to be, volatile, and your investment could lose value.

The market price of our common stock has been volatile. Trading prices may continue to fluctuate in response to a number of events and factors, including the following:

- quarterly variations in operating results;
- slower than expected growth in traffic over our network;
- announcements by our customers related to their businesses that could be viewed as impacting their usage of our solutions;
- introduction of new products, services and strategic developments by us or our competitors;
- market speculation about whether we are a takeover target;
- activism by any single large stockholder or combination of stockholders;
- changes in financial estimates and recommendations by securities analysts;
- failure to meet the expectations of securities analysts;
- purchases or sales of our stock by our officers and directors;
- macro-economic factors;
- repurchases of shares of our common stock;
- performance by other companies in our industry; and
- geopolitical conditions such as acts of terrorism or military conflicts.

Furthermore, our revenue, particularly that portion attributable to usage of our services beyond customer commitments, can be difficult to forecast, and, as a result, our quarterly operating results can fluctuate substantially. This concern is particularly acute with respect to our media and commerce customers for which holiday sales are a key but unpredictable driver of usage of our services. In the future, our customer contracting models may change to move away from a committed revenue structure to a "pay-as-you-go" approach. The absence of a commitment would make it easier for customers to stop doing business with us, which would create additional challenges with our forecasting processes. Because a significant portion of our cost structure is largely fixed in the short-term, revenue shortfalls tend to have a disproportionately negative impact on our profitability. If we announce revenue or profitability results that do not meet or exceed our guidance or make changes in our guidance with respect to future operating results, our stock price may decrease significantly as a result.



Any of these events, as well as other circumstances discussed in these Risk Factors, may cause the price of our common stock to fall. In addition, the stock market in general, and the market prices of stock of publicly-traded technology companies in particular, have experienced significant volatility that often has been unrelated to the operating performance of such companies. These broad stock market fluctuations may adversely affect the market price of our common stock, regardless of our operating performance.

## Table of Contents

We face risks associated with international operations and expansion efforts that could harm our business.

We have operations in numerous foreign countries and may continue to expand our operations internationally. Such expansion could require us to make significant expenditures, which could harm our profitability. We are increasingly subject to a number of risks associated with international business activities that may increase our costs, make our operations less efficient and require significant management attention. These risks include:

- currency exchange rate fluctuations and limitations on the repatriation and investment of funds;
- difficulties in transferring funds from, or converting currencies in, certain countries;
- changes in regulatory requirements that could pose risks to our intellectual property, increase the cost of doing business in a country or create other disadvantages to our business;
- interpretations of laws or regulations that would subject us to regulatory supervision or, in the alternative, require us to exit a country, which could have a negative impact on the quality of our services or our results of operations;
- uncertainty regarding liability for content or services;
- adjusting to different employee/employer relationships and different regulations governing such relationships;
- corporate and personal liability for alleged or actual violations of laws and regulations;
- difficulty in staffing, developing and managing foreign operations as a result of distance, language and cultural differences;
- reliance on channel partners over which we have limited control or influence on a day-to-day basis; and
- potentially adverse tax consequences.

In addition, compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business. These numerous, rapidly-changing and sometimes conflicting laws and regulations include internal control and disclosure rules, data privacy and filtering requirements, anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act, the UK Bribery Act and local laws prohibiting corrupt payments to governmental officials, and antitrust and competition regulations, among others. Violations of these laws and regulations by our employees or partners could result in fines and penalties, criminal sanctions against us, our officers, or our employees, prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries, and could also materially affect our brand, our international expansion efforts, our ability to attract and retain employees, our business, and our financial statements. Although we have implemented policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors or agents will not violate our policies or applicable laws.

In particular, as first disclosed in our annual report on Form 10-K for the year ended December 31, 2014 filed with the Commission on March 2, 2015, we are conducting an internal investigation, with the assistance of outside counsel, relating to sales practices in a country outside the U.S. The investigation includes a review of compliance with the requirements of the U.S. Foreign Corrupt Practices Act and other applicable laws and regulations by employees in that market and could lead to a finding that requires us to pay penalties, which could include substantial fines.

