

AKAMAI TECHNOLOGIES INC
Form 10-Q
August 08, 2017
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 June 30, 2017

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

Edgar Filing: AKAMAI TECHNOLOGIES INC - Form 10-Q

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has not elected to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ``

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 August 3, 2017: 171,423,149

Table of Contents

AKAMAI TECHNOLOGIES, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	<u>3</u>
Consolidated Balance Sheets at June 30, 2017 and December 31, 2016	<u>3</u>
Consolidated Statements of Income for the three and six months ended June 30, 2017 and 2016	<u>4</u>
Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 and 2016	<u>5</u>
Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016	<u>6</u>
Notes to Unaudited Consolidated Financial Statements	<u>7</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>34</u>
Item 4. <u>Controls and Procedures</u>	<u>34</u>
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>35</u>
Item 1A. <u>Risk Factors</u>	<u>36</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>48</u>
Item 6. <u>Exhibits</u>	<u>48</u>
<u>SIGNATURES</u>	<u>49</u>
<u>EXHIBIT INDEX</u>	<u>50</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS

(in thousands, expect share data)	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$352,501	\$ 324,169
Marketable securities	330,620	512,849
Accounts receivable, net of reserves of \$1,389 and \$6,145 at June 30, 2017, and December 31, 2016, respectively	395,865	368,596
Prepaid expenses and other current assets	159,371	104,303
Total current assets	1,238,357	1,309,917
Property and equipment, net	856,039	801,017
Marketable securities	731,781	779,311
Goodwill	1,356,623	1,228,503
Acquired intangible assets, net	184,041	149,463
Deferred income tax assets	7,448	8,982
Other assets	114,750	95,953
Total assets	\$4,489,039	\$4,373,146
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$91,741	\$ 76,120
Accrued expenses	222,023	238,777
Deferred revenue	73,772	52,972
Other current liabilities	11,528	6,719
Total current liabilities	399,064	374,588
Deferred revenue	3,848	3,758
Deferred income tax liabilities	21,762	11,652
Convertible senior notes	651,400	640,087
Other liabilities	125,793	118,691
Total liabilities	1,201,867	1,148,776
Commitments and contingencies (Note 7)		
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; 175,148,684 shares issued and 172,027,173 shares outstanding at June 30, 2017, and 173,254,797 shares issued and outstanding at December 31, 2016	1,751	1,733
Additional paid-in capital	4,317,583	4,239,588
Accumulated other comprehensive loss	(32,520)	(56,222)
Treasury stock, at cost, 3,121,511 shares at June 30, 2017, and no shares at December 31, 2016	(177,615)	—
Accumulated deficit	(822,027)	(960,729)
Total stockholders' equity	3,287,172	3,224,370

Total liabilities and stockholders' equity	\$4,489,039	\$4,373,146
--	-------------	-------------

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		For the Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
Revenue	\$608,908	\$572,135	\$1,218,145	\$1,139,860
Costs and operating expenses:				
Cost of revenue (exclusive of amortization of acquired intangible assets shown below)	214,650	206,323	420,353	401,059
Research and development	53,373	37,690	105,535	78,532
Sales and marketing	119,432	103,223	232,998	205,434
General and administrative	123,518	107,538	238,527	209,821
Amortization of acquired intangible assets	7,753	6,711	15,322	13,427
Restructuring charges	2,971	470	2,971	7,288
Total costs and operating expenses	521,697	461,955	1,015,706	915,561
Income from operations	87,211	110,180	202,439	224,299
Interest income	4,281	3,393	8,905	6,713
Interest expense	(4,646)	(4,639)	(9,243)	(9,292)
Other income (expense), net	563	415	(121)	226
Income before provision for income taxes	87,409	109,349	201,980	221,946
Provision for income taxes	29,637	35,714	63,278	73,453
Net income	\$57,772	\$73,635	\$138,702	\$148,493
Net income per share:				
Basic	\$0.33	\$0.42	\$0.80	\$0.84
Diluted	\$0.33	\$0.42	\$0.80	\$0.84
Shares used in per share calculations:				
Basic	172,674	175,499	172,916	175,951
Diluted	173,439	176,420	174,305	176,980

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

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

(in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$57,772	\$73,635	\$138,702	\$148,493
Other comprehensive income (loss):				
Foreign currency translation adjustments	13,073	(3,728)	22,572	5,925
Change in unrealized gain on investments, net of income tax provision of \$193, \$529, \$681 and \$2,311 for the three and six months ended June 30, 2017 and 2016, respectively	320	904	1,130	3,912
Other comprehensive income (loss)	13,393	(2,824)	23,702	9,837
Comprehensive income	\$71,165	\$70,811	\$162,404	\$158,330

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 Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 138,702	\$ 148,493
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	175,739	165,783
Stock-based compensation	80,255	66,652
Provision for deferred income taxes	39,368	2,785
Amortization of debt discount and issuance costs	9,243	9,292
Other non-cash reconciling items, net	1,609	3,501
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(17,873)	17,786
Prepaid expenses and other current assets	(50,108)	(10,991)
Accounts payable and accrued expenses	(17,541)	12,282
Deferred revenue	10,406	12,126
Other current liabilities	5,901	6,971
Other non-current assets and liabilities	(8,450)	1,062
Net cash provided by operating activities	367,251	435,742
Cash flows from investing activities:		
Cash paid for acquired businesses, net of cash acquired	(197,201)	—
Purchases of property and equipment	(104,881)	(86,820)
Capitalization of internal-use software development costs	(83,305)	(73,661)
Purchases of short- and long-term marketable securities	(181,219)	(384,585)
Proceeds from sales of short- and long-term marketable securities	180,215	50,541
Proceeds from maturities of short- and long-term marketable securities	232,901	301,802
Other non-current assets and liabilities	(1,249)	(1,512)
Net cash used in investing activities	(154,739)	(194,235)
Cash flows from financing activities:		
Proceeds related to the issuance of common stock under stock plans	25,680	27,095
Employee taxes paid related to net share settlement of stock-based awards	(41,338)	(32,410)
Repurchases of common stock	(177,615)	(199,710)
Other non-current assets and liabilities	(1,096)	—
Net cash used in financing activities	(194,369)	(205,025)
Effects of exchange rate changes on cash and cash equivalents	10,189	689
Net increase in cash and cash equivalents	28,332	37,171
Cash and cash equivalents at beginning of period	324,169	289,473
Cash and cash equivalents at end of period	\$ 352,501	\$ 326,644
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net of refunds received in the six months ended June 30, 2017 and 2016 of \$2,481 and \$457, respectively	\$ 54,146	\$ 38,228
Non-cash investing activities:		
Purchases of property and equipment and capitalization of internal-use software development costs included in accounts payable and accrued expenses	46,988	28,113
Capitalization of stock-based compensation	14,026	11,424

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

6

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 more than 200,000 servers across 130 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, 2016, filed with the Securities and Exchange Commission on February 28, 2017.

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 March 2016, the Financial Accounting Standards Board ("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. In addition, this guidance impacts the presentation of cash flows related to excess tax benefits by no longer requiring separate presentation as a financing activity apart from other operating income tax cash flows.

This guidance was effective for the Company on January 1, 2017. Upon adoption, the Company began recognizing tax benefits related to stock-based compensation in its provision for income taxes rather than as additional paid-in capital. The Company elected to continue estimating forfeitures in determining the amount of compensation cost. The Company was not required to adjust beginning retained earnings as a result of these two items.

In addition, the Company adopted the presentation requirements related to the excess tax benefits in its statements of cash flows on a retrospective basis beginning January 1, 2015. The line items, included in both cash flows from operating activities and financing activities labeled excess tax benefits from stock-based compensation, were eliminated. This had the impact of increasing net cash provided by operating activities and net cash used in financing activities. Prior periods have been revised as follows (in thousands):

	Net Cash Provided by Operating Activities		Net Cash Used in Financing Activities	
	As Reported	As Adjusted	As Reported	As Adjusted
	Year ended December 31, 2015	\$764,151	\$793,452	\$(267,728)
Three months ended March 31, 2016	190,238	191,373	(115,736)	(116,871)
Six months ended June 30, 2016	433,110	435,742	(202,393)	(205,025)
Nine months ended September 30, 2016	684,510	687,590	(288,008)	(291,088)
Year Ended December 31, 2016	866,298	871,812	(354,265)	(359,779)

Table of Contents

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 model for recognizing revenue from contracts with customers. 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. The new standard can be adopted using one of two methods: retrospectively to each prior period presented or a modified retrospective application by recognizing a cumulative-effect adjustment as a component of equity as of the date of adoption. This standard will be effective for the Company on January 1, 2018, and the Company has elected to adopt it retrospectively to each prior period presented.

