

AKAMAI TECHNOLOGIES INC
Form 10-Q
November 08, 2018
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 September 30, 2018

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 incorporation or organization) (I.R.S. Employer 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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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

If an emerging growth company, indicate by check mark if the registrant has elected not 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 November 5, 2018: 162,866,026

Table of Contents

AKAMAI TECHNOLOGIES, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	<u>3</u>
Consolidated Balance Sheets at September 30, 2018 and December 31, 2017	<u>3</u>
Consolidated Statements of Income for the three and nine months ended September 30, 2018 and 2017	<u>4</u>
Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017	<u>5</u>
Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017	<u>6</u>
Notes to Unaudited Consolidated Financial Statements	<u>8</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>43</u>
Item 4. <u>Controls and Procedures</u>	<u>44</u>
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>44</u>
Item 1A. <u>Risk Factors</u>	<u>45</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>57</u>
Item 6. <u>Exhibits</u>	<u>58</u>
<u>SIGNATURES</u>	<u>59</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 705,407	\$ 313,382
Marketable securities	1,096,233	398,554
Accounts receivable, net of reserves of \$1,358 and \$1,281 at September 30, 2018, and December 31, 2017, respectively	466,364	461,457
Prepaid expenses and other current assets	161,785	172,853
Total current assets	2,429,789	1,346,246
Property and equipment, net	884,483	862,535
Marketable securities	257,135	567,592
Goodwill	1,488,868	1,498,688
Acquired intangible assets, net	176,640	201,259
Deferred income tax assets	23,688	36,231
Other assets	103,284	136,365
Total assets	\$ 5,363,887	\$ 4,648,916
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 96,051	\$ 80,278
Accrued expenses	305,267	283,743
Deferred revenue	93,732	70,495
Convertible senior notes	680,564	—
Other current liabilities	20,324	22,178
Total current liabilities	1,195,938	456,694
Deferred revenue	5,218	6,062
Deferred income tax liabilities	18,827	17,823
Convertible senior notes	864,679	662,913
Other liabilities	123,695	142,955
Total liabilities	2,208,357	1,286,447
Commitments and contingencies (Note 9)		
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; 172,234,085 shares issued and 163,886,719 shares outstanding at September 30, 2018, and 169,893,324 shares issued and outstanding at December 31, 2017	1,722	1,699
Additional paid-in capital	4,352,857	4,073,362
Accumulated other comprehensive loss	(48,218	) (21,930
Treasury stock, at cost, 8,347,366 shares at September 30, 2018, and no shares at December 31, 2017	(625,925) —
Accumulated deficit	(524,906	) (690,662
Total stockholders' equity	3,155,530	3,362,469

Total liabilities and stockholders' equity	\$ 5,363,887	\$ 4,648,916
--	--------------	--------------

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 Nine Months	
	Ended September 30, 2018	2017	Ended September 30, 2018	2017
Revenue	\$669,628	\$624,440	\$2,001,111	\$1,830,565
Costs and operating expenses:				
Cost of revenue (exclusive of amortization of acquired intangible assets shown below)	239,246	225,490	709,558	645,897
Research and development	61,049	57,226	185,823	162,761
Sales and marketing	125,323	117,863	379,556	350,299
General and administrative	119,911	124,523	444,502	363,050
Amortization of acquired intangible assets	8,294	7,753	25,019	23,075
Restructuring (benefit) charges	(732)	332	14,442	3,303
Total costs and operating expenses	553,091	533,187	1,758,900	1,548,385
Income from operations	116,537	91,253	242,211	282,180
Interest income	9,258	4,463	19,632	13,368
Interest expense	(14,566)	(4,746)	(28,620)	(13,989)
Other (expense) income, net	(459)	535	(3,207)	414
Income before provision for income taxes	110,770	91,505	230,016	281,973
Provision for income taxes	3,187	27,594	25,658	86,727
Net income	\$107,583	\$63,911	\$204,358	\$195,246
Net income per share:				
Basic	\$0.65	\$0.37	\$1.21	\$1.13
Diluted	\$0.64	\$0.37	\$1.20	\$1.13
Shares used in per share calculations:				
Basic	165,924	170,976	168,763	172,269
Diluted	167,900	171,505	170,732	173,371

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 September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$107,583	\$63,911	\$204,358	\$195,246
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(7,771	) 7,689	(26,046	) 31,184
Change in unrealized gain (loss) on investments, net of income tax (provision) benefit of \$(494), \$(187), \$78 and \$(868) for the three and nine months ended September 30, 2018 and 2017, respectively	1,524	310	(242	) 1,438
Other comprehensive (loss) income	(6,247	) 7,999	(26,288	) 32,622
Comprehensive income	\$101,336	\$71,910	\$178,070	\$227,868

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 Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 204,358	\$ 195,246
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	318,226	272,917
Stock-based compensation	138,815	122,103
Provision for deferred income taxes	12,906	23,134
Amortization of debt discount and issuance costs	27,844	13,989
Restructuring-related software charges	2,818	—
Other non-cash reconciling items, net	9,360	3,655
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(13,611)	(9,423)
Prepaid expenses and other current assets	(2,084)	(36,580)
Accounts payable and accrued expenses	7,921	22,150
Deferred revenue	23,927	1,528
Other current liabilities	2,030	3,651
Other non-current assets and liabilities	(10,338)	(8,828)
Net cash provided by operating activities	722,172	603,542
Cash flows from investing activities:		
Cash paid for acquired businesses, net of cash acquired	(79)	(197,201)
Purchases of property and equipment	(143,285)	(185,466)
Capitalization of internal-use software development costs	(145,122)	(122,460)
Purchases of short- and long-term marketable securities	(782,086)	(249,098)

Edgar Filing: AKAMAI TECHNOLOGIES INC - Form 10-Q

Proceeds from sales of short- and long-term marketable securities	16,308		180,405	
Proceeds from maturities of short- and long-term marketable securities	378,708		317,974	
Other non-current assets and liabilities	(2,678	)	(1,166)
Net cash used in investing activities	(678,234	)	(257,012)
Cash flows from financing activities:				
Proceeds from the issuance of convertible senior notes	1,132,185		—	
Proceeds from the issuance of warrants	119,945		—	
Purchase of note hedge related to convertible senior notes	(261,740)	—	
Proceeds related to the issuance of common stock under stock plans	52,497		41,740	
Employee taxes paid related to net share settlement of stock-based awards	(52,145	)	(48,122)
Repurchases of common stock	(625,925	)	(306,629)
Other non-current assets and liabilities	(5,085	)	(1,096)
Net cash provided by (used in) financing activities	359,732		(314,107)
Effects of exchange rate changes on cash, cash equivalents and restricted cash	(11,528	)	12,359	
Net increase in cash, and cash equivalents and restricted cash	392,142		44,782	
Cash, cash equivalents and restricted cash at beginning of period	314,429		324,626	
Cash, cash equivalents and restricted cash at end of period	\$ 706,571		\$ 369,408	

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

	For the Nine Months Ended September 30,	
(in thousands)	2018	2017
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net of refunds received of \$17,286 and \$5,867 for the nine months ended September 30, 2018 and 2017, respectively	\$32,485	\$79,479
Non-cash investing activities:		
Purchases of property and equipment and capitalization of internal-use software development costs included in accounts payable and accrued expenses	54,414	29,546
Capitalization of stock-based compensation	25,676	21,602
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$705,407	\$368,152
Restricted cash	1,164	1,256
Cash, cash equivalents and restricted cash	\$706,571	\$369,408

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

Table of Contents

AKAMAI TECHNOLOGIES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business and Basis of Presentation

Akamai Technologies, Inc. (the “Company”) provides security, web and mobile performance, enterprise access, and video delivery solutions to enterprises across the world. Its globally-distributed platform comprises more than 200,000 servers across more than 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, 2017, filed with the Securities and Exchange Commission on March 1, 2018.

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 May 2014, the Financial Accounting Standards Board (“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. The Company adopted this new standard on a retrospective basis on January 1, 2018. The changes to the Company’s revenue recognition approach under this new standard primarily impact the timing of recognizing revenue from a small number of licensed software customers. There is little impact on revenue recognized for the Company’s core services. As a result of the change, the Company also began capitalizing certain commission and incentive payments.

In November 2016, the FASB issued guidance that requires restricted cash to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted this new standard on a retrospective basis on January 1, 2018.

Table of Contents

The following table details the changes to the consolidated balance sheet as of December 31, 2017 as a result of the retrospective adoption of the new revenue recognition standard (in thousands):

	As Previously Reported	Revenue Recognition Standard Adjustments	As Revised
ASSETS			
Current assets:			
Accounts receivable	\$459,127	\$ 2,330	\$461,457
Prepaid expenses and other current assets	137,809	35,044	172,853
Total current assets	1,308,872	37,374	1,346,246
Deferred income tax assets	51,069	(14,838)	36,231
Other assets	112,829	23,536	136,365
Total assets	4,602,844	46,072	4,648,916
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Deferred revenue	\$77,705	\$ (7,210)	\$70,495
Total current liabilities	463,904	(7,210)	456,694
Deferred revenue	6,839	(777)	6,062
Deferred income tax liabilities	15,510	2,313	17,823
Total liabilities	1,292,121	(5,674)	1,286,447
Stockholders' equity:			
Accumulated deficit	(742,408)	51,746	(690,662)
Total stockholders' equity	3,310,723	51,746	3,362,469
Total liabilities and stockholders' equity	4,602,844	46,072	4,648,916

Table of Contents

The following table details the changes to the consolidated statements of income for the three and nine months ended September 30, 2017 as a result of the retrospective adoption of the new revenue recognition standard (in thousands, except per share data):

	For the Three Months Ended September 30, 2017			For the Nine Months Ended September 30, 2017		
	As Previously Reported	Revenue Recognition Standard Adjustments	As Revised	As Previously Reported	Revenue Recognition Standard Adjustments	As Revised
Revenue	\$621,399	\$ 3,041	\$624,440	\$1,839,544	\$ (8,979)	\$1,830,565
Costs and operating expenses:						
Cost of revenue (exclusive of amortization of acquired intangible assets)	225,468	22	225,490	645,821	76	645,897
Sales and marketing	120,220	(2,357)	117,863	353,218	(2,919)	350,299
Total costs and operating expenses	535,522	(2,335)	533,187	1,551,228	(2,843)	1,548,385
Income from operations	85,877	5,376	91,253	288,316	(6,136)	282,180
Income before provision for income taxes	86,129	5,376	91,505	288,109	(6,136)	281,973
Provision for income taxes	25,617	1,977	27,594	88,895	(2,168)	86,727
Net income	60,512	3,399	63,911	199,214	(3,968)	195,246
Net income per share:						
Basic	\$0.35	\$ 0.02	\$0.37	\$1.16	\$ (0.03)	\$1.13
Diluted	\$0.35	\$ 0.02	\$0.37	\$1.15	\$ (0.02)	\$1.13

Table of Contents

The statements of comprehensive income for the three and nine months ended September 30, 2017 was also impacted by the adjustments to net income of \$3.4 million and \$(4.0) million, respectively.