Defects or disruptions in our services could diminish demand for our solutions or subject us to substantial liability.

Our services are highly complex and are designed to be deployed in and across numerous large and complex networks that we do not control. From time to time, we have needed to correct errors and defects in the software that underlies our services and platform that have given rise to service incidents. We have also experienced customer dissatisfaction with the quality of some of our media delivery and other services, which has led to loss of business and could lead to loss of customers in the future. There may be additional errors and defects in our software that may adversely affect our operations. We may not have in place adequate quality assurance procedures to ensure that we detect errors in our software in a timely manner, and we may have insufficient resources to efficiently cope with multiple service

incidents happening simultaneously or in rapid succession. If we are unable to efficiently and cost-effectively fix errors or other problems that may be identified and improve the quality of our services, or if there are unidentified errors that allow persons to improperly access our services, we could experience loss of revenue and market share, damage to our reputation, increased expenses, delayed payments and legal actions by our customers.

We may have insufficient transmission and co-location space, which could result in disruptions to our services and loss of revenue.

Our operations are dependent in part upon transmission capacity provided by third party telecommunications network providers and access to co-location facilities to house our servers. There can be no assurance that we are adequately prepared for unexpected increases in bandwidth demands by our customers. The bandwidth we have contracted to purchase may become

Table of Contents

unavailable for a variety of reasons, including payment disputes, network providers going out of business, networks imposing traffic limits or governments adopting regulations that impact network operations. In some regions, network providers may choose to compete with us and become unwilling to sell us adequate transmission capacity at fair market prices. This risk is heightened where market power is concentrated with one or a few major networks. We also may be unable to move quickly enough to augment capacity to reflect growing traffic demands. Failure to put in place the capacity we require could result in a reduction in, or disruption of, service to our customers and ultimately a loss of those customers. In recent years, it has become increasingly expensive to house our servers at network facilities. We expect this trend to continue. In addition, customers have increasingly elected to transmit their content over our SSL network, which is more costly for us to operate and could require significant additional investment for us. These increased expenses have made, and will make, it more costly for us to expand our operations and more difficult for us to maintain or improve our profitability.

Government regulation is evolving, and unfavorable changes could harm our business.

Laws and regulations that apply to communications and commerce over the Internet are becoming more prevalent. In particular, domestic and foreign government attempts to regulate the operation of the Internet could negatively impact our business. While regulations recently adopted by the U.S. Federal Communications Commission that govern certain aspects of the operation of the Internet (such as content blocking and throttling and paid prioritization) do not apply to content delivery network providers like us, there is no guarantee that future regulatory and legislative initiatives will not impact our business. Furthermore, with more business being conducted over the Internet, there have been calls for more stringent copyright protection, tax, consumer protection, cybersecurity, data localization and content restriction laws, both in the U.S. and abroad, that may impose additional burdens on companies conducting business online or providing Internet-related services such as ours. The adoption of any of these measures could negatively affect both our business directly as well as the businesses of our customers, which could reduce their demand for our services.

We may also be impacted by changes in privacy-related regulations governing the collection, use, retention, sharing and security of data that we receive from our customers, visitors to their websites and others. Complying with a diverse range of privacy requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. In addition, we have a publicly-available privacy policy concerning our collection, use and disclosure of user data. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any privacy-related laws, government regulations or directives, or industry self-regulatory principles could result in damage to our reputation or proceedings or actions against us by governmental entities or others, which could potentially have an adverse effect on our business.

Fluctuations in foreign currency exchange rates affect our operating results in U.S. dollar terms.

An increasing portion of our revenue is derived from international operations. Revenue generated and expenses incurred by our international subsidiaries are often denominated in the currencies of the local countries. As a result, our consolidated U.S. dollar financial statements are subject to fluctuations due to changes in exchange rates as the financial results of our international subsidiaries are translated from local currencies into U.S. dollars. In addition, our financial results are subject to changes in exchange rates that impact the settlement of transactions in non-functional currencies. While we have implemented a foreign currency hedging program to mitigate transactional exposures, there is no guarantee that such program will be fully effective.

We may need to defend against patent or copyright infringement claims, which would cause us to incur substantial costs or limit our ability to use certain technologies in the future.