The updated guidance impacts, or requires the Company to modify, certain judgments and estimates that the Company currently makes as it relates to recognizing revenue. Upon adoption of the new revenue standard, integration fee revenue that was previously recognized ratably over the estimated life of the customer arrangement will be recognized when integration has been completed, which will have the effect of accelerating revenue from integration fees. In addition, the Company currently establishes a reserve for cash basis customers if collectability is not reasonably assured and recognizes revenue as cash is collected. Upon adoption of the new standard, revenue will be recognized for those customers when collectability becomes probable and transfer of control for all performance obligations has occurred/all other revenue recognition criteria have been achieved, rather than when it is reasonably assured. The Company has quantified the impact that these changes would have had on revenue reported for the year ended December 31, 2016, and each of the quarters therein, and it would not have had a material impact on the Company's consolidated financial statements. The Company continues to assess the expected impact to the year ending December 31, 2017, and each of the quarters therein, but does not expect adoption to have a material impact on its consolidated financial statements for the year then ending.

The Company is also assessing the impact of capitalizing costs associated with obtaining customer contracts, specifically commission and incentive payments. Currently, these payments are expensed in the period they are incurred. Under the updated guidance, these payments will be deferred on the Company's consolidated balance sheets and amortized over the expected life of the customer contract. The Company is currently quantifying the impact that these changes would have had on sales and marketing expenses recorded in the consolidated statements of income for the year ended December 31, 2016, for the six months ended June 30, 2017, and for each of the quarters therein. The Company is also assessing the expected impact on the consolidated balance sheet as of December 31, 2017, particularly the impact on prepaid expenses and other current assets and retained earnings.

The Company continues to evaluate the impact this updated guidance has on disclosure requirements related to revenue.

In February 2016, the FASB issued guidance that requires companies to present assets and liabilities arising from leases with terms greater than 12 months on the consolidated balance sheets. The updated standard aims to increase transparency and comparability among organizations by requiring lessees to recognize right-of-use assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. This will impact all leases, including leases for real estate and co-location facilities, among other arrangements currently under evaluation. The Company plans to adopt this standard in the first quarter of 2019 and expects to record significant right-of-use assets and lease liabilities on its consolidated balance sheets.

In June 2016, the FASB issued guidance that introduces a new methodology for accounting for credit losses on financial instruments, including available-for-sale debt securities. The guidance establishes a new "expected loss model" that requires entities to estimate current expected credit losses on financial instruments by using all practical and relevant information. Any expected credit losses are to be reflected as allowances rather than reductions in the

amortized cost of available-for-sale debt securities. This guidance will be effective for the Company on January 1, 2020. The Company is evaluating the potential impact on its consolidated financial statements of adopting this new accounting guidance.

In October 2016, the FASB issued guidance that requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This guidance will be effective for the Company on January 1, 2018 and is to be applied on a modified retrospective basis through recognizing a cumulative-effect adjustment as a component of equity as of the date of adoption. The Company is evaluating the potential impact on its consolidated financial statements of adopting this new accounting guidance.

Table of Contents

In January 2017, the FASB issued guidance that changes the definition of a business to assist entities with evaluating whether transactions should be accounted for as transfers of assets or business combinations. This guidance will be effective for the Company on January 1, 2018 and is to be applied prospectively. The Company is evaluating the potential impact on its consolidated financial statements of adopting this new accounting guidance.

2. Fair Value Measurements

The following is a summary of available-for-sale marketable securities held as of June 30, 2017 and December 31, 2016 (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 June 30, 2017						
Commercial paper	\$6,873	\$—	\$(2)	\$6,871	\$6,871	\$—
Corporate bonds	832,072	243	(2,143)	830,172	308,482	521,690
U.S. government agency obligations	220,014	—	(1,238)	218,776	15,076	203,700
	\$1,058,959	\$243	\$(3,383)	\$1,055,819	\$330,429	\$725,390
As of December 31, 2016						
Commercial paper	\$40,965	\$—	\$(45)	\$40,920	\$40,920	\$—
Corporate bonds	984,650	123	(3,697)	981,076	418,495	562,581
U.S. government agency obligations	267,473	35	(1,366)	266,142	53,157	212,985
	\$1,293,088	\$158	\$(5,108)	\$1,288,138	\$512,572	\$775,566

The Company offers certain eligible 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 consolidated statements of income. As of June 30, 2017, the Company held for investment corporate bonds with a fair value of \$63.7 million, which are classified as available-for-sale marketable securities and have been in a continuous unrealized loss position for more than 12 months. The unrealized losses related to these corporate bonds included in accumulated other comprehensive loss as of June 30, 2017 were \$0.2 million. The losses are attributable to changes in interest rates. Based on the evaluation of available evidence, the Company does not believe any unrealized losses represent other than temporary impairments.

Table of Contents

The following table details the fair value measurements within the fair value hierarchy of the Company's financial assets and liabilities as of June 30, 2017 and December 31, 2016 (in thousands):

	Total Fair Value	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
As of June 30, 2017				
Cash Equivalents and Marketable Securities:				
Money market funds	\$4,574	\$ 4,574	\$ —	\$ —
Commercial paper	6,871	—	6,871	—
Corporate bonds	830,172	—	830,172	—
U.S. government agency obligations	218,776	—	218,776	—
Mutual funds	6,582	6,582	—	—
	\$1,066,975	\$ 11,156	\$ 1,055,819	\$ —
Liabilities:				
Contingent consideration obligations related to completed acquisitions	\$(5,400)	\$ —	\$ —	\$(5,400)
As of December 31, 2016				
Cash Equivalents and Marketable Securities:				
Money market funds	\$8,726	\$ 8,726	\$ —	\$ —
Commercial paper	40,920	—	40,920	—
Corporate bonds	981,076	—	981,076	—
U.S. government agency obligations	266,142	—	266,142	—
Mutual funds	4,022	4,022	—	—
	\$1,300,886	\$ 12,748	\$ 1,288,138	\$ —
Liabilities:				
Contingent consideration obligations related to completed acquisitions	\$(7,100)	\$ —	\$ —	\$(7,100)

As of June 30, 2017 and December 31, 2016, 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 June 30, 2017 and December 31, 2016, 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 June 30, 2017.

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.

The valuation technique used to measure fair value of the Company's Level 3 liabilities, which consist of contingent consideration related to the acquisitions of Soha Systems, Inc. ("Soha") and Cyberfend, Inc. ("Cyberfend") in 2016, was primarily an income-based approach. The significant unobservable input used in the fair value measurement of the contingent consideration is the likelihood of achieving development milestones to integrate the acquired technology into the Company's technology as well as achieving certain post-closing financial results.

Table of Contents

Contractual maturities of the Company's available-for-sale marketable securities held as of June 30, 2017 and December 31, 2016 were as follows (in thousands):

	June 30, 2017	December 31, 2016
Due in 1 year or less	\$330,429	\$ 512,572
Due after 1 year through 5 years	725,390	775,566
	\$1,055,819	\$ 1,288,138

The following table reflects the activity for the Company's major classes of liabilities measured at fair value using Level 3 inputs during the six months ended June 30, 2017 (in thousands):

	Other Liabilities: Contingent Consideration Obligation
Balance as of January 1, 2017	\$ (7,100)
Fair value adjustment to contingent consideration included in general and administrative expense	450
Cash paid upon achievement of milestone	1,250
Balance as of June 30, 2017	\$ (5,400)

3. Accounts Receivable

Net accounts receivable consisted of the following as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Trade accounts receivable	\$282,372	\$ 260,976
Unbilled accounts receivable	114,882	113,765
Gross accounts receivable	397,254	374,741
Allowance for doubtful accounts	(994)	(829)
Reserve for cash-basis customers	(395)	(5,316)
Total accounts receivable reserves	(1,389)	(6,145)
Accounts receivable, net	\$395,865	\$ 368,596

The decrease to the reserve for cash-basis customers is primarily attributable to two customers that were removed from cash-basis revenue recognition due to strong, consistent history of payment.

4. Goodwill and Acquired Intangible Assets

The change in the carrying amount of goodwill for the six months ended June 30, 2017 was as follows (in thousands):

Balance as of January 1, 2017	\$1,228,503
Acquisition of Soasta, Inc.	121,669
Measurement period adjustments	(90)
Foreign currency translation	6,541
Balance as of June 30, 2017	\$1,356,623

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.