The following table details the changes to the consolidated statement of cash flows for the nine months ended September 30, 2017 as a result of the retrospective adoption of the new revenue recognition and statement of cash flow standards (in thousands):

	As Previously Reported	Revenue Recognition Standard Adjustments	Cash Flow Standard Adjustments	As Revised
Cash flows from operating activities:				
Net income	\$ 199,214	\$ (3,968)	\$	—\$ 195,246
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for deferred income taxes	25,302	(2,168)	—	23,134
Changes in operating assets and liabilities, net of effects of acquisitions:				
Accounts receivable	(19,199)	9,776	—	(9,423)
Prepaid expenses and other current assets	(34,195)	(2,385)	—	(36,580)
Deferred revenue	991	537	—	1,528
Other non-current assets and liabilities	(7,036)	(1,792)	—	(8,828)
Net cash provided by operating activities	603,542	—	—	603,542
Cash flows from investing activities:				
Other non-current assets and liabilities	(1,895)	—	729	(1,166)
Net cash used in investing activities	(257,741)	—	729	(257,012)
Effects of exchange rate changes on cash, cash equivalents and restricted cash	12,289	—	70	12,359
Net increase in cash, and cash equivalents and restricted cash	43,983	—	799	44,782
Cash, cash equivalents and restricted cash at beginning of period	324,169	—	457	324,626
Cash, cash equivalents and restricted cash at end of period	368,152	—	1,256	369,408

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. The Company adopted this new standard on January 1, 2018 using the modified retrospective basis, recognizing a cumulative-effect adjustment as a component of equity as of the date of adoption. Upon adoption, the Company reclassified \$11.6 million from prepaid and other current assets and \$27.0 million from other assets to beginning retained earnings.

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. The Company adopted this guidance on January 1, 2018 and will apply it prospectively to future transactions. The adoption of this new accounting guidance had no immediate impact on the Company's consolidated financial statements; however, it may result in a future transaction being recorded as a transfer of assets, whereas previously the Company may have concluded it was a business combination.

Recent Accounting Pronouncements

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 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 on a modified retrospective basis. The Company expects to record significant right-of-use assets and lease liabilities on its consolidated balance sheets, but does not expect the adoption to impact its results of operations or cash flows.

Table of Contents

The Company has formed a project team to assess the current state of accounting for leases, to understand the gaps between the current state and required future state and to implement the new processes, systems and controls required. To date, the Company has completed its gap analysis, selected a software tool to assist with the accounting for leases, has begun to implement the software, and has begun its data collection and migration efforts. The Company is also in the process of finalizing its accounting policies and designing the related processes and internal controls. The Company expects the adoption of this standard to require changes to its processes, systems and controls over financial reporting.

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 of adopting this new accounting guidance on its consolidated financial statements.

In February 2018, the FASB issued guidance that allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act (the "TCJA") that was enacted in 2017. The amendments in this update are effective either in the period of adoption or retrospectively, to each period in which the effect of the change in the U.S. federal corporate income tax rate in the TCJA is recognized, during interim and annual periods beginning after December 15, 2018, with early adoption permitted. The Company is evaluating the potential impact of adopting this new accounting guidance on its consolidated financial statements.

In August 2018, the FASB issued guidance which changes the fair value measurement disclosure requirements. This guidance will be effective for the Company on January 1, 2019. The Company is evaluating the impact the update will have on its disclosures.

In August 2018, the FASB issued guidance which address a customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The guidance aligns the accounting for costs incurred to implement a cloud computing arrangement that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. This guidance will be effective for the Company on January 1, 2020, with early adoption permitted. The Company is evaluating the potential impact of adopting this new accounting guidance on its consolidated financial statements.

2. Significant Accounting Policies Update

The Company's significant accounting policies are detailed in Note 2 of its annual report on Form 10-K for the year ended December 31, 2017. As a result of the FASB's updated guidance for revenue recognition and related changes, as described in Note 1, the following policies have been updated as of the Company's adoption date of January 1, 2018, with retrospective application to the historical periods presented.

Revenue Recognition

The Company primarily derives revenue from the sale of services to customers executing contracts having terms of one year or longer. Services included in the Company's contracts consist of its core services – the delivery of content, applications and software over the Internet – as well as security solutions and professional services. Revenue is recognized upon transfer of control of promised services in an amount that reflects the consideration the Company expects to receive in exchange for those services.

The Company enters into contracts that may include various combinations of these services, which are generally capable of being distinct and accounted for as separate performance obligations. These contracts generally commit the customer to a minimum of monthly, quarterly or annual levels of usage and specify the rate at which the customer must pay for actual usage above the stated minimum. Based on the typical structure of the Company's contracts, which are generally for monthly recurring services that are essentially the same over time and have the same pattern of transfer to the customer, most performance obligations represent a promise to deliver a series of distinct services over time.

The Company's contracts with customers sometimes include promises to deliver multiple services to a customer. Determining whether services are distinct performance obligations often requires the exercise of judgment by management. For example, advanced features that enhance a service and are highly interrelated are generally not considered distinct; rather, they

Table of Contents

are combined with the service they relate to into one performance obligation. Different determinations related to combining services into performance obligations could result in differences in the timing and amount of revenue recognized in a period.

Generally, the transaction price in a contract is equal to the committed price stated in the contract, less any discounts or rebates. The Company's typical contracts qualify for series accounting and the pricing terms generally do not require estimation of the transaction price beyond the reporting period. As a result, any incremental fees generated as a result of usage or "bursting" over committed contract levels are recorded in the period to which the services relate. The amount of consideration recognized for usage above contract minimums is limited to the amount the Company expects to be entitled to receive in exchange for providing the services. Once the transaction price has been determined, the Company allocates such price among all performance obligations in the contract on a relative standalone selling price ("SSP") basis.

Determination of SSP requires the exercise of judgment by management. SSP is based on observable inputs such as the price the Company charges for the service when sold separately, or the discounted list price per management's approved price list. In cases where services are not sold separately or price list rates are not available, a cost-plus-margin approach or adjusted market approach is used to determine SSP.

Most content delivery and security services represent stand-ready obligations that are satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Company. Accordingly, revenue for those services is recognized over time, generally ratably over the term of the arrangement due to consistent monthly traffic commitments that expire each period. Any bursting over given commitments is recognized in the period in which the traffic was served. For services that involve traffic consumption, revenue is recognized in an amount that reflects the level of traffic served to a customer in a given period. For custom arrangements, other methods may be used as a measure of progress towards satisfying the performance obligations.

Some of the Company's services are satisfied at a point in time, such as one-time professional services contracts, integration services and most license sales where the primary obligation is delivery of the license at the start of the term. In these cases, revenue is recognized at the point in time of delivery or satisfaction of the performance obligation.

From time to time, the Company enters into contracts to sell its services or license its technology to unrelated enterprises at or about the same time that it enters into contracts to purchase products or services from the same enterprises. Consideration payable to a customer is reviewed as part of the transaction price. If the payment to the customer does not represent payment for a distinct service, revenue is recognized only up to the net amount of consideration after customer payment obligations are considered. The Company may also resell the licenses or services of third parties. If the Company is acting as an agent in an arrangement with a customer to provide third party services, the transaction price reflects only the net amount to which the Company will be entitled, after accounting for payments made to the third party responsible for satisfying the performance obligation.

Incremental Costs to Obtain a Contract with a Customer

The Company capitalizes incremental costs associated with obtaining customer contracts, specifically certain commission and incentive payments. The Company pays commissions and incentives up-front based on contract value upon signing a new arrangement with a customer and upon renewal and upgrades of existing contracts with customers if the renewal and upgrades result in an incremental increase in contract value. To the extent commissions and incentives are earned, the expenses, including estimated payroll taxes, are deferred on the Company's consolidated balance sheet and amortized over the expected life of the customer arrangement on a straight-line basis. The Company also incurs commission expense on an ongoing basis based upon revenue recognized. In these cases, no

incremental costs are deferred, as the commissions are earned and expensed in the same period for which the associated revenue is recognized.

Based on the nature of the Company's unique technology and services, and the rate at which the Company continually enhances and updates its technology, the expected life of the customer arrangement is determined to be approximately 2.5 years. Amortization is primarily included in sales and marketing expense in the consolidated statements of income. The current portion of deferred commission and incentive payments is included in prepaid expenses and other current assets, and the long-term portion is included in other assets on the Company's consolidated balance sheets.

Contract Liabilities

Contract liabilities primarily represent payments received from customers for which the related performance obligations have not yet been satisfied. These balances consist of the unearned portion of monthly service fees and integration fees, and

Table of Contents

prepayments made by customers for future periods. The current and long-term portions of the Company's contract liabilities are included in deferred revenue in the respective sections of the Company's consolidated balance sheets.

3. Fair Value Measurements

The following is a summary of available-for-sale marketable securities held as of September 30, 2018 and December 31, 2017 (in thousands):

	Amortized Cost	Gross Unrealized		Aggregate Fair Value	Classification on Balance Sheet	
		Gain	Losses		Short-Term Marketable Securities	Long-Term Marketable Securities
As of September 30, 2018						
Certificates of deposit	\$65,000	\$5	\$(11)	\$64,994	\$64,994	\$—
Commercial paper	393,835	3	(98)	393,740	393,740	—
Corporate bonds	830,558	17	(5,253)	825,322	581,609	243,713
U.S. government agency obligations	58,683	—	(564)	58,119	55,660	2,459
	\$1,348,076	\$25	\$(5,926)	\$1,342,175	\$1,096,003	\$246,172
As of December 31, 2017						
Commercial paper	\$6,951	\$—	\$(9)	\$6,942	\$6,942	\$—
Corporate bonds	736,902	2	(3,829)	733,075	289,378	443,697
U.S. government agency obligations	220,014	—	(1,764)	218,250	102,234	116,016
	\$963,867	\$2	\$(5,602)	\$958,267	\$398,554	\$559,713

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 September 30, 2018, the Company held for investment corporate and government bonds with a fair value of \$406.6 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 of \$3.8 million related to these corporate and government bonds are included in accumulated other comprehensive income as of September 30, 2018. The unrealized 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 September 30, 2018 and December 31, 2017 (in thousands):

	Total Fair Value	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
As of September 30, 2018				
Cash Equivalents and Marketable Securities:				
Money market funds	\$ 139,125	\$ 139,125	\$ —	\$ —
Certificates of deposit	64,994	64,994	—	—
Commercial paper	393,740	—	393,740	—
Corporate bonds	825,322	—	825,322	—
U.S. government agency obligations	58,119	—	58,119	—
Mutual funds	11,193	11,193	—	—
	\$ 1,492,493	\$ 215,312	\$ 1,277,181	\$ —
Liabilities:				
Contingent consideration related to a completed acquisition	\$(6,200)	\$ —	\$ —	\$(6,200)
As of December 31, 2017				
Cash Equivalents and Marketable Securities:				
Money market funds	\$ 22,649	\$ 22,649	\$ —	\$ —
Commercial paper	10,928	—	10,928	—
Corporate bonds	733,075	—	733,075	—
U.S. government agency obligations	218,248	—	218,248	—
Mutual funds	7,879	7,879	—	—
	\$ 992,779	\$ 30,528	\$ 962,251	\$ —
Liabilities:				
Contingent consideration related to a completed acquisition	\$(8,631)	\$ —	\$ —	\$(8,631)

As of September 30, 2018 and December 31, 2017, the Company grouped certificates of deposit, 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 September 30, 2018 and December 31, 2017, 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 September 30, 2018.

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 primarily use 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 acquisition of Cyberfend, Inc. in 2016, was primarily an income-based approach. The significant unobservable input used in the fair value measurement of the contingent consideration was the likelihood of achieving certain post-closing financial results.