As we expand our business and develop new technologies, products and services, we may become increasingly subject to intellectual property infringement and other claims, including those that may arise under international laws. In many cases, we have agreed to indemnify our customers and channel and strategic partners if our services infringe or misappropriate specified intellectual property rights; therefore, we could become involved in litigation or claims brought against customers or channel or strategic partners if our services or technology are the subject of such allegations. Any litigation or claims, whether or not valid, brought against us or pursuant to which we indemnify our customers or channel or strategic partners could result in substantial costs and diversion of resources and require us to do one or more of the following:

- cease selling, incorporating or using features, functionalities, products or services that incorporate the challenged intellectual property;
- pay substantial damages and incur significant litigation expenses;

Table of Contents

• obtain a license from the holder of the infringed intellectual property right, which license may not be available on reasonable terms or at all; or  
• redesign products or services.

If we are forced to take any of these actions, our business may be seriously harmed.

Our business will be adversely affected if we are unable to protect our intellectual property rights from unauthorized use or infringement by third parties.

We rely on a combination of patent, copyright, trademark and trade secret laws and contractual restrictions on disclosure to protect our intellectual property rights. These legal protections afford only limited protection. We have previously brought lawsuits against entities that we believed were infringing our intellectual property rights but have not always prevailed. Such lawsuits can be expensive and require a significant amount of attention from our management and technical personnel, and the outcomes are unpredictable. Monitoring unauthorized use of our services is difficult, and we cannot be certain that the steps we have taken or will take will prevent unauthorized use of our technology. We have licensed technology from the Massachusetts Institute of Technology that is covered by various patents and copyrights relating to Internet content delivery technology. Some of our core technology is based in part on the technology covered by these patents, patent applications and copyrights. These patents are scheduled to expire beginning in 2018. As the patents expire, we will no longer have the right to exclude others from practicing the technologies covered by them. Furthermore, we cannot be certain that any pending or future patent applications will be granted, that any future patent will not be challenged, invalidated or circumvented, or that rights granted under any patent that may be issued will provide competitive advantages to us. If we are unable to protect our proprietary rights from unauthorized use, the value of our intellectual property assets may be reduced. Although we have licensed from other parties proprietary technology covered by patents, we cannot be certain that any such patents will not be challenged, invalidated or circumvented. Such licenses may also be non-exclusive, meaning our competition may also be able to access such technology.

We rely on certain “open-source” software the use of which could result in our having to distribute our proprietary software, including our source code, to third parties on unfavorable terms, which could materially affect our business.

Certain of our service offerings use software that is subject to open-source licenses. Open-source code is software that is freely accessible, usable and modifiable. Open-source software may have security flaws and other deficiencies that could make our solutions less reliable and damage our business. Certain open-source code is governed by license agreements, the terms of which could require users of such software to make any derivative works of the software available to others on unfavorable terms or at no cost. Because we use open-source code, we may be required to take remedial action in order to protect our proprietary software. Such action could include replacing certain source code used in our software, discontinuing certain of our products or taking other actions that could be expensive and divert resources away from our development efforts. In addition, the terms relating to disclosure of derivative works in many open-source licenses are unclear. If a court interprets one or more such open-source licenses in a manner that is unfavorable to us, we could be required to make certain of our key software available at no cost.

We may be unsuccessful at developing and maintaining strategic relationships with third parties that expand our distribution channels and increase revenue, which could significantly limit our long-term growth.

Our future success will likely require us to maintain and increase the number and depth of our relationships with resellers, systems integrators, product makers and other strategic partners and to leverage those relationships to expand our distribution channels and increase revenue. The need to develop such relationships can be particularly acute in areas outside of the U.S. We have not always been successful at developing these relationships due to the complexity of our services, our historical reliance on an internal sales force, a past lack of strategic focus on such

arrangements and other factors. Recruiting and retaining qualified channel partners and training them in the use of our technology and services and ensuring that they are compliant with our ethical expectations requires significant time and resources. In order to develop and expand our distribution channel, we must continue to expand and improve our portfolio of solutions as well as the systems, processes and procedures that support our channels. Those systems, processes and procedures may become increasingly complex and difficult to manage. The time and expense required for the sales and marketing organizations of our channel partners to become familiar with our offerings, including our new services developments, may make it more difficult to introduce those products to enterprises. Our failure to maintain and increase the number and quality of relationships with channel partners, and any inability to successfully execute on the partnerships we initiate, could significantly impede our revenue growth prospects in the short and long term.