Table of Contents

Acquired intangible assets that are subject to amortization consisted of the following as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Completed technology	\$ 137,891	\$ (57,780)	\$ 80,111	\$ 119,091	\$ (50,823)	\$ 68,268
Customer-related intangible assets	221,010	(121,523)	99,487	192,810	(114,209)	78,601
Non-compete agreements	4,510	(3,533)	977	5,030	(3,775)	1,255
Trademarks and trade names	6,100	(2,634)	3,466	3,700	(2,361)	1,339
Acquired license rights	490	(490)	—	490	(490)	—
Total	\$ 370,001	\$ (185,960)	\$ 184,041	\$ 321,121	\$ (171,658)	\$ 149,463

Aggregate expense related to amortization of acquired intangible assets for the three and six months ended June 30, 2017 was \$7.8 million and \$15.3 million, respectively. Aggregate expense related to amortization of acquired intangible assets for the three and six months ended June 30, 2016 was \$6.7 million and \$13.4 million, respectively. Based on the Company's acquired intangible assets as of June 30, 2017, aggregate expense related to amortization of acquired intangible assets is expected to be \$15.5 million for the remainder of 2017, and \$31.4 million, \$32.8 million, \$29.5 million and \$24.1 million for 2018, 2019, 2020 and 2021, respectively.

5. Business Combinations

Acquisition-related costs during the six months ended June 30, 2017 were \$3.2 million and are included in general and administrative expense in the consolidated statements of income. Pro forma results of operations for the acquisition completed during the six months ended June 30, 2017 have not been presented because the effects of the acquisition were not material to the Company's consolidated financial results. Revenue and earnings of the acquired company since the date of the acquisition that are included in the Company's consolidated statements of income are also not presented separately because they are not material.

Soasta

In April 2017, the Company acquired Soasta, Inc. ("Soasta"), a leader in digital performance management, for \$199.3 million in cash. The allocation of the purchase price has not been finalized as of the date of the filing of these financial statements. The acquisition is expected to allow the Company to offer solutions designed to provide greater visibility into the business impact of customers' websites and application optimization strategies.

Table of Contents

The following table presents the preliminary allocation of the purchase price for Soasta (in thousands):

Total purchase consideration	\$ 199,280
Allocation of the purchase consideration:	
Cash	\$ 1,935
Accounts receivable	4,108
Prepays and other current assets	1,143
Identifiable intangible assets	49,900
Goodwill	121,669
Deferred tax assets	35,121
Total assets acquired	213,876
Accounts payable	(1,119)
Accrued liabilities	(3,915)
Deferred revenue	(9,562)
Total liabilities assumed	(14,596)
Net assets acquired	\$ 199,280

The value of the goodwill can be attributed to a number of business factors, including a trained technical and sales workforce and cost synergies expected to be realized. The total amount of goodwill related to the acquisition of Soasta expected to be deductible for tax purposes is \$31.6 million.

The following were the identified intangible assets acquired and their respective weighted average useful lives (in thousands, except years):

	Gross Carrying Amount	Weighted Average Useful Life (in years)
Completed technologies	\$ 18,800	4.1
Customer-related intangible assets	28,200	4.6
Trademarks	2,400	4.9
Non-compete agreements	500	1.9
Total	\$ 49,900	

The total weighted average amortization period for the intangible assets acquired from Soasta is 4.4 years. The intangible assets are being amortized based upon the pattern in which the economic benefits of the intangible assets are being utilized.

6. 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.

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

Table of Contents

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 against the equity component of the Notes in stockholders' equity.

The Notes consist of the following components as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Liability component:		
Principal	\$ 690,000	\$ 690,000
Less: debt discount and issuance costs, net of amortization	(38,600)	(49,913)
Net carrying amount	\$ 651,400	\$ 640,087
Equity component:	\$ 101,276	\$ 101,276

The estimated fair value of the Notes at June 30, 2017 was \$676.2 million. The fair value was determined based on the quoted price of the Notes in an inactive market on the last trading day of the reporting period and has been classified as Level 2 within the fair value hierarchy. Based on the closing price of the Company's common stock of \$49.81 on June 30, 2017, 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, concurrent with the issuance of the Notes. The repurchase was made in accordance with a share repurchase program previously approved by the Board of Directors. Additionally, \$23.3 million of the proceeds was used for the net cost of convertible note hedge and warrant transactions. The remaining net proceeds are for working capital, share

repurchases and other general corporate purposes, as well as for potential 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.

Table of Contents

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 consolidated statements of income related to the Notes for the three and six months ended June 30, 2017 and 2016, in thousands.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Amortization of debt discount and issuance costs	\$5,681	\$5,485	\$11,313	\$10,923
Capitalization of interest expense	(1,035)	(846)	(2,070)	(1,631)
Total interest expense	\$4,646	\$4,639	\$9,243	\$9,292

7. Commitments and Contingencies

Legal Matters

In July 2016, as part of the resolution of a patent infringement lawsuit filed by the Company against Limelight Networks, Inc. ("Limelight") in 2006, the Company agreed to license to Limelight technology covered by certain of the Company's patents. The terms of the agreement require Limelight to pay the Company \$54.0 million in 12 equal installments over three years, beginning in August 2016. During the three and six months ended June 30, 2017, the Company received \$4.5 million and \$9.0 million, respectively, under this agreement, of which \$4.1 million and \$8.1 million was recorded as a reduction to general and administrative expenses in the consolidated statement of income, respectively, and \$0.4 million and \$0.9 million was recorded as interest income, respectively.

In November 2015, Limelight filed a complaint in the U.S. District Court for the Eastern District of Virginia against the Company and XO Communications LLC ("XO"), alleging patent infringement by the two companies. The complaint alleges that the Company and XO infringed six of Limelight's content delivery patents. The complaint seeks to recover from the Company and XO monetary damages based upon lost revenue due to infringing technology used by the companies. The Company has agreed to indemnify XO for damages it incurs in this matter. The Company has made counterclaims in the action against Limelight alleging that Limelight has infringed five of the Company's content delivery patents, and the Company is seeking monetary damages based upon lost revenue due to the infringing technology used by Limelight. No provision with respect to this matter has been made in the Company's consolidated financial statements. An estimate of the possible loss or range of loss cannot be made.

8. Stockholders' Equity

Share Repurchase Program

In February 2016, the Board of Directors authorized a \$1.0 billion repurchase program effective from February 2016 through December 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 six months ended June 30, 2017, the Company repurchased 3.1 million shares of its common stock for \$177.6 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 and six months ended June 30, 2017 and 2016 (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of revenue	\$5,074	\$4,553	\$9,759	\$8,523
Research and development	9,614	6,752	18,643	13,190
Sales and marketing	13,951	13,259	29,108	25,611
General and administrative	12,630	10,347	22,745	19,328
Total stock-based compensation	41,269	34,911	80,255	66,652
Provision for income taxes	(12,221)	(12,388)	(30,206)	(24,521)
Total stock-based compensation, net of income taxes	\$29,048	\$22,523	\$50,049	\$42,131

In addition to the amounts of stock-based compensation reported in the table above, the Company's consolidated statements of income for the three and six months ended June 30, 2017 include stock-based compensation reflected as a component of amortization of capitalized internal-use software of \$3.9 million and \$7.4 million, respectively, before taxes. For the three and six months ended June 30, 2016, the Company's consolidated statements of income include stock-based compensation reflected as a component of amortization of capitalized internal-use software of \$3.6 million and \$6.9 million, respectively, before taxes.

9. Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated other comprehensive loss, net of tax, which is reported as a component of stockholders' equity, for the six months ended June 30, 2017 (in thousands):

	Foreign Currency Translation	Net Unrealized Gains on Investments	Total
Balance as of January 1, 2017	\$(59,017)	\$ 2,795	\$(56,222)
Other comprehensive gain	22,572	1,130	23,702
Balance as of June 30, 2017	\$(36,445)	\$ 3,925	\$(32,520)

Amounts reclassified from accumulated other comprehensive loss to net income were insignificant for the six months ended June 30, 2017.

10. Income Taxes

The Company's effective income tax rate was 31.3% and 33.1% for the six months ended June 30, 2017 and 2016, 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 tax benefits related to stock-based compensation, 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 six months ended June 30, 2017 and 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., plus the effect of 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.

Table of Contents

11. 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 and six months ended June 30, 2017 and 2016 (in thousands, except per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net income	\$57,772	\$73,635	\$138,702	\$148,493
Denominator:				
Shares used for basic net income per share	172,674	175,499	172,916	175,951
Effect of dilutive securities:				
Stock options	329	396	344	400
RSUs and DSUs	436	525	1,045	629
Convertible senior notes	—	—	—	—
Warrants related to issuance of convertible senior notes	—	—	—	—
Shares used for diluted net income per share	173,439	176,420	174,305	176,980
Basic net income per share	\$0.33	\$0.42	\$0.80	\$0.84
Diluted net income per share	\$0.33	\$0.42	\$0.80	\$0.84

For the three and six months ended June 30, 2017 and 2016, 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 and six months ended June 30, 2017 and 2016 are as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Stock options	10	80	6	92
Service-based RSUs	4,134	1,904	3,407	3,283
Performance-based RSUs	1,125	1,280	1,189	704
Convertible senior notes	7,704	7,704	7,704	7,704
Warrants related to issuance of convertible senior notes	7,704	7,704	7,704	7,704
Total shares excluded from computation	20,677	18,672	20,010	19,487

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, 2016 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. The key factors that influence our financial success are our ability to build on recurring revenue commitments for our performance and security offerings, increase media traffic on our network, develop new products and carefully manage our capital spending and other expenses.