Table of Contents

Contractual maturities of the Company's available-for-sale marketable securities held as of September 30, 2018 and December 31, 2017 were as follows (in thousands):

	September 30, 2018	December 31, 2017
Due in 1 year or less	\$ 1,096,003	\$ 398,554
Due after 1 year through 3 years	246,172	559,713
	\$ 1,342,175	\$ 958,267

The following table reflects the activity for the Company's major classes of liabilities measured at fair value using Level 3 inputs during the nine months ended September 30, 2018 (in thousands):

	Other Liabilities: Contingent Consideration Obligation
Balance as of January 1, 2018	\$ (8,631)
Fair value adjustment to contingent consideration included in general and administrative expense	(1,735)
Cash paid upon achievement of milestone	4,166
Balance as of September 30, 2018	\$ (6,200)

4. Accounts Receivable

Net accounts receivable consisted of the following as of September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
Trade accounts receivable	\$ 330,989	\$ 320,001
Unbilled accounts receivable	136,733	142,737
Gross accounts receivable	467,722	462,738
Allowance for doubtful accounts and other reserves	(1,358)	(1,281)
Accounts receivable, net	\$ 466,364	\$ 461,457

5. Incremental Costs to Obtain a Contract with a Customer

The following table summarizes the deferred costs associated with obtaining customer contracts, specifically commission and incentive payments, as of September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
Deferred costs included in prepaid and other current assets	\$ 38,929	\$ 35,044
Deferred costs included in other assets	24,064	23,536
Total deferred costs	\$ 62,993	\$ 58,580

During the three and nine months ended September 30, 2018, the Company recognized \$11.2 million and \$32.9 million, respectively, of amortization expense related to deferred commissions. During the three and nine months ended September 30, 2017, the Company recognized \$9.3 million and \$27.3 million, respectively, of amortization expense related to deferred commissions. Amortization expense related to deferred commissions is primarily included

in sales and marketing expense in the consolidated statements of income.

Table of Contents

6. Goodwill and Acquired Intangible Assets

The change in the carrying amount of goodwill for the nine months ended September 30, 2018 was as follows (in thousands):

Balance as of January 1, 2018	\$1,498,688
Measurement period adjustments	(6,667)
Foreign currency translation	(3,153)
Balance as of September 30, 2018	\$1,488,868

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

Acquired intangible assets that are subject to amortization consisted of the following as of September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Completed technology	\$145,091	\$(77,512)	\$67,579	\$145,091	\$(65,283)	\$79,808
Customer-related intangible assets	245,710	(140,798)	104,912	245,310	(128,835)	116,475
Non-compete agreements	700	(256)	444	4,710	(3,975)	735
Trademarks and trade names	7,200	(3,495)	3,705	7,200	(2,959)	4,241
Acquired license rights	490	(490)	—	490	(490)	—
Total	\$399,191	\$(222,551)	\$176,640	\$402,801	\$(201,542)	\$201,259

Aggregate expense related to amortization of acquired intangible assets for the three and nine months ended September 30, 2018 was \$8.3 million and \$25.0 million, respectively. Aggregate expense related to amortization of acquired intangible assets for the three and nine months ended September 30, 2017 was \$7.8 million and \$23.1 million, respectively. Based on the Company's acquired intangible assets as of September 30, 2018, aggregate expense related to amortization of acquired intangible assets is expected to be \$8.3 million for the remainder of 2018, and \$36.6 million, \$33.9 million, \$28.0 million and \$22.4 million for 2019, 2020, 2021 and 2022, respectively.

7. Debt

Convertible Notes – Due 2025

In May 2018, the Company issued \$1,150.0 million in par value of convertible senior notes due 2025 (the "2025 Notes"). The 2025 Notes are senior unsecured obligations of the Company, bear regular interest of 0.125%, payable semi-annually on May 1 and November 1 of each year, and mature on May 1, 2025, unless repurchased or converted prior to maturity.

At their option, holders may convert their 2025 Notes prior to the close of business on the business day immediately preceding January 1, 2025, only under the following circumstances:

during any calendar quarter commencing after the calendar quarter ended June 30, 2018 (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, and including, 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;

during the five business day period after any five consecutive trading day period in which the trading price per \$1,000 principal amount of 2025 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

17

Table of Contents

upon the occurrence of specified corporate events.

On or after January 1, 2025, holders may convert all or any portion of their 2025 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 10.5150 shares of the Company's common stock per \$1,000 principal amount, which is equivalent to an initial conversion price of approximately \$95.10 per share, subject to adjustments in certain events, and represents a potential conversion into 12.1 million shares.

In accounting for the issuance of the 2025 Notes, the Company separated the 2025 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 2025 Notes. The difference between the principal amount of the 2025 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 2025 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 2025 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 2025 Notes, and transaction costs attributable to the equity component are netted against the equity component of the 2025 Notes in stockholders' equity.

The 2025 Notes consist of the following components as of September 30, 2018 (in thousands):

	September 30, 2018
Liability component:	
Principal	\$ 1,150,000
Less: debt discount and issuance costs, net of amortization	(285,321)
Net carrying amount	\$ 864,679
Equity component:	\$ 285,225

The estimated fair value of the 2025 Notes at September 30, 2018 was \$1,129.7 million. The fair value was determined based on the quoted price of the 2025 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 \$73.15 on September 30, 2018, the value of the 2025 Notes if converted to common stock was less than the principal amount of \$1,150.0 million.

The Company used \$46.2 million of the proceeds from the offering to repurchase shares of its common stock, concurrent with the issuance of the 2025 Notes. The repurchase was made in accordance with a share repurchase program previously approved by the Board of Directors. Additionally, \$141.8 million of the proceeds was used for the net cost of convertible note hedge and warrant transactions. The remaining net proceeds are intended to be used for the

repayment at maturity of the \$690.0 million in par value of convertible senior notes due 2019 as well as for working capital, share repurchases, potential acquisitions and strategic transactions and other corporate purposes.

Table of Contents

Note Hedge

To minimize the impact of potential dilution upon conversion of the 2025 Notes, the Company entered into convertible note hedge transactions with respect to its common stock in May 2018. The Company paid \$261.7 million for the note hedge transactions. The note hedge transactions cover approximately 12.1 million shares of the Company's common stock at a strike price that corresponds to the initial conversion price of the 2025 Notes, also subject to adjustment, and are exercisable upon conversion of the 2025 Notes. The note hedge transactions are intended to reduce dilution in the event of conversion of the 2025 Notes.

Warrants

Separately, in May 2018, the Company entered into warrant transactions, whereby the Company sold warrants to acquire, subject to anti-dilution adjustments, up to 12.1 million shares of the Company's common stock at a strike price of approximately \$149.18 per share. The Company received aggregate proceeds of \$119.9 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 2025 Notes to approximately \$149.18 per share.

Convertible Notes – Due 2019

In February 2014, the Company issued \$690.0 million in par value of convertible senior notes due 2019 (the "2019 Notes"). The 2019 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 2019 Notes prior to the close of business on the business day immediately preceding August 15, 2018, only under the following circumstances:

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

during the five business day period after any five consecutive trading day period in which the trading price per \$1,000 principal amount of 2019 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 2019 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 2019 Notes, the Company separated the 2019 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 2019 Notes. The difference between the principal amount of the 2019 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 2019 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 2019 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 2019 Notes, and transaction costs attributable to the equity component are netted against the equity component of the 2019 Notes in stockholders’ equity.

Table of Contents

The 2019 Notes consist of the following components as of September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
Liability component:		
Principal	\$ 690,000	\$ 690,000
Less: debt discount and issuance costs, net of amortization	(9,436	) (27,087)
Net carrying amount	\$ 680,564	\$ 662,913
Equity component:	\$ 101,276	\$ 101,276

The estimated fair value of the 2019 Notes at September 30, 2018 was \$684.8 million. The fair value was determined based on the quoted price of the 2019 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 \$73.15 on September 30, 2018, the value of the 2019 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 2019 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 2019 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 2019 Notes, also subject to adjustment, and are exercisable upon conversion of the 2019 Notes. The note hedge transactions are intended to reduce dilution in the event of conversion of the 2019 Notes.

Warrants

Separately, in February 2014, the Company entered into warrant transactions, whereby the Company sold warrants to acquire, subject to anti-dilution adjustments, up to 7.7 million shares of the Company's common stock at a strike price of approximately \$104.49 per share. The Company received aggregate proceeds of \$78.0 million from the sale of the warrants. The convertible note hedge and warrant transactions will generally have the effect of increasing the conversion price of the 2019 Notes to approximately \$104.49 per share.

Revolving Credit Facility

In May 2018, the Company entered into a \$500.0 million five-year, revolving credit agreement (the "Credit Agreement"). Borrowings under the Credit Agreement may be used to finance working capital needs and for general corporate purposes. The Credit Agreement provides for an initial \$500.0 million in revolving loans. Under specified circumstances, the facility can be increased to up to \$1.0 billion in aggregate principal amount.

Borrowings under the Credit Agreement bear interest, at the Company's option, at a base rate plus a spread of 0.00% to 0.25% or an adjusted LIBOR rate plus a spread of 0.875% to 1.25%, in each case with such spread being determined based on the Company's consolidated leverage ratio specified in the Credit Agreement. Regardless of what amounts, if any, are outstanding under the Credit Agreement, the Company is also obligated to pay an ongoing commitment fee on undrawn amounts at a rate of 0.075% to 0.15%, with such rate being based on the Company's consolidated leverage ratio specified in the Credit Agreement.

The Credit Agreement contains customary representations and warranties, affirmative and negative covenants and events of default. Principal covenants include a maximum consolidated leverage ratio and a minimum consolidated interest coverage ratio. There were no outstanding borrowings under the Credit Agreement as of September 30, 2018.

Table of Contents

Interest Expense

The 2025 Notes bear interest at a fixed rate of 0.125%. The interest is payable semi-annually on May 1 and November 1 of each year, commencing in November 2018. The 2025 Notes have an effective interest rate of 4.26% attributable to the conversion feature. The 2019 Notes do not bear regular interest, but have an effective interest rate of 3.2% attributable to the conversion feature. The Company is also obligated to pay ongoing commitment fees under the terms of the Credit Agreement. The following table sets forth total interest expense included in the consolidated statements of income for the three and nine months ended September 30, 2018 and 2017 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Amortization of debt discount and issuance costs	\$15,295	\$5,731	31,045	\$17,044
Coupon interest payable on 2025 Notes	359	—	514	—
Revolving credit facility contractual interest expense	122	—	261	—
Capitalization of interest expense	(1,210)	(985)	(3,200)	(3,055)
Total interest expense	\$14,566	\$4,746	\$28,620	\$13,989

8. Restructuring

During the fourth quarter of 2017, management committed to an action to restructure certain parts of the Company, with the intent of shifting focus to more critical areas of the business and away from products that have not seen expected commercial success. The restructuring is also intended to facilitate cost efficiencies and savings. As part of the cost efficiency and savings plans, certain headcount and facility reductions were made in 2017 and the first three quarters of 2018. Certain capitalized internal-use software charges have also been realized for software not yet placed into service that will not be completed and implemented due to this action. The Company has incurred \$62.0 million of restructuring charges as part of this action, of which \$12.7 million was recognized during the nine months ended September 30, 2018, and \$49.3 million was recognized during the three months ended December 31, 2017. The Company does not expect any additional restructuring charges related to this action to be significant.

The Company also recognized restructuring charges for redundant employees, facilities and contracts associated with acquisitions completed in 2017.

The following table summarizes the activity of the Company's restructuring accrual during the nine months ended September 30, 2018 (in thousands):

	Employee Severance and Related Benefits	Software Charges	Excess Facilities, Contract Terminations and Other	Total
Balance as of January 1, 2018	\$ 12,857	\$ —	\$ 1,386	\$14,243
Costs incurred	5,910	2,818	5,714	14,442
Cash disbursements	(18,509)	—	(4,885)	(23,394)
Software and other non-cash charges	—	(2,818)	(1,787)	(4,605)
Translation adjustments and other	706	—	(205)	501

Balance as of September 30, 2018 \$ 964 \$ — \$ 223 \$1,187

9. Commitments and Contingencies

Legal Matters

In April 2018, as part of the resolution of multiple existing lawsuits between Limelight Networks, Inc. ("Limelight") and the Company, including in the U.S. District Court for the Eastern District of Virginia and in the U.S. District Court for the

21

Table of Contents

District of Massachusetts, the Company and Limelight entered into an agreement to settle the cases and request that the U.S. Patent Trial and Appeal Board terminate certain proceedings related to patents at issue in the litigation. The Company recorded a \$14.9 million charge in the second quarter of 2018, which is included in general and administrative expenses in the consolidated statement of income for the nine months ended September 30, 2018, related to this settlement.