## Table of Contents

The potential exhaustion of the supply of unallocated IPv4 addresses and the inability of Akamai and other Internet users to successfully transition to IPv6 could harm our operations and the functioning of the Internet as a whole, thereby negatively affecting our business.

An Internet Protocol address, or IP address, is a numerical label that is assigned to any device connecting to the Internet. Today, the functioning of the Internet is dependent on the use of Internet Protocol version 4, or IPv4, the fourth version of the Internet Protocol, which uses 32-bit addresses. We currently rely on the acquisition of IP addresses for the functioning and expansion of our network and expect such reliance to continue in the future. There are, however, only a finite number of IPv4 addresses. The supply of unallocated IPv4 addresses is likely to be exhausted in the near future. Internet Protocol version 6, or IPv6, uses 128-bit addresses and has been designed to succeed IPv4 and alleviate the expected exhaustion of unallocated addresses under that version. While IPv4 and IPv6 will co-exist for some period of time, eventually all Internet users and companies will need to transition to IPv6. There can be no guarantee that the plans we have been developing for the transition to IPv6 will be effective. If we are unable to obtain the IPv4 addresses we need, on financial terms acceptable to us or at all, before we or other entities that rely on the Internet can transition to IPv6, our current and future operations could be materially harmed. If there is not a timely and successful transition to IPv6 by Internet users generally, the Internet could function less effectively, which could damage numerous businesses, the economy generally and the prospects for future growth of the Internet as a medium for transacting business. This could, in turn, be harmful to our financial condition, results of operations and cash flows.

If the accounting estimates we make, and the assumptions on which we rely, in preparing our financial statements prove inaccurate, our actual results may be adversely affected.

Our financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and judgments about, among other things, taxes, revenue recognition, stock-based compensation costs, capitalization of internal-use software development costs, investments, contingent obligations, allowance for doubtful accounts, intangible assets and restructuring charges. These estimates and judgments affect, among other things, the reported amounts of our assets, liabilities, revenue and expenses, the amounts of charges accrued by us, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances and at the time they are made. If our estimates or the assumptions underlying them are not correct, actual results may differ materially from our estimates and we may need to, among other things, accrue additional charges that could adversely affect our results of operations, which in turn could adversely affect our stock price. In addition, new accounting pronouncements and interpretations of accounting pronouncements have occurred and may occur in the future that could adversely affect our reported financial results.

We may have exposure to greater-than-anticipated tax liabilities.

Our future income taxes could be adversely affected by earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, or changes in tax laws, regulations, or accounting principles, as well as certain discrete items such as equity-related compensation. We have recorded certain tax reserves to address potential exposures involving our income tax and sales and use tax positions. These potential tax liabilities result from the varying application of statutes, rules, regulations and interpretations by different jurisdictions. Our reserves, however, may not be adequate to cover our total actual liability. Although we believe our estimates, our reserves and the positions we have taken are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.



If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, our stockholders could lose confidence in our financial reporting, which could harm our business and the trading price of our common stock.

We have complied with Section 404 of the Sarbanes-Oxley Act of 2002 by assessing, strengthening and testing our system of internal controls. Even though we concluded our internal control over financial reporting and disclosure controls and procedures were effective as of the end of the period covered by this report, we need to continue to maintain our processes and systems and adapt them to changes as our business evolves and we rearrange management responsibilities and reorganize our business. This continuous process of maintaining and adapting our internal controls and complying with Section 404 is expensive and time-consuming and requires significant management attention. We cannot be certain that our internal control measures will continue to provide adequate control over our financial processes and reporting and ensure compliance with Section 404. Furthermore, as our business changes, including by expanding our operations in different markets, increasing reliance on channel partners and completing acquisitions, our internal controls may become more complex and we will require

Table of Contents

significantly more resources to ensure our internal controls remain effective. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we or our independent registered public accounting firm identify material weaknesses, the disclosure of that fact, even if quickly remediated, could reduce the market's confidence in our financial statements and harm our stock price.