Revenue

For most of our solutions, our customers commit to contracts having terms of a year or longer, which allows us to have a consistent and predictable base level of revenue. In addition to a base level of revenue, we are dependent on media customers where usage of our services is more variable. 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, the rate of adoption of over-the-top, or OTT, services and the impact of seasonal variations on our business. Our ability to expand our product portfolio and to maintain the prices we charge for our services are also key factors impacting our revenue growth.

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

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

Table of Contents

We have experienced increases in the amount of traffic delivered for customers that use our solutions for video, gaming, social media and software downloads, contributing to an increase in our revenue. However, from the second half of 2015 onward, our traffic growth rates have moderated, primarily due to the “do-it-yourself” efforts by some of our customers that are among the largest Internet platform companies: Amazon, Apple, Facebook, Google, Microsoft and Netflix. We refer to these companies as our Internet Platform Customers. These customers have increasingly elected to develop and rely on their own internal infrastructure to deliver more of their media content themselves rather than use our services. As a result, we are likely to continue experiencing lower revenue from these customers. While we have not experienced a significant shift to internal infrastructure usage across the remainder of our media services customer base, we have experienced a moderation in traffic growth from these customers. Factors that may impact their usage of our services are competition (including using multiple providers to handle their traffic needs), contract renewal terms and changes in demand for their offerings. These factors are variable and unpredictable and could negatively impact our revenue.

We have increased committed recurring revenue from our performance solutions by increasing sales of incremental services to our existing Web Division customers and by adding new customers. These increases helped to limit the impact of traffic moderation by certain customers (primarily those in our Media Division), as well as the effect of price decreases negotiated as part of contract renewals.

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

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, among other things, the nature and timing of software and gaming releases by our customers using our software download solutions; whether there are large live sporting or other events that increase the amount of media traffic on our network; and the frequency and timing of purchases of custom services.

Expenses

Our level of profitability is also impacted by our expenses, 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 serving more traffic from higher cost regions. 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 need to continue to effectively manage our co-location costs to maintain current levels of profitability.

Due to the fixed nature of some of our co-location and bandwidth costs over a minimum time period, it may not be possible to quickly reduce those costs. If our revenue growth rate declines, our profitability could decrease.

•

Payroll and related compensation costs have grown as we have increased headcount, particularly in our professional services and engineering teams to support our revenue growth and strategic initiatives. We increased our headcount by 594 employees during the six-month period ended June 30, 2017, of which approximately 145 employees were from our acquisition of Soasta, Inc., or Soasta. During the year ended December 31, 2016, we increased our headcount by 406 employees. We expect to continue to hire additional employees, both domestically and internationally, in support of our strategic initiatives.

In April 2017, we completed the acquisition of Soasta, which was dilutive to our earnings per share for the three-month period ended June 30, 2017. It is expected to continue to be dilutive to our earnings per share for at least the remainder of 2017.

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		For the Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Costs and operating expenses:				
Cost of revenue (exclusive of amortization of acquired intangible assets shown below)	35.3	36.1	34.5	35.2
Research and development	8.8	6.6	8.7	6.9
Sales and marketing	19.6	18.0	19.1	18.0
General and administrative	20.3	18.8	19.6	18.4
Amortization of acquired intangible assets	1.3	1.2	1.3	1.2
Restructuring charges	0.5	0.1	0.2	0.6
Total costs and operating expenses	85.8	80.8	83.4	80.3
Income from operations	14.2	19.2	16.6	19.7
Interest income	0.7	0.6	0.7	0.6
Interest expense	(0.8)	(0.8)	(0.8)	(0.8)
Other income, net	0.1	0.1	—	—
Income before provision for income taxes	14.2	19.1	16.6	19.5
Provision for income taxes	4.9	6.2	5.2	6.4
Net income	9.3 %	12.9 %	11.4 %	13.1 %

Revenue

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

	For the Three Months				For the Six Months			
	Ended June 30,				Ended June 30,			
	2017	2016	% Change	% Change at Constant Currency	2017	2016	% Change	% Change at Constant Currency
Revenue	\$608,908	\$572,135	6.4 %	7.0 %	\$1,218,145	\$1,139,860	6.9 %	8.0 %

During the three- and six-month periods ended June 30, 2017, the increase in our revenue as compared to the same periods in 2016 was primarily the result of continued strong growth from our Cloud Security Solutions, which grew 32% and 34%, respectively, during these periods. However, our recent revenue growth rates have been impacted by the "do-it-yourself" efforts of our Internet Platform Customers, some of which have developed internal infrastructure to deliver more of their media content themselves rather than rely on our media services. Revenue from these six customers in the aggregate was \$51.2 million and \$102.5 million for the three- and six-month periods ended June 30, 2017, respectively, as compared to \$61.5 million and \$134.0 million for the three- and six-month periods ended June 30, 2016, respectively.

Table of Contents

The following table quantifies the contribution to revenue during the periods presented from our solution categories, which is a product-focused view that reflects revenue by solution purchased (in thousands):

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2017	2016	% Change	% Change at Constant Currency	2017	2016	% Change	% Change at Constant Currency
Performance and Security Solutions	\$375,807	\$326,642	15.1 %	16.0 %	\$744,955	\$642,505	15.9 %	17.0 %
Media Delivery Solutions	178,905	197,077	(9.2)	(9.0)	366,301	403,016	(9.1)	(9.0)
Services and Support Solutions	54,196	48,416	11.9	13.0	106,889	94,339	13.3	14.0
Total revenue	\$608,908	\$572,135	6.4 %	7.0 %	\$1,218,145	\$1,139,860	6.9 %	8.0 %

The increase in Performance and Security Solutions revenue for the three- and six-month periods ended June 30, 2017, as compared to the same periods in 2016, 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- and six-month periods ended June 30, 2017 was \$115.1 million and \$224.9 million, respectively, as compared to \$87.0 million and \$167.6 million for the three- and six-month periods ended June 30, 2016, respectively. The revenue growth rate for our Performance and Security solutions is likely to be lower during the remainder of 2017 due to expected moderation of purchases of lower-end web performance solutions by our media customers.

The decline in the year-over-year revenue in Media Delivery Solutions revenue for the three- and six-month periods ended June 30, 2017 was primarily the result of decreased traffic from the Internet Platform Customers, resulting from their "do-it-yourself" efforts in delivering their content. Our Media Delivery Solutions revenue for other customers decreased by 5% and 1% for the three- and six-month periods ended June 30, 2017, respectively, as compared to the same period in 2016, which was attributed to traffic growth deceleration, most notably in the U.S. We expect Media Delivery Solutions revenue to continue to moderate during the second half of 2017.

The increase in Services and Support Solutions revenue for the three- and six-month periods ended June 30, 2017, as compared to the same periods in 2016, was primarily due to purchases of upgrades to services by our existing customers and increased demand for professional services to help execute live media events.

The following table quantifies the contribution to revenue during the periods presented from our divisions (in thousands). It is a customer-focused reporting view that reflects revenue we received from customers that are managed by the indicated division. For example, Media Division revenue represents all revenue received from customers that primarily purchase our Media Delivery Solutions, including revenue from non-Media solutions those customers purchase. During the first quarter of 2017, the divisional categorization of certain customers was adjusted based on how those customer relationships are currently being managed. The historical presentation of divisional revenue was revised in order to reflect the most recent categorization and to provide a comparable view for all periods presented.

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2017	2016	% Change	% Change at Constant Currency	2017	2016	% Change	% Change at Constant Currency

Edgar Filing: AKAMAI TECHNOLOGIES INC - Form 10-Q

Web Division	\$314,988	\$273,891	15.0 %	16.0 %	\$619,674	\$540,558	14.6 %	16.0 %
Media Division	276,071	281,937	(2.1)	(1.0)	561,472	567,551	(1.1)	—
Enterprise and Carrier Division	17,849	16,307	9.5	10.0	36,999	31,751	16.5	17.0
Total revenue	\$608,908	\$572,135	6.4 %	7.0 %	\$1,218,145	\$1,139,860	6.9 %	8.0 %

21

Table of Contents

The increase in Web Division revenue during the three- and six-month periods ended June 30, 2017, as compared to the same periods in 2016, was due to solid growth and diversification into this customer base from continued penetration of new services and upgrades. Increased revenue from our Cloud Security Solutions continues to contribute to our overall revenue growth, from sales of both our Kona Site Defender and Prolexic offerings and our continued expansion of new services.