10. 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. In March 2018, the Company announced that its Board had increased its share repurchase authorization by \$416.7 million, such that the amount that was authorized and available for repurchase in 2018 was \$750.0 million. Subsequently, effective November 2018, the Board authorized an additional \$1.1 billion repurchase program through December 2021.

During the three and nine months ended September 30, 2018, the Company repurchased 5.9 million and 8.3 million shares of its common stock, respectively, for \$440.4 million and \$625.9 million, respectively.

Stock-Based Compensation

The following table summarizes stock-based compensation included in the Company's consolidated statements of income for the three and nine months ended September 30, 2018 and 2017 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Cost of revenue	\$5,494	\$5,296	\$16,343	\$15,055
Research and development	11,249	10,100	32,684	28,743
Sales and marketing	16,835	15,672	49,543	44,780
General and administrative	13,054	10,780	40,245	33,525
Total stock-based compensation	46,632	41,848	138,815	122,103
Provision for income taxes	(7,802)	(11,211)	(37,692)	(41,417)
Total stock-based compensation, net of income taxes	\$38,830	\$30,637	\$101,123	\$80,686

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 nine months ended September 30, 2018 include stock-based compensation reflected as a component of amortization of capitalized internal-use software of \$6.6 million and \$18.1 million, respectively, before taxes and, for the three and nine months ended September 30, 2017, include stock-based compensation reflected as a component of amortization of capitalized internal-use software of \$5.1 million and \$12.5 million, respectively, before taxes.

11. 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 nine months ended September 30, 2018 (in thousands):

	Foreign Currency Translation	Net Unrealized Gains (Losses) on Investments	Total
Balance as of January 1, 2018	\$ (24,319)	\$ 2,389	\$(21,930)
Other comprehensive loss	(26,046)	(242)	(26,288)
Balance as of September 30, 2018	\$ (50,365)	\$ 2,147	\$(48,218)

Amounts reclassified from accumulated other comprehensive loss to net income were insignificant for the nine months ended September 30, 2018.

Table of Contents

12. Revenue from Contracts with Customers

The Company sells its services through a sales force located both domestically and abroad. Revenue derived from operations outside of the U.S. is determined based on the country in which the sale originated. Other than the U.S., no single country accounted for 10% or more of the Company's total revenue for any reported period. The following table summarizes revenue by geography included in the Company's consolidated statements of income for the three and nine months ended September 30, 2018 and 2017 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
U.S.	\$412,573	\$412,348	\$1,249,041	\$1,211,454
International	257,055	212,092	752,070	619,111
Total revenue	\$669,628	\$624,440	\$2,001,111	\$1,830,565

While the Company sells its services through a geographically dispersed sales force, it manages its customer relationships in two divisions: the Web Division and the Media and Carrier Division. Customers are assigned to a division for relationship management purposes according to their predominant purchasing activity; however, customers may purchase solutions managed by the other division as well. The following table summarizes revenue by division included in the Company's consolidated statements of income for the three and nine months ended September 30, 2018 and 2017 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Web Division	\$356,856	\$329,684	\$1,060,777	\$950,580
Media and Carrier Division	312,772	294,756	940,334	879,985
Total revenue	\$669,628	\$624,440	\$2,001,111	\$1,830,565

Most content delivery and security services represent obligations that are satisfied over time as the customer simultaneously receives and consumes the services provided by the Company. Accordingly, the majority of the Company's revenue is recognized over time, generally ratably over the term of the arrangement due to consistent monthly traffic commitments that expire each period. A small percentage of the Company's services are satisfied at a point in time, such as one-time professional services contracts, integration services and most license sales where the primary obligation is delivery of the license at the start of the term. In these cases, revenue is recognized at a point in time of delivery or satisfaction of the performance obligation.

During the nine months ended September 30, 2018 and 2017, the Company recognized \$64.3 million and \$43.9 million of revenue that was included in deferred revenue as of December 31, 2017 and 2016, respectively.

As of September 30, 2018, the aggregate amount of remaining performance obligations from contracts with customers was \$2.3 billion. The Company expects to recognize more than 70% of its remaining performance obligations as revenue over the next 12 months, with the remaining recognized thereafter. Remaining performance obligations represent the amount of the transaction price under contracts with customers that are attributable to performance obligations that are unsatisfied or partially satisfied at the reporting date. This consists of future committed revenue

for monthly, quarterly or annual periods within current contracts with customers, as well as deferred revenue arising from consideration invoiced in prior periods for which the related performance obligations have not been satisfied. It excludes estimates of variable consideration such as usage-based contracts with no committed contract as well as anticipated renewed contracts.

Table of Contents

13. Income Taxes

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. Potential discrete adjustments include tax charges or benefits related to stock-based compensation, changes in tax legislation, settlements of tax audits or assessments, uncertain tax positions and acquisitions, among other items.

The Company is currently under audit in multiple jurisdictions and, in certain cases, is involved in litigation related to adverse audit determinations. In the second quarter of 2018, the Company filed an appeal with the Massachusetts Appellate Tax Board contesting adverse audit findings related to certain tax benefits and exemptions. Over the next 12 months, the Company's current assumptions and positions could change based on audit determinations and other events impacting its analysis. Such events, if resolved unfavorably, could significantly impact the Company's effective income tax rate.

The Company's effective income tax rate was 11.2% and 30.8% for the nine months ended September 30, 2018 and 2017, respectively. The lower effective tax rate for the nine months ended September 30, 2018, is primarily due to a reduction in the U.S. federal statutory tax rate from 35.0% to 21.0% as part of the TCJA, an increase in the excess tax benefit related to stock-based compensation and a decrease in the provisional amount of the one-time transition tax that was recorded in the fourth quarter of 2017. These amounts were partially offset by U.S. federal taxes on Global Intangible Low-Taxed Income ("GILTI") enacted as part of the TCJA and an intercompany sale of intellectual property.

For the nine months ended September 30, 2018, the effective income tax rate was lower than the federal statutory tax rate due to foreign income taxed at lower rates, the excess tax benefit related to stock-based compensation, a decrease in the provisional amount of the one-time transition tax that was recorded in the fourth quarter of 2017, the release of certain tax reserves related to the expiration of local statutes and the benefit of U.S. federal, state and foreign research and development credits. These amounts were partially offset by U.S. federal taxes on GILTI enacted as part of the TCJA and an intercompany sale of intellectual property.

For the nine months ended September 30, 2017, the effective income tax rate was lower than the federal statutory tax rate due to foreign income taxed at lower rates and the benefit 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.

As of September 30, 2018, the Company has not finalized the accounting for all of the tax effects of the TCJA. However, upon further analysis of certain aspects of the TCJA and refinements to the calculations, the provisional estimate of the one-time transition tax, which was recorded in the Company's consolidated financial statements for the year ended December 31, 2017, decreased by \$5.5 million. This decrease in the provisional estimate has been included as a discrete item in the interim period ended September 30, 2018. The Company will continue to refine the provisional amounts of the tax effect of the TCJA as additional guidance and information is available, including clarity regarding state income tax conformity to the current federal tax code. Any further changes to the provisional estimate of the tax effect of the TCJA will be recorded in the period in which the adjustments are made and within the prescribed measurement period.

Beginning in 2018, the TCJA provides for a modified territorial tax system imposing an incremental tax on foreign income deemed to be taxed at a "low rate" (the aforementioned GILTI provisions). Under GAAP, an election must be made to either (1) treat taxes due related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factor such amounts into the measurement of deferred taxes (the "deferred method"). The Company is still evaluating the effects of these provisions and has not yet adopted a policy to account for the related impacts.

As of September 30, 2018, the Company believes it is reasonably possible that its gross unrecognized tax benefits could decrease within the next twelve months by \$30.8 million as a result of the expiration of local statutes of limitations.

14. 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.

Table of Contents

The following table sets forth the components used in the computation of basic and diluted net income per share for the three and nine months ended September 30, 2018 and 2017 (in thousands, except per share data):

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
Numerator:				
Net income	\$107,583	\$63,911	\$204,358	\$195,246
Denominator:				
Shares used for basic net income per share	165,924	170,976	168,763	172,269
Effect of dilutive securities:				
Stock options	80	150	158	279
RSUs and DSUs	1,896	379	1,811	823
Convertible senior notes	—	—	—	—
Warrants related to issuance of convertible senior notes	—	—	—	—
Shares used for diluted net income per share	167,900	171,505	170,732	173,371
Basic net income per share	\$0.65	\$0.37	\$1.21	\$1.13
Diluted net income per share	\$0.64	\$0.37	\$1.20	\$1.13

For the three and nine months ended September 30, 2018 and 2017, 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 nine months ended September 30, 2018 and 2017 are as follows (in thousands):

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
Stock options	—	25	—	13
Service-based RSUs	185	5,407	1,068	4,074
Performance-based RSUs	1,515	1,116	1,520	1,165
Convertible senior notes	19,797	7,704	19,797	7,704
Warrants related to issuance of convertible senior notes	19,797	7,704	19,797	7,704
Total shares excluded from computation	41,294	21,956	42,182	20,660

15. Akamai Foundation Endowment

During the second quarter of 2018, the Company contributed \$50.0 million to the Akamai Foundation, a non-profit organization founded by certain current and former employees of the Company in 2000 (the "Foundation"). The Company has the right to appoint the directors of the Foundation. The contribution is intended to be a one-time endowment. The associated expense is included in general and administrative expenses in the consolidated statements of income for the nine months ended September 30, 2018. The Foundation is a private corporate foundation with a

mission of supporting youth education, with a focus on mathematics, as well as other charitable causes.

25

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 taxes 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, 2017 and the section entitled "Significant Accounting Policies Update" in the notes to our unaudited consolidated financial statements included herein for further discussion of our critical accounting policies and estimates.

Overview

We provide security, web and mobile performance, enterprise access, and video delivery solutions to enterprises across the world. 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 this base level of revenue, we are also 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 and the impact of seasonal variations on our business. The ability to expand our product portfolio and to effectively manage 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. We plan to continue to invest in this area with a focus on further enhancing our product portfolio and extending our go-to-market capabilities.

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

The prices paid by some of our customers have declined, reflecting the impact of competition. In particular, pricing pressure related to our delivery-based web performance solutions has reduced our revenue growth rate in recent

Table of Contents

quarters. Revenue growth for our web performance solutions has also been negatively impacted by the consolidation of and struggles faced by a number of our U.S.-based commerce customers.

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, our traffic growth rates are subject to fluctuation based on, among other things, when large events occur and the “do-it-yourself” efforts by some of our customers that are among the large Internet platform companies: Amazon, Apple, Facebook, Google, Microsoft and Netflix. We refer to these companies as our Internet Platform Customers. Some of these customers have elected to develop and rely on their internal infrastructure to deliver more of their media content, particularly less performance-sensitive content, rather than use our services. As a result, we have experienced lower revenue from these customers in recent years. We have not, however, been experiencing a significant shift to internal infrastructure usage across the remainder of our media services customer base.

We have experienced variations in certain types of revenue from quarter to quarter. In particular, we experience higher revenue in the fourth quarter of each 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 and licensed software for carrier and security solutions.

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. Some of our bandwidth and co-location costs are fixed over a minimum time period, while others are variable and can be more easily adjusted to reflect changes in customer needs. 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. 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, serving more traffic from higher cost regions and the introduction of new solutions. 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.

We incurred significant restructuring costs in the fourth quarter of 2017 and the first quarter of 2018 as management committed to an action to restructure certain parts of the company. The restructuring actions were intended to facilitate cost efficiencies and savings. During 2018, we have also launched internal transformation initiatives intended to improve our operating margins; we expect to incur incremental professional services fees in connection with these activities.