Any failure to meet our debt obligations would damage our business.

As of March 31, 2016, we had total par value of \$690.0 million of convertible senior notes outstanding. Our ability to refinance the notes, make cash payments in connection with conversions of the notes or repurchase those notes in the event of a fundamental change (as defined in the indenture governing the notes) will depend on market conditions and our future performance, which is subject to economic, financial, competitive and other factors beyond our control. We also may not use the cash we have raised through the issuance of the convertible senior notes in an optimally productive and profitable manner. If we are unable to remain profitable or if we use more cash than we generate in the future, our level of indebtedness at such time could adversely affect our operations by increasing our vulnerability to adverse changes in general economic and industry conditions and by limiting or prohibiting our ability to obtain additional financing for additional capital expenditures, acquisitions and general corporate and other purposes. In addition, if we are unable to make cash payments upon conversion of the notes, we would be required to issue significant amounts of our common stock, which would be dilutive to the stock of existing stockholders. If we do not have sufficient cash to repurchase the notes following a fundamental change we would be in default under the terms of the notes, which could seriously harm our business. In addition, the terms of the notes do not limit the amount of future indebtedness we may incur. If we incur significantly more debt, this could intensify the risks described above.

We may issue additional shares of our common stock or instruments convertible into shares of our common stock and thereby materially and adversely affect the market price of our common stock.

Our Board of Directors has the authority to issue additional shares of our common stock or other instruments convertible into, or exchangeable or exercisable for, shares of our common stock. If we issue additional shares of our common stock or instruments convertible into shares of our common stock, it may materially and adversely affect the market price of our common stock.

Our sales to government clients subject us to risks including early termination, audits, investigations, sanctions and penalties.

We have customer contracts with the U.S. government, as well as foreign, state and local governments and their respective agencies. Such government entities often have the right to terminate these contracts at any time, without cause. There is increased pressure for governments and their agencies, both domestically and internationally, to reduce spending. Most of our government contracts are subject to legislative approval of appropriations to fund the expenditures under these contracts. These factors combine to potentially limit the revenue we derive from government contracts in the future. Additionally, government contracts generally have requirements that are more complex than those found in commercial enterprise agreements and therefore are more costly to comply with. Such contracts are also subject to audits and investigations that could result in civil and criminal penalties and administrative sanctions, including termination of contracts, refund of a portion of fees received, forfeiture of profits, suspension of payments, fines and suspensions or debarment from future government business.

We may become involved in litigation that may adversely impact our business.

From time to time, we are or may become involved in various legal proceedings relating to matters incidental to the ordinary course of our business, including patent, commercial, product liability, employment, class action,

whistleblower and other litigation and claims, and governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources and cause us to incur significant expenses. Furthermore, because such matters are inherently unpredictable, there can be no assurance that the results of any of these matters will not have an adverse impact on our business, results of operations, financial condition, or cash flows.

## Table of Contents

General global market and economic conditions may have an adverse impact on our operating performance, results of operations and cash flows.

Our business has been and could continue to be affected by general global economic and market conditions. To the extent economic conditions impair our customers' ability to profitably monetize the content we deliver on their behalf, they may reduce or eliminate the traffic we deliver for them. Such reductions in traffic would lead to a reduction in our revenue. Additionally, in a down-cycle economic environment, we may experience the negative effects of increased competitive pricing pressure, customer loss, a slow down in commerce over the Internet and corresponding decrease in traffic delivered over our network and failures by customers to pay amounts owed to us on a timely basis or at all. Suppliers on which we rely for servers, bandwidth, co-location and other services could also be negatively impacted by economic conditions that, in turn, could have a negative impact on our operations or expenses. There can be no assurance, therefore, that current economic conditions or worsening economic conditions or a prolonged or recurring recession will not have a significant adverse impact on our operating results.

Global climate change and natural resource conservation regulations could adversely impact our business.