The decline in the year-over-year revenue in the Media Division for the three- and six-month periods ended June 30, 2017 was primarily the result of decreased traffic from our Internet Platform Customers. Excluding the impact of those customers, revenue grew year-over-year by 2% and 6%, respectively, for the three- and six-month periods ended June 30, 2017 as compared to the same periods in 2016.

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

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2017	2016	% Change	% Change at Constant Currency	2017	2016	% Change	% Change at Constant Currency
U.S.	\$403,085	\$395,085	2.0	2.0	\$809,650	\$792,368	2.2	2.0
International	205,823	177,050	16.3	19.0	408,495	347,492	17.6	20.0
Total revenue	\$608,908	\$572,135	6.4	7.0	\$1,218,145	\$1,139,860	6.9	8.0

The reduced revenue from our Internet Platform Customers negatively impacted our U.S. revenue growth rates for the three- and six-month periods ended June 30, 2017 in particular, as these customers are based in the U.S.

For both the three- and six-month periods ended June 30, 2017, approximately 34% of our revenue was derived from our operations located outside the U.S., compared to 31% and 30% for the three- and six-month periods ended June 30, 2016, respectively. No single country outside the U.S. accounted for 10% or more of revenue during any of these periods. During the three- and six-month periods ended June 30, 2017, we continued to see strong revenue growth from our operations in the Asia-Pacific region. Changes in foreign currency exchange rates impacted our revenue by an unfavorable \$3.9 million and \$5.0 million during the three- and six-month periods ended June 30, 2017, respectively, as compared to the same periods in 2016.

Cost of Revenue

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Bandwidth fees	\$41,238	\$42,597	(3.2)%	\$82,721	\$83,777	(1.3)%
Co-location fees	31,542	33,223	(5.1)	63,352	65,817	(3.7)
Network build-out and supporting services	18,835	16,895	11.5	35,735	30,672	16.5
Payroll and related costs	54,577	46,616	17.1	104,966	91,306	15.0
Stock-based compensation, including amortization of prior capitalized amounts	8,760	7,977	9.8	16,648	14,990	11.1

Edgar Filing: AKAMAI TECHNOLOGIES INC - Form 10-Q

Depreciation of network equipment	35,404	35,911	(1.4)	70,659	70,481	0.3
Amortization of internal-use software	24,294	23,104	5.2	46,272	44,016	5.1
Total cost of revenue	\$214,650	\$206,323	4.0 %	\$420,353	\$401,059	4.8 %
As a percentage of revenue	35.3 %	36.1 %		34.5 %	35.2 %	

22

Table of Contents

The increase in total cost of revenue for the three- and six-month periods ended June 30, 2017, as compared to the same periods in 2016, was primarily due to increases in:

- payroll and related costs, as well as stock-based compensation, due to increased hiring in our services team to support revenue growth; and
- amounts paid for network build-out and supporting services related to investments in network expansion to support our security infrastructure growth.

Our cost of revenue as a percentage of revenue decreased during the three- and six-month periods ended June 30, 2017, as compared to the same periods in 2016. The decrease was primarily the result of revenue growth exceeding the growth in total cost of revenue due to our efforts in reducing bandwidth and co-location fees.

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 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 these commitments as reported in our annual report on Form 10-K for the year ended December 31, 2016, other than normal period-to-period variations.

We believe that cost of revenue will increase during 2017 as compared to 2016 primarily due to higher bandwidth expenses associated with increased customer traffic on our network and the costs of efforts to increase our network's capacity and resiliency to enhance the security of our platform. Additionally, during 2017, we anticipate amortization of internal-use software development costs to increase as compared to 2016, along with increased payroll and related costs associated with our 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 June 30,			For the Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Payroll and related costs	\$78,352	\$61,173	28.1 %	\$153,784	\$125,807	22.2 %
Stock-based compensation	9,614	6,752	42.4	18,643	13,190	41.3
Capitalized salaries and related costs	(36,976)	(31,617)	16.9	(70,855)	(63,128)	12.2
Other expenses	2,383	1,382	72.4	3,963	2,663	48.8
Total research and development	\$53,373	\$37,690	41.6 %	\$105,535	\$78,532	34.4 %
As a percentage of revenue	8.8	% 6.6	%	8.7	% 6.9	%

The increase in research and development expenses during the three- and six-month periods ended June 30, 2017, as compared to the same periods in 2016, was due to increases in:

- payroll and related costs as a result of headcount growth to support investments in new product development and network scaling;
- stock-based compensation due to increased headcount, in addition to market adjustments of award sizes due to competition for certain engineering talent; and
-

decreases in our rate of capitalization as new employees ramp and as the amount of development work that does not qualify for capitalization fluctuates, particularly as it relates to our acquisition of Soasta.

Research and development costs are expensed as incurred, other than certain internal-use software development costs eligible for capitalization. Capitalized 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- and six-month periods ended June 30, 2017, we capitalized \$7.1 million and \$13.1 million, respectively, of stock-based compensation. During the three- and six-month periods ended June 30, 2016, we capitalized \$5.7 million and \$10.6

Table of Contents

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 continue to increase during 2017 as compared to 2016, as we expect to continue to increase our number of development personnel, whether through hiring or acquisition activity, in order to make improvements to our core technology and support engineering innovation and the development of new services.

Sales and Marketing Expenses

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Payroll and related costs	\$84,431	\$74,948	12.7 %	\$166,842	\$150,828	10.6 %
Stock-based compensation	13,951	13,259	5.2	29,108	25,611	13.7
Marketing programs and related costs	11,739	9,495	23.6	21,689	15,608	39.0
Other expenses	9,311	5,521	68.6	15,359	13,387	14.7
Total sales and marketing	\$119,432	\$103,223	15.7 %	\$232,998	\$205,434	13.4 %
As a percentage of revenue	19.6	% 18.0	%	19.1	% 18.0	%

The increase in sales and marketing expenses during the three- and six-month periods ended June 30, 2017, as compared to the same periods in 2016, was primarily due to an increase in:

- payroll and related costs from headcount increases to support our Web and Enterprise and Carrier Divisions' go-to-market strategies in support of growth opportunities; and
- marketing programs and related costs in support of our go-to-market strategy and ongoing geographic expansion.

The increase in other expenses during the three-month period ended June 30, 2017, as compared to the same period in 2016, is due to the timing of sales events, which occurred earlier in the year in 2016 as compared with 2017.

We believe that sales and marketing expenses will continue to increase during 2017 as compared to 2016, primarily due to increased payroll and related costs due to increased hiring in our sales and marketing organizations during 2017.

General and Administrative Expenses

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Payroll and related costs	\$47,516	\$39,175	21.3 %	\$92,407	\$80,363	15.0 %
Stock-based compensation	12,630	10,347	22.1	22,745	19,328	17.7
Depreciation and amortization	18,069	15,964	13.2	36,597	31,393	16.6
Facilities-related costs	20,184	17,800	13.4	38,982	35,208	10.7

Edgar Filing: AKAMAI TECHNOLOGIES INC - Form 10-Q

Provision for doubtful accounts	752	342	119.9	905	828	9.3
Acquisition-related costs	3,057	352	nm	2,848	163	nm
License of patent	(4,089)	—	nm	(8,124)	—	nm
Professional fees and other expenses	25,399	23,558	7.8	52,167	42,538	22.6
Total general and administrative	\$123,518	\$107,538	14.9 %	\$238,527	\$209,821	13.7 %
As a percentage of revenue	20.3	% 18.8	%	19.6	% 18.4	%

The increase in general and administrative expenses for the three- and six-month periods ended June 30, 2017, as compared to the same periods in 2016, was primarily due to the expansion of company infrastructure throughout 2016 to support

Table of Contents

investments in engineering, go-to market capacity and enterprise expansion initiatives, particularly expansion of our facility footprint, which increased facilities-related costs and depreciation and amortization. We also increased headcount, specifically in our network infrastructure and information technology functions in support of our security infrastructure growth, which increased payroll and related costs. For the three- and six-month periods ended June 30, 2017, as compared to the same periods in 2016, we also experienced an increase in acquisition-related costs due to our acquisition of Soasta and an increase in professional fees for legal services due to ongoing litigation.

The increase in general and administrative expenses for the three- and six-month periods ended June 30, 2017, as compared to the same periods in 2016, was partially offset by payments received from Limelight Networks, Inc., or Limelight, under the terms of a patent license arrangement we entered into to resolve a patent lawsuit between Akamai and Limelight.