Payroll and related compensation costs have grown in the first three quarters of 2018 due to headcount increases in 2017, particularly in our professional services and engineering teams to support our revenue growth and strategic

initiatives. During the year ended December 31, 2017, we increased our headcount by 1,161 employees. Our headcount decreased by 76 employees during the nine-month period ended September 30, 2018, primarily due to the recent restructuring actions in the fourth quarter of 2017 and the first quarter of 2018.

We retrospectively adopted the new accounting standard for revenue recognition on January 1, 2018; accordingly, prior period results have been revised for the adoption of the new standard. The changes to our revenue recognition approach under this new standard primarily impact the timing of recognizing revenue from a small number of licensed software customers. There is little impact to revenue from our core Web and Media products. As a result of the change, we also began capitalizing

Table of Contents

certain commission and incentive payments. The revisions as a result of adopting the new standard did not have a material impact on our annual revenue or results of operations but did cause quarter-over-quarter fluctuations.

We report our revenue by division, which is a customer-focused reporting view that reflects revenue from customers that are managed by the division. As of January 1, 2018, we now report our revenue in two divisions compared to the three divisions reported in 2017; the Media Division and Enterprise and Carrier Division were combined to form the new Media and Carrier Division. As the purchasing patterns and required account expertise of customers change over time, we may reassign a customer from one division to another. In 2018, we reassigned some of our customers from the Media and Carrier Division to the Web Division and revised historical results in order to reflect the most recent categorization and to provide a comparable view for all periods presented.

Results of Operations

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
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)	35.7	36.1	35.5	35.3
Research and development	9.1	9.2	9.3	8.9
Sales and marketing	18.7	18.9	19.0	19.1
General and administrative	17.9	19.9	22.2	19.8
Amortization of acquired intangible assets	1.2	1.2	1.3	1.3
Restructuring (benefit) charges	(0.1)	0.1	0.7	0.2
Total costs and operating expenses	82.5	85.4	88.0	84.6
Income from operations	17.5	14.6	12.0	15.4
Interest income	1.4	0.7	1.0	0.7
Interest expense	(2.2)	(0.8)	(1.4)	(0.8)
Other (expense) income, net	(0.1)	0.1	(0.2)	—
Income before provision for income taxes	16.6	14.6	11.4	15.3
Provision for income taxes	0.5	4.4	1.3	4.7
Net income	16.1 %	10.2 %	10.1 %	10.6 %

Revenue

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

For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
2018	2017	% Change	% Change at Constant Currency	2018	2017	% Change	% Change at Constant Currency

Edgar Filing: AKAMAI TECHNOLOGIES INC - Form 10-Q

Web Division	\$356,856	\$329,684	8.2	%	9.0	%	\$1,060,777	\$950,580	11.6	%	10.4	%
Media and Carrier Division	312,772	294,756	6.1		7.0		940,334	879,985	6.9		5.9	
Total revenue	\$669,628	\$624,440	7.2	%	8.1	%	\$2,001,111	\$1,830,565	9.3	%	8.3	%

During the three- and nine-month periods ended September 30, 2018, the increase in our revenue as compared to the same periods in 2017 was primarily the result of higher media traffic volumes, increased sales of our new product offerings and continued strong growth from our Cloud Security Solutions. During the three-month period ended September 30, 2018, our

Table of Contents

Cloud Security Solutions revenue was \$168.6 million, as compared to \$122.9 million during the three-month period ended September 30, 2017, which represents a 37.2% increase. During the nine-month period ended September 30, 2018, our Cloud Security Solutions revenue was \$473.1 million, as compared to \$349.7 million during the nine-month period ended September 30, 2017, which represents a 35.3% increase. Cloud Security Solutions revenue increased due to sales of new products, particularly Bot Manager, Image Manager and Digital Performance Management, as well as continued strong growth in our core Kona and Prolexic Cloud Security Solutions.

The increase in Web Division revenue during the three- and nine-month periods ended September 30, 2018, as compared to the same periods in 2017, was primarily the result of increased sales of both new and existing Cloud Security Solutions to this customer base, as described above.

The increase in Media and Carrier Division revenue during the three- and nine-month periods ended September 30, 2018, as compared to the same periods in 2017, was primarily the result of increased customer traffic volumes from video delivery and gaming customers and sales of Cloud Security Solutions to this customer base. The increase in Media and Carrier Division revenue was partially offset by a decline in revenue from our Internet Platform Customers to \$43.1 million and \$131.5 million, respectively, for the three- and nine-month periods ended September 30, 2018, as compared to \$50.7 million and \$153.3 million, respectively, for the three- and nine-month periods ended September 30, 2017. Excluding these customers, revenue increased within the Media and Carrier Division by 10.5% and 11.4%, respectively, for the three- and nine-month periods ended September 30, 2018 as compared to the same periods in 2017.

Revenue derived in the U.S. and internationally during the periods presented is as follows (in thousands):

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2018	2017	% Change	% Change at Constant Currency	2018	2017	% Change	% Change at Constant Currency
U.S.	\$412,573	\$412,348	0.1	0.1	\$1,249,041	\$1,211,454	3.1	3.1
International	257,055	212,092	21.2	23.7	752,070	619,111	21.5	18.4
Total revenue	\$669,628	\$624,440	7.2	8.1	\$2,001,111	\$1,830,565	9.3	8.3

For the three- and nine-month periods ended September 30, 2018, the increase to our U.S. revenue was the result of increases in our media traffic, which was partially offset by decreased revenue from our Internet Platform Customers, which are concentrated in the U.S., and our U.S.-based commerce customers. Excluding the Internet Platform Customers, our U.S. revenue growth rates would have been 2.2% and 5.6%, respectively, for the three- and nine-month periods ended September 30, 2018, as compared to the same periods in 2017.

For the three- and nine-month periods ended September 30, 2018, approximately 38.4% and 37.6%, respectively, of our revenue was derived from our operations located outside the U.S., compared to 34.0% and 33.8% for the three- and nine-month periods ended September 30, 2017, respectively. No single country outside the U.S. accounted for 10.0% or more of revenue during any of these periods. During the three- and nine-month periods ended September 30, 2018, 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 \$6.4 million and \$5.3 million, respectively, during the three- and nine-month periods ended September 30, 2018, as compared to the same periods in 2017.

Table of Contents

Cost of Revenue

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Bandwidth fees	\$33,827	\$42,717	(20.8)%	\$116,050	\$125,438	(7.5)%
Co-location fees	32,165	33,474	(3.9)	97,659	96,826	0.9
Network build-out and supporting services	26,770	18,742	42.8	66,328	54,477	21.8
Payroll and related costs	60,097	55,521	8.2	179,712	160,541	11.9
Stock-based compensation, including amortization of prior capitalized amounts	11,817	10,033	17.8	33,439	26,681	25.3
Depreciation of network equipment	36,883	35,943	2.6	112,866	106,602	5.9
Amortization of internal-use software	37,687	29,060	29.7	103,504	75,332	37.4
Total cost of revenue	\$239,246	\$225,490	6.1%	\$709,558	\$645,897	9.9%
As a percentage of revenue	35.7%	36.1%		35.5%	35.3%	

The increase in total cost of revenue for the three- and nine-month periods ended September 30, 2018, as compared to the same periods in 2017, was primarily due to growth in:

- amortization of internal-use software as we continued to release internally-developed software onto our network related to new product launches and significant enhancements to our existing services throughout 2017 and the first three quarters of 2018;
- payroll and related costs, including stock-based compensation, due to increased hiring in our services team in 2017 to support revenue growth; and
- amounts paid for network build-out and supporting services related to installation fees and investments to our network.

These increases were partially offset by lower bandwidth and co-location fees resulting from our cost-savings and server efficiency efforts.

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, 2017, other than normal period-to-period variations.

During 2018, we anticipate amortization of internal-use software development costs to increase as compared to 2017, along with increased payroll and related costs associated with our professional services personnel and related expenses. However, we do not anticipate that cost of revenue will increase as a percentage of revenue during 2018 as compared to 2017. 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.

Table of Contents

Research and Development Expenses

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Payroll and related costs	\$90,421	\$85,528	5.7 %	\$274,798	\$239,312	14.8 %
Stock-based compensation	11,249	10,100	11.4	32,684	28,743	13.7
Capitalized salaries and related costs	(42,790)	(40,353)	6.0	(129,471)	(111,208)	16.4
Other expenses	2,169	1,951	11.2	7,812	5,914	32.1
Total research and development	\$61,049	\$57,226	6.7 %	\$185,823	\$162,761	14.2 %
As a percentage of revenue	9.1	% 9.2	%	9.3	% 8.9	%

The increase in research and development expenses during the three- and nine-month periods ended September 30, 2018, as compared to the same periods in 2017, was due to growth in payroll and related costs as a result of headcount growth in 2017 to support investments in new product development and network scaling and as a result of acquisitions we completed in 2017; such growth was offset by increases in capitalized salaries and related costs due to continued investment in internal-use software deployed on our network.

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 nine-month periods ended September 30, 2018, we capitalized \$8.0 million and \$23.5 million, respectively, of stock-based compensation. During the three- and nine-month periods ended September 30, 2017, we capitalized \$7.0 million and \$20.1 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 to seven years.

We expect research and development expenses to increase during 2018 as compared to 2017 due to the growth in headcount we experienced in 2017. However, we expect the increases to payroll and related costs in 2018 as compared to 2017 to be at a slower pace than we experienced in 2017 and for these expenses as a percentage of revenue to remain relatively consistent when comparing 2018 to 2017.

Sales and Marketing Expenses

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Payroll and related costs	\$94,216	\$84,795	11.1 %	\$284,113	\$251,075	13.2 %
Stock-based compensation	16,835	15,672	7.4	49,543	44,780	10.6
Marketing programs and related costs	9,513	10,299	(7.6)	31,840	31,988	(0.5)
Other expenses	4,759	7,097	(32.9)	14,060	22,456	(37.4)
Total sales and marketing	\$125,323	\$117,863	6.3 %	\$379,556	\$350,299	8.4 %
As a percentage of revenue	18.7	% 18.9	%	19.0	% 19.1	%

The increase in sales and marketing expenses during the three- and nine-month periods ended September 30, 2018, as compared to the same periods in 2017, was primarily due to growth in payroll and related costs from headcount increases in 2017 to support our Web Division's go-to-market strategies in pursuit of growth opportunities. We expect sales and marketing expenses to increase during 2018 as compared to 2017 due to increased payroll and related costs as a result of headcount growth during 2017 and 2018. However, we expect these expenses as a percentage of revenue to remain relatively consistent when comparing 2018 to 2017.

Table of Contents

General and Administrative Expenses

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Payroll and related costs	\$46,866	\$51,605	(9.2)%	\$145,634	\$144,012	1.1 %
Stock-based compensation	13,054	10,780	21.1	40,245	33,525	20.0
Depreciation and amortization	18,646	19,686	(5.3)	59,741	56,283	6.1
Facilities-related costs	21,567	20,399	5.7	63,891	59,381	7.6
Provision for doubtful accounts	652	1,499	(56.5)	1,593	2,404	(33.7)
Acquisition-related costs	329	773	(57.4)	1,972	4,803	(58.9)
License of patent	(4,310)	(4,128)	4.4	(12,791)	(12,252)	4.4
Legal and stockholder matter costs	—	—	—	23,091	—	nm
Endowment of Akamai Foundation	—	—	—	50,000	—	nm
Professional fees and other expenses	23,107	23,909	(3.4)	71,126	74,894	(5.0)
Total general and administrative	\$119,911	\$124,523	(3.7)%	\$444,502	\$363,050	22.4 %
As a percentage of revenue	17.9 %	19.9 %		22.2 %	19.8 %	

The decrease in general and administrative expenses for the three-month period ended September 30, 2018, as compared to the same period in 2017, was primarily due to a decrease in payroll and related costs largely due to lower headcount. The increase in general and administrative expenses for the nine-month period ended September 30, 2018, as compared to the same period in 2017, was primarily due to:

- legal and stockholder matter costs related to a settlement charge from our litigation with Limelight and costs related to amounts paid to professional service providers for advisory services provided in connection with a non-routine stockholder matter;
- a one-time endowment to the Akamai Foundation; and
- expansion of company infrastructure throughout 2017 to support 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.