Our deployed network of servers consumes significant energy resources, including those generated by the burning of fossil fuels. In response to concerns about global climate change, governments may adopt new regulations affecting the use of fossil fuels or requiring the use of alternative fuel sources. In addition, our customers and investors may require us to take steps to demonstrate that we are taking ecologically responsible measures in operating our business. The costs and any expenses we incur to make our network more energy efficient could make us less profitable in future periods. Failure to comply with applicable laws and regulations or other requirements imposed on us could lead to fines, lost revenue and damage to our reputation.

Because we do not intend to pay dividends, stockholders will benefit from an investment in our common stock only if it appreciates in value.

We currently intend to retain our future earnings, if any, for use in the operation of our business and do not expect to pay any cash dividends in the foreseeable future on our common stock. As a result, the success of an investment in our common stock will depend upon any future appreciation in its value. There is no guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

Provisions of our charter, by-laws and Delaware law may have anti-takeover effects that could prevent a change in control even if the change in control would be beneficial to our stockholders.

Provisions of our charter, by-laws and Delaware law could make it more difficult for a third party to control or acquire us, even if doing so would be beneficial to our stockholders. These provisions include:

- a classified board structure so that only approximately one-third of our Board of Directors is up for re-election in any one year;
- our Board of Directors has the right to elect directors to fill a vacancy created by the expansion of the Board of Directors or the resignation, death or removal of a director;
- stockholders must provide advance notice to nominate individuals for election to the Board of Directors or to propose matters that can be acted upon at a stockholders' meeting; and
- our Board of Directors may issue, without stockholder approval, shares of undesignated preferred stock.

Further, as a Delaware corporation, we are also subject to certain Delaware anti-takeover provisions. Under Delaware law, a corporation may not engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the

transaction. Our Board of Directors could rely on Delaware law to prevent or delay an acquisition of us.

Table of Contents

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## (c) Issuer Purchases of Equity Securities

The following is a summary of our repurchases of our common stock in the first quarter of 2016 (in thousands, except share and per share data):

Period <sup>(1)</sup>	(a) Total Number of Shares Purchased (2)	(b) Average Price Paid per Share <sup>(3)</sup>	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(4)</sup>	(d) Approximate Dollar Value of Shares that May Yet be Purchased Under Plans or Programs <sup>(4)</sup>
January 1, 2016 – January 31, 2016	861,715	\$ 47.99	861,715	\$ 89,671
February 1, 2016 – February 29, 2016	853,522	46.19	853,522	987,511
March 1, 2016 – March 31, 2016	505,018	55.33	505,018	959,570
Total	2,220,255	\$ 48.97	2,220,255	\$ 959,570

(1) Information is based on settlement dates of repurchase transactions.

(2) Consists of shares of our common stock, par value \$0.01 per share. All repurchases were made pursuant to a previously-announced program.

(3) Includes commissions paid.

(4) In October 2013, the Board of Directors authorized a \$750.0 million share repurchase program, effective from October 16, 2013 through December 31, 2016. In February 2016, the Board of Directors authorized a new \$1.0 billion share repurchase program that superseded the October 2013 repurchase program and is effective from February 11, 2016 through December 31, 2018.

## Item 6. Exhibits

The exhibits filed as part of this quarterly report on Form 10-Q are listed in the exhibit index immediately preceding the exhibits and are incorporated herein.

Table of Contents

SIGNATURES

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

Akamai Technologies, Inc.

May 9, 2016 By: /s/ James Benson

James Benson

Chief Financial Officer

(Duly Authorized Officer, Principal Financial Officer)

Table of Contents

EXHIBIT INDEX

Exhibit 10.46	Separation and Release Agreement dated February 9, 2016 between the Registrant and Robert W. Hughes (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed with the Commission on February 9, 2016)
Exhibit 31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/ Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/ Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
Exhibit 32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Label Linkbase Document*
101.PRE	XBRL Taxonomy Presentation Linkbase Document*

\*Submitted electronically herewith

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at March 31, 2016 and December 31, 2015, (ii) Consolidated Statements of Income for the three months ended March 31, 2016 and 2015, (iii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2016 and 2015, (iv) Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015 and (v) Notes to Unaudited Consolidated Financial Statements.