During 2017, we expect general and administrative expenses to increase as compared to 2016, due to anticipated increased payroll and related costs and facilities-related costs. The increase in those expenses is expected to be attributable to increased headcount, investments in information technology and the expansion of our facility footprint to support headcount growth, which occurred throughout 2016 and the first half of 2017.

Amortization of Acquired Intangible Assets

(in thousands)	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Amortization of acquired intangible assets	\$7,753	\$6,711	15.5 %	\$15,322	\$13,427	14.1 %
As a percentage of revenue	1.3	% 1.2	%	1.3	% 1.2	%

The increase in amortization of acquired intangible assets for the three- and six-month periods ended June 30, 2017, as compared to the same periods in 2016, was the result of amortization of assets related to our 2016 and 2017 acquisitions. Based on our intangible assets at June 30, 2017, we expect amortization of acquired intangible assets to be approximately \$15.5 million for the remainder of 2017, and \$31.4 million, \$32.8 million, \$29.5 million and \$24.1 million for 2018, 2019, 2020 and 2021, respectively.

Table of Contents

Restructuring Charges

(in thousands)	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Restructuring charges	\$2,971	\$470	nm	\$2,971	\$7,288	nm
As a percentage of revenue	0.5	% 0.1	%	0.2	% 0.6	%

The restructuring charges for the three- and six-month periods ended June 30, 2017 consisted of severance expenses associated with the acquisition of Soasta, as well as a termination fee incurred to cancel a portion of the facility lease acquired in the acquisition. The restructuring charges for the three- and six-month periods ended June 30, 2016, were the result of changes that occurred during 2016 to our organizational structure to reorganize our products and development groups and global sales, services and marketing teams into divisions centered on our solutions. The restructuring charges in the 2016 periods related to severance expenses for impacted employees and charges for internal-use software not yet placed into service that were not completed nor launched due to changing priorities as part of the reorganization.

Non-Operating Income (Expense)

(in thousands)	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Interest income	\$4,281	\$3,393	26.2 %	\$8,905	\$6,713	32.7 %
As a percentage of revenue	0.7	% 0.6	%	0.7	% 0.6	%
Interest expense	\$(4,646)	\$(4,639)	0.2	\$(9,243)	\$(9,292)	(0.5)
As a percentage of revenue	(0.8)	% (0.8)	%	(0.8)	% (0.8)	%
Other income (expense), net	\$563	\$415	35.7	\$(121)	\$226	(153.5)
As a percentage of revenue	0.1	% 0.1	%	—	% —	%

For the periods presented, interest income primarily 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 income (expense), net primarily represents net foreign exchange gains and losses and other non-operating expense and income items. The fluctuation in other income (expense), net for the three- and six-month periods ended June 30, 2017, as compared to the same periods in 2016, was primarily due to foreign currency exchange rate fluctuations on intercompany and other non-functional currency transactions. Other income (expense), net may fluctuate in the future based on changes in foreign currency exchange rates or other events.

Provision for Income Taxes

(in thousands)	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Provision for income taxes	\$29,637	\$35,714	(17.0)%	\$63,278	\$73,453	(13.9)%
As a percentage of revenue	4.9	% 6.2	%	5.2	% 6.4	%
Effective income tax rate	33.9	% 32.7	%	31.3	% 33.1	%

For each of the three- and six-month periods ended June 30, 2017 and 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. plus the effect of 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.

Table of Contents

We expect our full year effective income tax rate to remain consistent with the effective income tax rate recognized during the six months ended June 30, 2017. 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 accounting principles generally accepted in the U.S., or 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, to measure executive compensation 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 facilitates meaningful comparisons and analysis of trends in the business, as they assist in the comparison of financial results across accounting periods and to those of our peer companies. 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 exclude expenses and gains that may be unusual in nature, infrequent or not reflective of our ongoing operating results.

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 have 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 evaluate; 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.

Table of Contents

Acquisition-related costs – Acquisition-related costs include transaction fees, advisory 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 historical 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 representative of ongoing operating performance.

Gains and losses on investments – We have recorded gains and losses from the disposition and impairment of certain investments. 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 and ongoing operating performance.

Legal matter costs – We have incurred losses from the settlement of legal matters and costs with respect to our internal U.S. Foreign Corrupt Practices Act investigation in addition to the disgorgement we were required to pay to resolve it. We believe excluding these amounts from our non-GAAP financial measures is useful to investors as the types of events giving rise to them 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 releasing 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		For the Six Months		
	Ended June 30,		Ended June 30,		
	2017	2016	2017	2016	
Income from operations	\$87,211	\$110,180	\$202,439	\$224,299	
Amortization of acquired intangible assets	7,753	6,711	15,322	13,427	
Stock-based compensation	41,269	34,911	80,255	66,652	
Amortization of capitalized stock-based compensation and capitalized interest expense	4,556	4,071	8,467	7,679	
Restructuring charges	2,971	470	2,971	7,288	
Acquisition-related costs	3,057	361	2,849	282	
Legal matter costs	—	101	—	890	
Non-GAAP income from operations	\$146,817	\$156,805	\$312,303	\$320,517	
GAAP operating margin	14	% 19	% 17	% 20	%
Non-GAAP operating margin	24	% 27	% 26	% 28	%

The following table reconciles GAAP net income to non-GAAP net income for the periods presented (in thousands):

	For the Three Months		For the Six Months		
	Ended June 30,		Ended June 30,		
	2017	2016	2017	2016	
Net income	\$57,772	\$73,635	\$138,702	\$148,493	
Amortization of acquired intangible assets	7,753	6,711	15,322	13,427	
Stock-based compensation	41,269	34,911	80,255	66,652	
Amortization of capitalized stock-based compensation and capitalized interest expense	4,556	4,071	8,467	7,679	
Restructuring charges	2,971	470	2,971	7,288	
Acquisition-related costs	3,057	361	2,849	282	
Legal matter costs	—	101	—	890	
Amortization of debt discount and issuance costs	4,646	4,639	9,243	9,292	
Income tax effect of above non-GAAP adjustments and certain discrete tax items	(13,974)	(12,832)	(29,441)	(24,155)	
Non-GAAP net income	\$108,050	\$112,067	\$228,368	\$229,848	

Table of Contents

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
GAAP net income per diluted share	\$0.33	\$0.42	\$0.80	\$0.84
Amortization of acquired intangible assets	0.04	0.04	0.09	0.08
Stock-based compensation	0.24	0.20	0.46	0.38
Amortization of capitalized stock-based compensation and capitalized interest expense	0.03	0.02	0.05	0.04
Restructuring charges	0.02	—	0.02	0.04
Acquisition-related costs	0.02	—	0.02	—
Legal matter costs	—	—	—	0.01
Amortization of debt discount and issuance costs	0.03	0.03	0.05	0.05
Income tax effect of above non-GAAP adjustments and certain discrete tax items	(0.08)	(0.07)	(0.17)	(0.14)
Non-GAAP net income per diluted share	\$0.62	\$0.64	\$1.31	\$1.30
Shares used in diluted per share calculations	173,439,176,420		174,305,176,980	

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 our convertible senior notes. 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.

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 we do not consider to be part of our core operations. 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 costs; restructuring charges; gains and other activity related to divestiture of a business; gains and losses on legal settlements; costs incurred with respect to our internal FCPA investigation; 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.

Table of Contents

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

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
Net income	\$57,772	\$73,635	\$138,702	\$148,493
Amortization of acquired intangible assets	7,753	6,711	15,322	13,427
Stock-based compensation	41,269	34,911	80,255	66,652
Amortization of capitalized stock-based compensation and capitalized interest expense	4,556	4,071	8,467	7,679
Restructuring charges	2,971	470	2,971	7,288
Acquisition-related costs	3,057	361	2,849	282
Legal matter costs	—	101	—	890
Interest income	(4,281)	(3,393)	(8,905)	(6,713)
Amortization of debt discount and issuance costs	4,646	4,639	9,243	9,292
Provision for income taxes	29,637	35,714	63,278	73,453
Depreciation and amortization	76,897	74,332	151,950	144,677
Other (income), net	(563)	(415)	121	(226)
Adjusted EBITDA	\$223,714	\$231,137	\$464,253	\$465,194
Adjusted EBITDA margin	37	% 40	% 38	% 41

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, generally 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 June 30, 2017, our cash, cash equivalents and marketable securities, which primarily consisted of corporate bonds and U.S. government agency securities, totaled \$1.4 billion. Factoring in our convertible senior notes of \$690.0 million, our net cash at June 30, 2017 was \$724.9 million. We place our cash investments in instruments that meet high-quality credit standards, as 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.