General and administrative expenses for the three- and nine-month periods ended September 30, 2018 and 2017 are broken out by category as follows (in thousands):

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Global functions	\$46,680	\$50,355	(7.3)%	\$149,830	\$148,721	0.7 %
As a percentage of revenue	7.0 %	8.1 %		7.5 %	8.1 %	
Infrastructure	74,009	76,267	(3.0)	228,256	220,799	3.4
As a percentage of revenue	11.1 %	12.2 %		11.4 %	12.1 %	
Other	(778)	(2,099)	(62.9)	66,416	(6,470)	nm
Total general and administrative expenses	\$119,911	\$124,523	(3.7)%	\$444,502	\$363,050	22.4 %
As a percentage of revenue	17.9 %	19.9 %		22.2 %	19.8 %	

During the three-month period ended September 30, 2018, as compared to the same period in 2017, the decrease in general and administrative expenses from our global functions was primarily the result of a reduction in professional services fees due to settlement of our litigation with Limelight in the first quarter of 2018. The decrease in general and administrative expenses from our infrastructure functions for the three-month period ended September 30, 2018, as compared to the same period in 2017, was the result of facilities consolidation in the first half of 2018 related to the restructuring action. These decreases were partially offset by an increase in other general and administrative expenses during the three-month period ended September 30,

Table of Contents

2018, as compared to the same period in 2017, due to an increase in professional services fees associated with internal transformation programs.

During the nine-month period ended September 30, 2018, as compared to the same period in 2017, the increase in general and administrative expenses from our global and infrastructure functions was primarily the result of an increase in payroll and stock-based compensation as a result of increased headcount in 2017. Our infrastructure functions were also impacted by expansion of company infrastructure throughout 2017 to support investments in engineering, go-to-market capacity and enterprise expansion initiatives. The increase in other general and administrative expenses for the nine-month period ended September 30, 2018, as compared to the same period in 2017, was the result of a one-time endowment to the Akamai Foundation, costs related to the settlement of litigation with Limelight and amounts paid to professional service providers for advisory services in connection with a non-routine stockholder matter.

Global functions expense includes payroll, stock-based compensation and other employee-related costs for administrative functions, including finance, purchasing, order entry, human resources, legal, information technology and executive personnel, as well as third-party professional service fees. Infrastructure expense includes payroll, stock-based compensation and other employee-related costs for our network infrastructure functions, as well as facility rent expense, depreciation and amortization of facility and IT-related assets, software and software-related costs, business insurance and taxes. Our network infrastructure function is responsible for network planning, sourcing, architecture evaluation and platform security. Other expense includes acquisition-related costs, provision for doubtful accounts, legal settlements, non-routine stockholder matter costs, transformation costs and the license of a patent.

We expect general and administrative expenses to increase in 2018 as compared to 2017 due to the legal and stockholder matter costs incurred and the endowment to the Akamai Foundation. However, we do not expect other areas of general and administrative expenses to experience the same level of increase as compared to past years.

Amortization of Acquired Intangible Assets

(in thousands)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Amortization of acquired intangible assets	\$8,294	\$7,753	7.0 %	\$25,019	\$23,075	8.4 %
As a percentage of revenue	1.2	% 1.2	%	1.3	% 1.3	%

The increase in amortization of acquired intangible assets for the three- and nine-month periods ended September 30, 2018, as compared to the same periods in 2017, was the result of amortization of assets related to our recent acquisitions. Based on our intangible assets at September 30, 2018, we expect amortization of acquired intangible assets to be approximately \$8.3 million for the remainder of 2018, and \$36.6 million, \$33.9 million, \$28.0 million and \$22.4 million for 2019, 2020, 2021 and 2022, respectively.

Restructuring (Benefit) Charges

(in thousands)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Restructuring (benefit) charges	\$(732)	\$332	(320.5)%	\$14,442	\$3,303	337.2 %
As a percentage of revenue	(0.1)	% 0.1	%	0.7	% 0.2	%

The restructuring (benefit) charges for the three- and nine-month periods ended September 30, 2018 were primarily the result of certain restructuring actions initiated in the fourth quarter of 2017. Management committed to an action to restructure certain parts of the business, primarily media-related, with the intent of shifting focus away from products that have not seen expected commercial success and to facilitate other cost efficiencies and savings. As part of these actions, certain headcount and facility reductions were implemented during the three-month period ended December 31, 2017 and the three-month period ended March 31, 2018. In addition, certain capitalized internal-use software charges were realized for software not yet placed into service that will not be completed and launched due to the restructuring action. We do not expect any additional restructuring charges related to this action to be significant. The restructuring (benefit) charge incurred in the three- and nine-

Table of Contents

month periods ended September 30, 2017 consisted of severance expenses associated with the 2017 acquisition of Soasta, Inc., or Soasta, as well as a termination fee incurred to cancel a portion of the facility lease acquired in the acquisition.

Non-Operating Income (Expense)

(in thousands)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Interest income	\$9,258	\$4,463	107.4 %	\$19,632	\$13,368	46.9 %
As a percentage of revenue	1.4 %	0.7 %		1.0 %	0.7 %	
Interest expense	\$(14,566)	\$(4,746)	206.9	\$(28,620)	\$(13,989)	104.6
As a percentage of revenue	(2.2 %)	(0.8 %)		(1.4 %)	(0.8 %)	
Other (expense) income, net	\$(459)	\$535	(185.8)	\$(3,207)	\$414	(874.6)
As a percentage of revenue	(0.1 %)	0.1 %		(0.2 %)	— %	

The interest income for the three- and nine-month periods ended September 30, 2018 was primarily the result of interest earned on invested cash balances and marketable securities. The increase to interest income for the three- and nine-month periods ended September 30, 2018, as compared to the same periods in 2017, was primarily the result of increased cash, cash equivalents and marketable securities balances as a result of our May 2018 issuance of \$1,150.0 million in par value of convertible senior notes due 2025 (see Note 7 to the consolidated financial statements).

Interest expense is related to our debt transactions, which are described in Note 7 to the consolidated financial statements. The increase to interest expense for the three- and nine-month periods ended September 30, 2018, was primarily due to the May 2018 issuance of \$1,150.0 million in par value of convertible senior notes due 2025, which bear regular interest of 0.125%, but have an effective interest rate of 4.26% due to the conversion feature.

Other (expense) income, net primarily represents net foreign exchange gains and losses and other non-operating expense and income items. The fluctuation in other (expense) income, net for the three-month period ended September 30, 2018, as compared to the same period in 2017, includes the impact of gains recognized due to the change in fair value of certain equity investments. The fluctuation in other (expense) income, net for the nine-month period ended September 30, 2018, as compared to the same period in 2017, includes the impact of net losses recognized on certain equity investments. 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 September 30,			For the Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Provision for income taxes	\$3,187	\$27,594	(88.5)%	\$25,658	\$86,727	(70.4)%
As a percentage of revenue	0.5 %	4.4 %		1.3 %	4.7 %	
Effective income tax rate	2.9 %	30.2 %		11.2 %	30.8 %	

For each of the three- and nine-month periods ended September 30, 2018, as compared to the same periods in 2017, our provision for income taxes decreased as a result of the reduction in the U.S. federal statutory tax rate from 35.0% to 21.0% as part of the U.S. Tax Cuts and Jobs Act, or the TCJA, that was enacted in December 2017, an increase in

the excess tax benefit related to stock-based compensation and a decrease in the provisional amount of the one-time transition tax that was recorded in 2017. These amounts were partially offset by U.S. federal taxes on Global Intangible Low-Taxed Income, or GILTI, that was enacted as part of the the TCJA and an intercompany sale of intellectual property.

For the three- and nine-month periods ended September 30, 2018, the effective income tax rate was lower than the federal statutory tax rate due to foreign income taxed at lower rates, the excess tax benefit related to stock-based compensation, a decrease in the provisional amount of the one-time transition tax that was recorded in 2017, the release of certain tax reserves related to the expiration of local statutes and the benefit of U.S. federal, state and foreign research and development credits, partially offset by U.S. taxes on GILTI that was enacted as part of the TCJA and an intercompany sale of intellectual property.

Table of Contents

For the three- and nine-month periods ended September 30, 2017, the effective income tax rate was lower than the federal statutory tax rate due to foreign income taxed at lower rates and the benefit 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.

In determining our net deferred tax assets and valuation allowances, annualized effective income 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 made based on past experiences and judgments about the interpretation of statutes, rules and regulations by taxing jurisdictions. We are routinely subject to tax audits that, in certain cases, can lead to litigation related thereto. In the second quarter of 2018, we filed an appeal with the Massachusetts Appellate Tax Board contesting adverse audit findings related to certain tax benefits and exemptions. If our audits and litigation are resolved unfavorably, the ultimate tax liability or benefit from these or other matters could be materially greater or less than the amount we have estimated.

We have continued to assess the impact that the TCJA will have on our total tax provision during the three- and nine-month periods ended September 30, 2018. During the third quarter of 2018, upon further analysis of certain aspects of the TCJA and refinements to the calculations, the provisional estimate of the one-time transition tax which was recorded in our consolidated financial statements for the year ended December 31, 2017 decreased by \$5.5 million. This decrease in the provisional estimate has been included as a discrete item in the interim period ended September 30, 2018. We will continue to refine the provisional amounts of the tax effect of the TCJA as additional guidance and information is available, including clarity regarding state income tax conformity to the current federal tax code. Any changes to the provisional amounts will be recorded in the period in which the adjustments are made. These changes could arise from additional analysis, changes in assumptions or interpretations we have made, additional guidance that may be issued and actions we take as a result of the TCJA. The U.S. Securities and Exchange Commission issued guidance that allows for a measurement period not to exceed one year from date of enactment. We expect to complete the analysis within the allotted time frame.

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 set 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.

Table of Contents

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.

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 and do not reflect our core operations.

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 May 2018, we issued \$1,150 million of convertible senior notes due 2025 with a coupon interest rate of 0.125%. In February 2014, we issued \$690 million of convertible senior notes due 2019 with a coupon interest rate of 0%. The imputed interest rates of these convertible senior notes were 4.26% and 3.20%, respectively. This is a result of the debt discounts recorded for the conversion features that are required to be separately accounted for as equity under GAAP, thereby reducing the carrying values of the convertible debt instruments. The debt discounts are amortized as interest expense together with the issuance costs of the debt. The interest expense excluded from our non-GAAP results 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, changes to fair value 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 are not representative of our core business operations and ongoing operating performance.

Table of Contents

Legal and stockholder matter costs – We have incurred losses related to the settlement of legal matters, costs from professional service providers related to a non-routine stockholder matter and costs with respect to an internal U.S. Foreign Corrupt Practices Act, or FCPA, investigation. 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.

Endowment of Akamai Foundation – During the second quarter of 2018, we incurred a charge to endow the Akamai Foundation. We believe excluding these amounts from non-GAAP financial measures is useful to investors as this one-time event is not representative of our core business operations.

Transformation costs – We have incurred professional services fees associated with internal transformation programs designed to improve operating margins and that are part of a planned program intended to significantly change the manner in which business is conducted. We believe excluding these amounts from our non-GAAP financial measures is useful to investors as the types of events and activities giving rise to them occur infrequently and are not representative of our core business operations and ongoing operating performance.

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.