Table of Contents

As of June 30, 2017, we had cash and cash equivalents of \$198.1 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 Six Months Ended June 30,	
	2017	2016
Net income	\$ 138,702	\$ 148,493
Non-cash reconciling items included in net income	306,214	248,013
Changes in operating assets and liabilities	(77,665)	39,236
Net cash flows provided by operating activities	\$ 367,251	\$ 435,742

The decrease in cash provided by operating activities for the six-month period ended June 30, 2017, as compared to the same period in 2016, was primarily due to higher annual bonus payouts due to increased headcount and higher attainment, higher cash paid for income taxes due to the timing of estimated tax payments and increased prepayments for multi-year network-related maintenance contracts that were renewed during the first half of 2017, in addition to the impact of lower profitability.

Cash Used in Investing Activities

(in thousands)	For the Six Months Ended June 30,	
	2017	2016
Cash paid for acquired businesses, net of cash acquired	\$(197,201)	\$—
Purchases of property and equipment and capitalization of internal-use software development costs	(188,186)	(160,481)
Net marketable securities activity	231,897	(32,242)
Other investing activity	(1,249)	(1,512)
Net cash used in investing activities	\$(154,739)	\$(194,235)

The decrease in cash used in investing activities during the six-month period ended June 30, 2017, as compared to the same period in 2016, was driven by our acquisition of Soasta during the six-month period ended June 30, 2017, in which cash paid, net of cash acquired, was \$197.2 million. This was offset by net marketable securities activity, which provided an inflow of cash provided by investing activities during the six-month period ended June 30, 2017 because we held the majority of the proceeds from our sales and maturities of marketable securities to fund the acquisition. The net marketable securities activity related to the Soasta acquisition was partially offset by an increase in purchases of property and equipment during the six-month period ended June 30, 2017, as compared to the same period in 2016, as we increased investment in our network.

Cash Used in Financing Activities

(in thousands)	For the Six Months Ended June 30,	
	2017	2016

Edgar Filing: AKAMAI TECHNOLOGIES INC - Form 10-Q

Activity related to stock-based compensation	\$(15,658)	\$(5,315)
Repurchases of common stock	(177,615)	(199,710)
Other financing activities	(1,096)	—
Net cash used in financing activities	\$(194,369)	\$(205,025)

32

Table of Contents

The decrease in cash used in financing activities during the six-month period ended June 30, 2017, as compared to the same period in 2016, was primarily the result of decreased share repurchases. In February 2016, the Board of Directors authorized a \$1.0 billion share repurchase program effective from February 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 six-month period ended June 30, 2017, we repurchased 3.1 million shares of common stock at a weighted average price of \$56.90 per share for an aggregate of \$177.6 million. During the six-month period ended June 30, 2016, we repurchased 4.0 million shares of common stock at a weighted average price of \$50.54 per share for an aggregate of \$199.7 million. As of June 30, 2017, \$516.9 million remains available for future share repurchases. 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 6 to the consolidated financial statements included elsewhere in this quarterly report on Form 10-Q. We have used, and intend to use, the net proceeds of the offering for share repurchases, working capital and general corporate purposes, including potential 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 expected capital expenditures, investments in information technology and facility expansion, opportunistic business acquisitions, anticipated share repurchases, lease and purchase commitments and settlements of other long-term liabilities.

Contractual Obligations

Our principal commitments consist of service agreements with co-location facilities for data center capacity and bandwidth usage, obligations under leases for office space 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 June 30, 2017, 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, 2016, other than normal period-to-period variations.

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 11 to our consolidated financial statements included in our annual report on

Form 10-K for the year ended December 31, 2016 for further discussion of these indemnification agreements. The fair value of guarantees issued or modified during the six months ended June 30, 2017 was determined to be immaterial.

As of June 30, 2017, we did not have any additional material off-balance sheet arrangements.

Significant Accounting Policies and Estimates

See Note 1 to the consolidated financial statements included elsewhere in this quarterly report on Form 10-Q for information regarding recent and newly adopted accounting pronouncements. See also Note 2 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2016. There have been no material changes to our significant accounting policies and estimates from those reported in our annual report on Form 10-K for the year ended December 31, 2016.

Table of Contents

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 consolidated statements of income within other income (expense), net. Foreign currency transaction gains and losses from these forward contracts were determined to be immaterial during the six months ended June 30, 2017. 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 operating expenses. Conversely, our revenue and operating expenses will decrease 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.

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 June 30, 2017 and December 31, 2016, no customer had an accounts receivable balance greater than 10% of our accounts receivable. We believe that at June 30, 2017, 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 June 30, 2017. 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

Table of Contents

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 June 30, 2017, 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 June 30, 2017 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.

In November 2015, Limelight filed a complaint in the U.S. District Court for the Eastern District of Virginia against Akamai and XO Communications LLC, or XO, alleging patent infringement by the two companies. The complaint alleges that Akamai and XO infringed six of Limelight's content delivery patents. The complaint seeks to recover from Akamai and XO significant monetary damages based upon lost revenue due to infringing technology used by the companies. We have agreed to indemnify XO for damages it incurs in this matter. We have made counterclaims in the action against Limelight alleging that Limelight has infringed five Akamai content delivery patents, and we are seeking monetary damages based upon lost revenue due to the infringing technology used by Limelight. The case has been continued, and a new trial date has not been set. We currently believe that the outcome of this litigation will not have a material impact on our business.

Table of Contents

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, 2016.

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 nearly two decades 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, particularly our media services, 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 or acquiring 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, where competitors may develop products and services that are, or may be viewed as, better than ours and where it can be costly to acquire other companies. 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 solutions the market will accept. This could cause our expenses to grow more rapidly than our revenue. There is often a lengthy period between commencing development initiatives and bringing new or improved solutions to market. During this time, technology preferences, customer demand and the market for our solutions, or those introduced by our competitors, may move in directions that we had not anticipated when we decided to pursue such initiatives. 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, 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 profitable to us and inability 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.

Increasing traffic on our network is key to our revenue growth and profitability. Numerous factors can impact traffic growth including:

- the pace of introduction of over-the-top (often referred to as OTT) video delivery initiatives by our customers;
- the popularity of our customers' streaming offerings as compared to those offered by companies that do not use our services;
- customers, particularly large Internet platform companies, utilizing their own data centers and implementing delivery approaches that limit or eliminate reliance on third party providers like us; and
- macro-economic market and industry pressures.

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 2017 or on a quarterly or annual basis thereafter.

Our profitability may also 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 significantly over the life of our company and continue to evolve rapidly 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.

The Internet itself is constantly evolving. There could develop an inflection point above which global usage of the Internet increases to a level that causes our current approaches to the delivery of content and applications to no longer be sustainable at current levels of profitability or at all. We also need to continue to manage successfully the transition from the IPv4 protocol to IPv6.

With this constantly changing environment, our future business strategies, practices and results may not meet expectations, and we may face operational difficulties in adjusting to any changes. Any of these developments could harm our business.

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

Table of Contents

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.

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 we offer and 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 attacks on our platform 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 and the security of information we hold is a critical issue for us and our customers. Attacks on our customers and our own network take a variety of forms, including distributed denial of service (DDoS) attacks, infrastructure attacks, botnets, malicious file uploads, cross-site scripting, credential abuse, bugs, viruses, worms and malicious software programs. Malicious actors can attempt to fraudulently induce employees or suppliers to disclose sensitive information through illegal electronic spamming, phishing or other tactics. In addition, unauthorized parties may attempt to gain physical access to our facilities in order to infiltrate our information systems.

In recent years, Internet-based attacks have increased in size, sophistication and complexity, increasing exposure for our customers and us. In addition, as we expand our emphasis on selling security-related solutions, we may become a more attractive target for attacks on our infrastructure intended to destabilize, overwhelm or shut down our platform. The costs to us to avoid or alleviate cyber or other security problems and vulnerabilities are significant. However, our efforts to address these problems may not be successful. Any significant breach of our security measures could:

- lead to the dissemination of proprietary information or sensitive, personal or confidential data about us, our employees or our customers;
- threaten our ability to provide our customers with our services;

generate negative publicity about us;
result in litigation and increased legal liability or fines; or
lead to governmental inquiry or oversight.

The occurrence of any of these events could harm our business or damage our brand and reputation, lead to customer credits, loss of customers, higher expenses, and possibly impede our present and future success in retaining and attracting new customers. A successful assault on our infrastructure would be damaging to our reputation and could adversely affect our financial condition.

Table of Contents

Similar security risks exist with respect to our business partners and the third-party vendors that we rely on for aspects of our information technology support services and administrative functions. As a result, we are subject to the risk that the activities of our business partners and third-party vendors may adversely affect our business even if an attack or breach does not directly impact our systems.

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, particularly those under cyber-attack. The bandwidth we have contracted to purchase may become unavailable for a variety of reasons, including payment disputes, network providers going out of business, natural disasters, 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 or security 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.

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.

We expect to pursue acquisitions and 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 expected revenue gains, synergies or other 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. If we use a significant portion of our available cash to pay for acquisitions that are not successful, it could harm our balance sheet and limit our flexibility to pursue other opportunities without having enjoyed the intended benefits of the acquisition. 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.

Table of Contents

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 due to our 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 as they relate to these customers from quarter to quarter or over longer periods. We could also experience inconsistent revenue growth patterns and earnings as a result of the behavior of these customers.

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 personnel, properly train them and manage out poorly-performing personnel, all while maintaining our corporate culture and spirit of innovation. If we are not successful in these efforts, our growth and operations could be adversely affected.

As our business evolves, we must also expand and adapt our IT and operational infrastructure. Our business relies on our data systems, traffic measurement systems, billing systems, ordering processes 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, traffic measurement 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.

Our restructuring and reorganization activities may be disruptive to our operations and harm our business.

Over the past several years, we have implemented internal restructurings and reorganizations designed to reduce the size and cost of our operations, improve operational efficiencies, enhance our ability to pursue market opportunities and accelerate our technology development initiatives. We may take similar steps in the future as we seek to realize operating synergies, optimize our operations to achieve our target operating model and profitability objectives, or better reflect changes in the strategic direction of our business. Disruptions in operations have occurred and will likely continue to occur, including with respect to our research and development efforts, as a result of taking these actions. Taking these actions may also result in significant expense for us, including with respect to workforce reduction, as well as decreased productivity and unanticipated employee turnover. Substantial expense or business disruptions resulting from restructuring and reorganization activities could adversely affect our operating results.

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. In recent years, we have increasingly linked compensation levels to corporate performance metrics. Declines in the price of our stock or failure to achieve annual revenue and profitability metrics could adversely affect our ability to attract or retain key employees.

Table of Contents

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;
- announcements by our customers related to their businesses that could be viewed as impacting their usage of our solutions;
- 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;
- successful cyber-attacks against our network or systems or those of our business partners or third-party vendors;
- 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 minimum revenue 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.

We face risks associated with global operations 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;
- regulations related to security requirements, data localization or restricting content 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;

Table of Contents

• 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.

Geo-political events such as the United Kingdom's vote in June 2016 to withdraw from the European Union, commonly referred to as Brexit, may increase the likelihood of certain of these risks materializing or heighten their impact on us in affected regions. In particular, it is possible that the level of economic activity in the United Kingdom and the rest of Europe will be adversely impacted and that we will face increased regulatory and legal complexities, including those related to tax, trade, security and employees as a result of Brexit. Such changes could be costly and potentially disruptive to our operations and business relationships in affected markets.

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, among others:

- 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.

Violations of these laws and regulations by our employees or partners could result in fines and penalties, criminal sanctions against us or our employees and prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries. They could also materially affect our brand, our global operations, any international expansion efforts, our ability to attract and retain employees, our business overall, and our financial results. 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.

We entered into a Non-Prosecution Agreement with the Securities and Exchange Commission, or the Commission, in June 2016 in connection with the previously-disclosed investigation relating to sales practices in a country outside the U.S. In the event we violate the terms of this Non-Prosecution Agreement, we could be subject to additional investigation or enforcement by the Commission or the Department of Justice. In addition, whether by virtue of disclosure of the Non-Prosecution Agreement or otherwise, we may be subject to investigations by foreign governments. Any such investigations or enforcement actions could have a material adverse effect on us.

Defects or disruptions in our services and systems could diminish demand for our solutions, impact our profitability, 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 or otherwise impacted our operations. 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

systems, or if there are unidentified errors that allow persons to improperly access our services or systems, we could experience loss of revenue and market share, damage to our reputation, increased expenses, delayed payments and legal actions by our customers.

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 or changes, including as a result

Table of Contents

of the nascent U.S. presidential administration, will not impact our business. In particular, it is difficult to predict how the regulatory environment in the U.S. will change as a result of the nascent presidential administration or whether any changes will have an adverse or favorable impact on our business.

Increasing regulatory focus on privacy issues and expanding laws and regulations could expose us to increased liability.

Privacy laws, including the new European Union General Data Protection Regulation, are rapidly changing and evolving globally. Governments, privacy advocates and class action attorneys are increasingly scrutinizing how companies collect, process, use, store, share and transmit personal data. New laws and industry self-regulatory codes have been enacted and more are being considered that may affect our ability to reach current and prospective customers, to understand how our products and services are being used, and to respond to customer requests allowed under the laws, and how we use data generated from our network. Any perception that our business practices, data collection activities or how our services operate represent an invasion of privacy, whether or not consistent with current regulations and industry practices, may subject us to public criticism (or boycotts), class action lawsuits, reputational harm or claims by regulators, industry groups or other third parties, all of which could disrupt our business and expose us to increased liability.

Over the past several years, the regulatory landscape governing the transfer of covered personal data from Europe to the United States has seen sweeping changes. Where we once relied on the U.S.-European Union and the U.S.-Swiss Safe Harbor Frameworks as a means to legally transfer covered personal data from Europe to the United States, after their invalidation by European Union and Swiss authorities, we have replaced these mechanisms with the new U.S.-European Union and U.S. Swiss Privacy Shield Frameworks to legally transfer such data from Europe to the United States. While the respective Privacy Shield Frameworks have been approved by both European and Swiss authorities as valid mechanisms through which companies can transfer covered personal data from Europe to the United States, their legitimacy may continue to be subject to challenge and review in those and other jurisdictions. Any changing or new requirements or rulings by the European Commission or EU member jurisdictions may impact our services or subject us to sanctions, including fines and a prohibition on data transfers, by EU data protection regulators. Furthermore, any continued or new judicial challenges or reviews may result in new, modified or inconsistent standards or requirements for the transfer of personal data, which could result in increased regulation, cost of compliance and limitations on data transfer for us and our customers. These developments could harm our business, financial condition and results of operations.

We also 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 policy could result in damage to our reputation or proceedings or actions against us, 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 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;
- 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

Table of Contents

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; however, 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. Furthermore, open-source software may have security flaws and other deficiencies that could make our solutions less reliable and damage our business.

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.

Achieving 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. If we become reliant on a small number of large partners, any termination of our relationship with one of them could have an adverse impact on our financial condition. 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

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

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. We are currently subject to tax audits in various jurisdictions including the Commonwealth of Massachusetts. If the outcome of such audit or other audits were to be adverse to us, our reserves 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 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.

Table of Contents

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

As of June 30, 2017, 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 the 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, or exchangeable or exercisable for, 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. In addition, under our charter, we could be required to indemnify and advance expenses to our directors and officers in connection with their involvement in certain actions, suits, investigations and other proceedings. Such matters can be time-consuming, divert management's attention and resources and cause us to incur significant expenses.

We are currently involved in litigation with one of our competitors, Limelight Networks, Inc., or Limelight, involving claims for patent infringement. Limelight has asserted that it is entitled to significant damages. While we challenge the basis of the underlying claims and amount of such assertions, if such action were to be decided against our favor and a court were to award Limelight significant damages, our business and financial condition would be adversely impacted.

Furthermore, because litigation is inherently unpredictable and may not be covered by insurance, there can be no assurance that the results of the Limelight litigation or any of these other 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, investors and other stakeholders 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 second quarter of 2017 (in thousands, except share and per share data):

Period ⁽¹⁾	(a) Total Number of Shares Purchased ⁽²⁾	(b) Average Price Paid per Share ⁽³⁾	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽⁴⁾	(d) Approximate Dollar Value of Shares that May Yet be Purchased Under Plans or Programs ⁽⁴⁾
April 1, 2017 – April 30, 2017	433,617	\$ 59.68	433,617	\$ 596,155
May 1, 2017 – May 31, 2017	737,329	51.10	737,329	558,479
June 1, 2017 – June 30, 2017	848,952	48.99	848,952	516,886
Total	2,019,898	\$ 52.06	2,019,898	\$ 516,886

(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 February 2016, the Board of Directors authorized a \$1.0 billion share repurchase program effective from February 2016 through December 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.

August 8, 2017 By: /s/ James Benson

James Benson

Chief Financial Officer

(Duly Authorized Officer, Principal Financial Officer)

49

Table of Contents

EXHIBIT INDEX

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 June 30, 2017 and December 31, 2016, (ii) Consolidated Statements of Income for the six months ended June 30, 2017 and 2016, (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 and 2016, (iv) Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016 and (v) Notes to Unaudited Consolidated Financial Statements.