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 Nine Months		
	Ended September 30, 2018	2017	Ended September 30, 2018	2017	
Income from operations	\$116,537	\$91,253	\$242,211	\$282,180	
Amortization of acquired intangible assets	8,294	7,753	25,019	23,075	
Stock-based compensation	46,632	41,848	138,815	122,103	
Amortization of capitalized stock-based compensation and capitalized interest expense	7,575	5,736	20,435	14,203	
Restructuring (benefit) charges	(732)	332	14,442	3,303	
Acquisition-related costs	329	530	1,972	3,379	
Legal and stockholder matter costs	—	—	23,091	—	
Endowment of Akamai Foundation	—	—	50,000	—	
Transformation costs	2,552	—	2,552	—	
Non-GAAP income from operations	\$181,187	\$147,452	\$518,537	\$448,243	
GAAP operating margin	17	% 15	% 12	% 15	%
Non-GAAP operating margin	27	% 24	% 26	% 24	%

Table of Contents

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

	For the Three Months		For the Nine Months	
	Ended September 30, 2018	2017	Ended September 30, 2018	2017
Net income	\$107,583	\$63,911	\$204,358	\$195,246
Amortization of acquired intangible assets	8,294	7,753	25,019	23,075
Stock-based compensation	46,632	41,848	138,815	122,103
Amortization of capitalized stock-based compensation and capitalized interest expense	7,575	5,736	20,435	14,203
Restructuring (benefit) charges	(732)	332	14,442	3,303
Acquisition-related costs	329	530	1,972	3,379
Legal and stockholder matter costs	—	—	23,091	—
Endowment of Akamai Foundation	—	—	50,000	—
Transformation costs	2,552	—	2,552	—
Amortization of debt discount and issuance costs	14,085	4,746	27,844	13,989
(Gain) loss on investments	(519)	—	1,481	—
Income tax effect of above non-GAAP adjustments and certain discrete tax items	(27,958)	(14,802)	(73,432)	(44,243)
Non-GAAP net income	\$157,841	\$110,054	\$436,577	\$331,055

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		For the Nine Months	
	Ended September 30, 2018	2017	Ended September 30, 2018	2017
GAAP net income per diluted share	\$0.64	\$0.37	\$1.20	\$1.13
Amortization of acquired intangible assets	0.05	0.05	0.15	0.13
Stock-based compensation	0.28	0.24	0.81	0.70
Amortization of capitalized stock-based compensation and capitalized interest expense	0.05	0.03	0.12	0.08
Restructuring (benefit) charges	—	—	0.08	0.02
Acquisition-related costs	—	—	0.01	0.02
Legal and stockholder matter costs	—	—	0.14	—
Endowment of Akamai Foundation	—	—	0.29	—
Transformation costs	0.02	—	0.01	—
Amortization of debt discount and issuance costs	0.08	0.03	0.16	0.08
(Gain) loss on investments	—	—	0.01	—
Income tax effect of above non-GAAP adjustments and certain discrete tax items	(0.17)	(0.09)	(0.43)	(0.26)
Non-GAAP net income per diluted share ⁽¹⁾	\$0.94	\$0.64	\$2.56	\$1.91
Shares used in diluted per share calculations	167,900	171,505	170,732	173,371

(1) May not foot due to rounding

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 common 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

38

Table of Contents

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 of the convertible senior notes due 2019), and unless or until our weighted average stock price is greater than \$95.10, the initial conversion price of the convertible senior notes due 2025, 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 from professional service providers related to a non-routine stockholder matter; costs incurred related to the endowment of the Akamai Foundation; transformation costs; costs incurred with respect to our internal FCPA investigation; foreign exchange gains and losses; loss on early extinguishment of debt; interest expense; amortization of capitalized interest expense; certain gains and losses on investments; and other non-recurring or unusual items that may arise from time to time. Adjusted EBITDA margin represents Adjusted EBITDA stated as a percentage of revenue.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		
	2018	2017	2018	2017	
Net income	\$107,583	\$63,911	\$204,358	\$195,246	
Interest income	(9,258)	(4,463)	(19,632)	(13,368)	
Provision for income taxes	3,187	27,594	25,658	86,727	
Depreciation and amortization	91,964	83,689	272,772	235,639	
Amortization of capitalized stock-based compensation and capitalized interest expense	7,575	5,736	20,435	14,203	
Amortization of acquired intangible assets	8,294	7,753	25,019	23,075	
Stock-based compensation	46,632	41,848	138,815	122,103	
Restructuring (benefit) charges	(732)	332	14,442	3,303	
Acquisition-related costs	329	530	1,972	3,379	
Legal and stockholder matter costs	—	—	23,091	—	
Endowment of Akamai Foundation	—	—	50,000	—	
Transformation costs	2,552	—	2,552	—	
Interest expense	14,566	4,746	28,620	13,989	
(Gain) loss on investments	(519)	—	1,481	—	
Other expense (income), net	978	(535)	1,726	(414)	
Adjusted EBITDA	\$273,151	\$231,141	\$791,309	\$683,882	
Adjusted EBITDA margin	41	% 37	% 40	% 37	%

Table of Contents

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 September 30, 2018, our cash, cash equivalents and marketable securities, which primarily consisted of corporate bonds, totaled \$2.1 billion. Factoring in our convertible senior notes of \$1.8 billion, our net cash at September 30, 2018 was \$0.2 billion. We place our cash investments in instruments that meet high-quality credit standards, as specified in our investment policy. Our investment policy is also designed to limit 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 revenue, 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, purchases and sales of marketable securities and similar events. We believe our strong balance sheet and cash position are important competitive differentiators that provide the financial flexibility necessary to make investments at opportune times. We expect to continue to evaluate strategic investments to strengthen our business on an ongoing basis.

As of September 30, 2018, we had cash and cash equivalents of \$407.0 million held in accounts outside the U.S. As a result of the TCJA, we have recorded a provisional tax expense of \$37.9 million related to the one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. An election is available to pay the transition tax in installments over an eight-year period. We have sufficient cash in the U.S. to pay this tax obligation and do not need to rely on cash outside the U.S. for payment. The TCJA also provides for a territorial tax system in the U.S., which may provide companies with the ability to repatriate earnings with minimal U.S. federal income tax impact beginning in 2018. 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

	For the Nine Months Ended September 30,	
(in thousands)	2018	2017
Net income	\$204,358	\$195,246

Edgar Filing: AKAMAI TECHNOLOGIES INC - Form 10-Q

Non-cash reconciling items included in net income	509,969	435,798
Changes in operating assets and liabilities	7,845	(27,502)
Net cash flows provided by operating activities	\$722,172	\$603,542

The increase in cash provided by operating activities for the nine-month period ended September 30, 2018, as compared to the same period in 2017, was primarily due to increased profitability in 2018, lower cash paid for income taxes due to a lower U.S federal statutory tax rate due to the TCJA during the nine-month period ended September 30, 2018, higher cash paid for multi-year network-related maintenance contracts that were renewed during the nine-month period ended September 30, 2017 and timing of collections and payments of other working capital items. The increase in cash provided by operating activities for the nine-month period ended September 30, 2018, as compared to the same period in 2017, was partially offset by a one-time

Table of Contents

contribution to the Akamai Foundation of \$50.0 million, as well as higher annual bonus payouts in the first quarter of 2018 due to increased headcount from hiring in 2017.

Cash Used in Investing Activities

(in thousands)	For the Nine Months Ended September 30,	
	2018	2017
Cash paid for acquired businesses, net of cash acquired	\$(79)	\$(197,201)
Purchases of property and equipment and capitalization of internal-use software development costs	(288,407)	(307,926)
Net marketable securities activity	(387,070)	249,281
Other investing activity	(2,678)	(1,166)
Net cash used in investing activities	\$(678,234)	\$(257,012)

The increase in cash used in investing activities during the nine-month period ended September 30, 2018, as compared to the same period in 2017, was driven by an increase in purchases of marketable securities as a result of investing proceeds from our convertible senior notes issued in May 2018. The increase in cash used in investing activities was partially offset by the cash paid for the acquisition of Soasta during the nine-month period ended September 30, 2017.

Cash Provided By (Used in) Financing Activities

(in thousands)	For the Nine Months Ended September 30,	
	2018	2017
Activity related to convertible senior notes	\$990,390	\$—
Activity related to stock-based compensation	352	(6,382)
Repurchases of common stock	(625,925)	(306,629)
Other financing activities	(5,085)	(1,096)
Net cash provided by (used in) financing activities	\$359,732	\$(314,107)

The increase in cash provided by financing activities during the nine-month period ended September 30, 2018, as compared to the same period in 2017, was the result of our convertible senior notes issued in May 2018 and related note hedge and warrant transactions. The increase was partially offset by an increase in shares repurchased under our repurchase programs.

In February 2016, the Board of Directors authorized a \$1.0 billion share repurchase program effective from February 2016 through December 31, 2018. In March 2018, we announced that the Board of Directors had increased our share repurchase authorization by \$416.7 million, raising the amount that is authorized and available to \$750.0 million, which we plan to utilize by the end of 2018. Subsequently, effective November 2018, the Board authorized an additional \$1.1 billion repurchase program through December 2021. The Company's goal for the share repurchase program is to continue to return to shareholders a significant percentage of Akamai's free cash flow while preserving its flexibility for other strategic opportunities.

During the nine-month period ended September 30, 2018, we repurchased 8.3 million shares of common stock at a weighted average price of \$74.98 per share for an aggregate of \$625.9 million. During the nine-month period ended September 30, 2017, we repurchased 5.8 million shares of common stock at a weighted average price of \$52.65 per share for an aggregate of \$306.6 million. As of September 30, 2018, \$124.1 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 May 2018, we issued \$1,150.0 million in par value of convertible senior notes due 2025 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 7 to the consolidated financial statements included elsewhere in this quarterly report on Form 10-Q. We intend to use a portion of the net proceeds to repay at maturity all of our \$690.0 million outstanding aggregate principle amount of

Table of Contents

convertible senior notes due in 2019. In addition, we intend to use the remaining net proceeds of the offering for share repurchases, working capital and general corporate purposes, including potential acquisitions and other strategic transactions.

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 7 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. The convertible senior notes are due in February 2019, and are classified as a current liability on our consolidated balance sheet as of September 30, 2018.

Revolving Credit Facility

In May 2018, we entered into a \$500.0 million, five-year revolving credit agreement. Borrowings under the facility may be used to finance working capital needs and for general corporate purposes. The facility provides for an initial \$500.0 million in revolving loans. Under specified circumstances, the facility can be increased to up to \$1.0 billion in aggregate principal amount.

Borrowings under the Credit Agreement bear interest, at our option, at a base rate plus a spread of 0.00% to 0.25% or an adjusted LIBOR rate plus a spread of 0.875% to 1.25%, in each case with such spread being determined based on our consolidated leverage ratio specified in the Credit Agreement. Regardless of what amounts, if any, are outstanding under the Credit Agreement, we are also obligated to pay an ongoing commitment fee on undrawn amounts at a rate of 0.075% to 0.15%, with such rate being based on our consolidated leverage ratio specified in the Credit Agreement.

The Credit Agreement contains customary representations and warranties, affirmative and negative covenants, and events of default. Principal covenants include a maximum consolidated leverage ratio and a minimum consolidated interest coverage ratio. There were no outstanding borrowings under the Credit Agreement as of September 30, 2018.

Liquidity Outlook

Based on our present business plan, we expect our current cash, cash equivalents and marketable securities balances and our forecasted cash flows from operations to 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, repayment of our convertible senior notes due 2019 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. With the exception of the issuance of the \$1,150.0 million of convertible senior notes issued in May 2018, as of September 30, 2018, 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, 2017, 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 12 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2017 for further discussion of these indemnification agreements. The fair value of guarantees issued or modified during the nine months ended September 30, 2018 was determined to be immaterial.

As of September 30, 2018, we did not have any additional material off-balance sheet arrangements.

Table of Contents

Critical Accounting Policies and Estimates

See Note 1 and Note 2 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 the consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2017. Except for our adoption of the new revenue recognition standard, there have been no material changes to our critical accounting policies and estimates from those reported in our annual report on Form 10-K for the year ended December 31, 2017.

Revenue Recognition

Our contracts with customers sometimes include promises to transfer multiple services to a customer. Determining whether services are distinct performance obligations often requires the exercise of judgment by management. Advanced features that enhance a main product or service and are highly interrelated are generally not considered distinct; rather, they are combined with the service they relate to into one performance obligation. Different determinations related to combining services into performance obligations could result in differences in the timing and amount of revenue recognized in a period.

Determination of the standalone selling price, or SSP, also requires the exercise of judgment by management. SSP is based on observable inputs such as the price we charge for the service when sold separately, or the discounted list price per management's approved price list. In cases where services are not sold separately or price list rates are not available, a cost-plus-margin approach or adjusted market approach is used to determine SSP. Changes to SSP could result in differences in the allocation of transaction price among performance obligations, which could result in differences in the timing and amount of revenue recognized in a period.

From time to time, we enter into contracts to sell services or license technology to unrelated enterprises at or about the same time that we enter into contracts to purchase products or services from the same enterprises. Consideration payable to a customer is reviewed as part of the transaction price. If the payment to the customer does not represent payment for a distinct service, revenue is recognized only up to the net amount of consideration after customer payment obligations are considered. Different determinations on whether a payment represents a distinct service could result in differences in the amount of revenue recognized.

We may also resell the licenses or services of third parties. If we are acting as an agent in an arrangement with a customer to provide third party services, the transaction price reflects only the net amount to which we will be entitled, after accounting for payments made to the third party responsible for satisfying the performance obligation. Different determinations on whether we are acting as an agent or a principal could change the amount of revenue recognized.

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.

Table of Contents

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, net. Foreign currency transaction gains and losses from these forward contracts were determined to be immaterial during the nine months ended September 30, 2018. 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 September 30, 2018 and December 31, 2017, no customer had an accounts receivable balance greater than 10% of our accounts receivable. We believe that at September 30, 2018, 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 September 30, 2018. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2018, 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 September 30, 2018 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.

Table of Contents

In April 2018, as part of the resolution of multiple existing lawsuits between Limelight and Akamai, including in the U.S. District Court for the Eastern District of Virginia and in the U.S. District Court for the District of Massachusetts, Akamai and Limelight entered into an agreement to settle the cases and request that the U.S. Patent Trial and Appeal Board terminate certain proceedings related to patents at issue in the lawsuits. We recorded a \$14.9 million charge during the nine months ended September 30, 2018 related to this settlement.

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, 2017.

If we do not continue to innovate, make sound investments that bring positive returns, and develop profitable products and solutions that are attractive to existing and potential customers, 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 and security solutions. As the information technology industry evolves, however, it may become increasingly difficult for us to maintain a technological advantage in business areas where we have historically placed our focus. In particular, our traditional offerings, particularly our media and website delivery services, could face more intense competition 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.

It is, therefore, also important to our revenue growth and profitability that we enter into new business areas that present significant value-generating investment opportunities. This requires investing in business areas that can potentially provide positive returns and developing or acquiring innovative, high-margin solutions, including in areas such as enterprise security and digital performance management. 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, and we may choose to invest in business areas for which a viable market for our products does not ultimately develop. 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 invest in areas that can potentially provide a positive return or to adequately develop, on a cost-effective basis, innovative new or enhanced solutions that are attractive to customers and profitable to us and an 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.

During the past twenty years, we have diversified our business from a media-dominated content delivery network by becoming a leading supplier of web and security products and services for a broad range of customers in myriad

industries. Nevertheless, increasing traffic on our network remains 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;
- the pace at which our customers' enterprise applications move from behind the firewall to the cloud;
- media and other customers 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.

Table of Contents

We base our decisions about expense levels and investments on estimates of our future revenue and future anticipated rate of growth. In addition, many of our expenses are fixed cost in nature for some minimum amount of time 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 or in sales of our web performance solutions 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 on a quarterly or annual basis in the future.

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 performance services and advanced features;
- pricing pressure on our solutions;
- failure of our new products and services, including our enterprise security and digital performance management solutions, to achieve sufficient market acceptance given our investment to develop them;
- 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.

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, broader product portfolios, 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, enter new markets more easily, and expand their service offerings more efficiently or more rapidly;
- combine their products that are competitive with ours with other solutions they offer in a way that makes our offerings less appealing to current and potential customers;
- adapt to new or emerging technologies and changes in customer requirements more quickly;
- take advantage of acquisition, investment 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 superior offerings.

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

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

Ultimately, increased competition of all types could result in price and revenue reductions, loss of customers and loss of

46

Table of Contents

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, selling more high-margin services, features and functionalities to existing customers and increasing traffic usage by all customers. 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, data and encryption keys as well as our own; customer information and data may, in turn, include individual data of and about their customers. 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 are frequent and take a variety of forms, including DDoS attacks, infrastructure attacks, botnets, malicious file uploads, cross-site scripting, credential abuse, ransomware, 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 – including personally identifiable information of individuals involved with 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 the imposition of fines or other penalties on us; and possibly impede our present and future success in retaining and attracting new customers.

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

Table of Contents

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.

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 continue 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 synergies or other expected benefits;
- increased accounting charges such as impairment of goodwill or intangible assets, amortization of intangible assets acquired and a reduction in the useful lives of intangible assets acquired; and
- potential unknown liabilities associated with acquired businesses.

Any inability to integrate completed acquisitions or combinations in an efficient and timely manner could have an adverse impact on our results of operations. 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.

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.

Table of Contents

With this constantly changing environment, our future business strategies, practices and results may be difficult to predict, and we may face operational difficulties in adjusting to the changes. Any of these developments could harm our business.

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. As a result, these systems could generate errors that impact traffic measurement or invoicing. 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 may occur as a result of taking these actions. Taking these actions may also result in significant expense for us, including with respect to workforce reductions, 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 or considering a strategic transaction;
- 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;
- 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.

Actions of activist stockholders could be distracting to us, cause us to incur significant expenses and impact the trading value of our common stock.

Responding to actions by activist stockholders could be distracting to our Board of Directors, our executives and our other employees. Such activities may also require us to incur significant legal and other advisor fees and public relations costs. Perceived uncertainty as to our future direction could affect customer and investor sentiment, resulting

in longer sales cycles, employee retention and hiring challenges, and volatility in the price of our common stock.

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. As a result, we are increasingly subject to risks associated with international business activities that may increase our costs, make our operations less efficient and require significant management attention. These risks include:

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;

Table of Contents

• interpretations of laws or regulations that would subject us to regulatory supervision or, in the alternative, require us to exit a country, which could have a negative impact on the quality of our services or our results of operations;

• uncertainty regarding liability for content or services;

• adjusting to different employee/employer relationships and different regulations governing such relationships;

• corporate and personal liability for alleged or actual violations of laws and regulations;

• difficulty in staffing, developing and managing foreign operations as a result of distance, language and cultural differences;

- currency exchange rate fluctuations and limitations on the repatriation and investment of funds;

• difficulties in transferring funds from, or converting currencies in, certain countries;

• 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 pending withdrawal 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 employee relations as a result of Brexit. Such changes could be costly and potentially disruptive to our operations and business relationships in affected regions.

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 protection, privacy and filtering regulations and 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.

We entered into a Non-Prosecution Agreement with the U.S. 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. Although we have implemented policies and procedures designed to ensure compliance with the Non-Prosecution Agreement and relevant laws and regulations, there can be no assurance that our employees, contractors or agents will not violate our policies or applicable laws. Any such violations 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.

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

Our services are highly complex and are designed to be deployed in and across numerous large and complex networks that we do not control. From time to time, we have needed to correct errors and defects in the software that underlies our services and platform that have given rise to service incidents 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. While we have robust quality control processes in the place, 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.

Table of Contents

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. It is unclear whether potential changes to regulations previously 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) will be adopted and, if adopted, how they would apply to content delivery network providers like us. It is also uncertain how future regulatory and legislative initiatives or changes will impact our business.

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

Privacy laws, including the European Union General Data Protection Regulation, or GDPR, 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, like the GDPR, 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, our 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. Compliance with GDPR may be administratively difficult and expensive.

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. Currently, we have in place U.S.-European Union and U.S. Swiss Privacy Shield Frameworks to legally transfer covered personal data from Europe to the United States, but their legitimacy may continue to be subject to challenge and review. 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.

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
- redesign products or services.

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

Table of Contents

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. 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.

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

Table of Contents

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. In particular, we do not yet know the full effect that the U.S. Tax Cuts and Jobs Act of 2017 and subsequent related regulations will have on our business and tax exposure assessment. 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. In the second quarter of 2018, we filed an appeal with the Massachusetts Appellate Tax Board contesting adverse audit findings relating to our eligibility to claim certain tax benefits and exemptions. If the outcome of this appeal and other audits are adverse to us, our reserves may not be adequate to cover our total actual liability, and we would need to take a financial charge. Although we believe our estimates, our reserves and the positions we have taken in all jurisdictions 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.

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

As of September 30, 2018, we had total par value of \$1,150.0 million of convertible senior notes outstanding due in 2025 and \$690.0 million of convertible senior notes outstanding due in 2019. We also entered into a credit facility in May 2018 that provides for an initial \$500.0 million in revolving loans; under specified circumstances, we would be able to borrow an additional \$500.0 million thereunder. Our ability to repay any amounts we borrow under our credit facility, 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 applicable 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 future borrowing under the credit facility or 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. Although the terms of our credit facility include certain financial ratios that potentially limit our future indebtedness, the terms of the notes do not do so. If we incur significantly more debt, this could intensify the risks described above.

Table of Contents

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 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.

Litigation 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.

Furthermore, because litigation is inherently unpredictable and may not be covered by insurance, there can be no assurance that the results of any litigation matters will not have an adverse impact on our business, results of operations, financial condition or cash flows.

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 deceleration 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.

Table of Contents

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. While we have invested in projects to support renewable energy development, our customers, investors and other stakeholders may require us to take more 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 currently 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 until our 2021 annual meeting of stockholders at which time all directors will stand for annual elections;
- 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 third quarter of 2018 (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⁾
July 1, 2018 – July 31, 2018	2,267,546	\$ 75.33	2,267,546	\$ 393,684
August 1, 2018 – August 31, 2018	2,916,458	74.26	2,916,458	177,122
September 1, 2018 – September 30, 2018	710,594	74.65	710,594	124,075
Total	5,894,598	\$ 74.71	5,894,598	\$ 124,075

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

(2) Consists of shares of our common stock, par value \$0.01 per share.

(3) Includes commissions paid.

In February 2016, the Board of Directors authorized a \$1.0 billion share repurchase program effective from February 2016 through December 2018. In March 2018, the Board of Directors authorized a \$416.7 million

(4) increase to the share repurchase program, such that the amount that is authorized and available for repurchase in 2018 is \$750.0 million. Subsequently, effective November 2018, the Board authorized an additional \$1.1 billion repurchase program through December 2021.

Table of Contents

Item 6. Exhibits

Exhibit 3.1 (A)	<u>Amended and Restated Certificate of Incorporation of Akamai Technologies, Inc., as amended</u>
Exhibit 3.2 (A)	<u>Amended and Restated Bylaws of Akamai Technologies, Inc., as amended</u>
Exhibit 31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/ Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended</u>
Exhibit 31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/ Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended</u>
Exhibit 32.1	<u>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</u>
Exhibit 32.2	<u>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</u>
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

(A) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-27275) filed with the Securities and Exchange Commission on June 6, 2018

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at September 30, 2018 and December 31, 2017, (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2018 and 2017, (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017 and (v) Notes to Unaudited Consolidated Financial Statements.

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.

November 8, 2018 By: /s/ James Benson

James Benson

Chief Financial Officer

(Duly Authorized Officer, Principal Financial Officer)