

AKAMAI TECHNOLOGIES INC

Form 10-K

February 28, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

or

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

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, Massachusetts 02142

(Address of principle executive offices) (Zip Code)

Registrant's telephone number, including area code: (617) 444-3000

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

Title of each class	Name of each exchange on which registered
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Common Stock, \$.01 par value	Nasdaq Global Select Market
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Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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 Act).

Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately \$12,071.0 million based on the last reported sale price of the Common Stock on the Nasdaq Global Select Market on June 29, 2018.

The number of shares outstanding of the registrant's Common Stock, par value \$0.01 per share, as of February 21, 2019: 163,212,497 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission relative to the registrant's 2019 Annual Meeting of Stockholders are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this annual report on Form 10-K.

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AKAMAI TECHNOLOGIES, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

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Forward-Looking Statements

This annual report on Form 10-K contains “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,” “continue,” “likely” or similar expressions indicates a forward-looking statement. 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 annual report on Form 10-K for a discussion of certain risks associated with our business. We disclaim any obligation to update any forward-looking statements as a result of new information, future events or otherwise.

PART I

Item 1. Business

Overview

Akamai provides solutions for delivering, optimizing and securing content and business applications over the Internet. At the core of our solutions is our globally-distributed Akamai Intelligent Edge Platform, which is designed to help our customers leverage the power and reach of the Internet while protecting them from malicious threats to their business. We deploy servers and technology at the “edge” of the Internet – establishing touch points on its perimeter in more than 130 countries and 1,700 networks around the world. This approach affords us unique insight and visibility into traffic volumes, attack patterns, vulnerabilities and other activities across this complex cloud of networks and systems. Leveraging these insights and our position at the edge, we offer our customers solutions designed to protect them from threats and attacks, while empowering them to engage, entertain and interact with end-users; extend their internal systems beyond their corporate perimeters to control access and better leverage the cloud; and help them avoid the burden of navigating and managing the web’s complexity.

We believe that the edge is the next frontier of digital business – the intersection of users, digital technology and transactions, cloud computing and entertainment – and that our security, performance and delivery solutions can enable our customers to take advantage of the opportunities this intersection creates.

Our Strategy

The technology landscape is rapidly evolving, driving businesses to want to enhance their digital capabilities to improve productivity, transform customer experiences, increase brand awareness and drive competitive advantage.

The network known as the Internet of Things, or IoT, is now connecting billions of devices that transmit large volumes of data from and within offices, hospitals, manufacturing plants, power grids, roads, schools and homes every second. We believe that new technologies like blockchain are emerging that promise to surpass the ability of current methods to process transactions more quickly and deliver data and content more securely. In addition, organizations seeking streamlined operations, digital transformation and improved cost management are increasing their reliance on servers and networks comprising the “cloud” based on the promise of agility and scale – a promise that has not always been realized.

At the same time, there are challenges and risks that have the potential to disrupt progress in every industry, compromise online experiences, and, in the most extreme cases, destroy value that took decades to build. Security

threats are growing more sinister and advanced. Enterprise applications are moving from behind the firewall to the cloud while employees increasingly demand remote access from a variety of devices – which we believe makes securing access harder to achieve with just traditional perimeter defenses. More consumers are "cutting the cord" and consuming entertainment over the Internet rather than through traditional cable, and they are increasingly using mobile devices to view content and shop. Web pages are also vastly more complex than ever before with advertisements, videos, graphics and other third-party content, causing speed and reliability to suffer.

We believe that Akamai is uniquely positioned to help our customers capitalize on the opportunities and mitigate the risks presented by this dynamic environment. The Akamai Intelligent Edge Platform is architected to surround and extend a customer's existing cloud architecture, so it can accelerate and secure cloud-based activities and workloads on a global scale, while also improving reliability and reducing cost. Our platform comprises more than 200,000 servers deployed around the world, tied together with sophisticated software and algorithms. Our software also resides on millions of end-user devices, as

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part of our work on client-assisted delivery for large media files. By placing integrated computing resources, data, content and security protection closer to end-users, at the edge, our technology is designed to extend our customers' existing cloud solutions to deliver superior user experiences that are bi-directional, instantaneous, rich and secure. The platform is also architected to enable us to constantly monitor Internet conditions to:

- identify, absorb and block security threats;
- efficiently route traffic away from Internet trouble spots;
- detect what devices individuals are using and optimize content delivery to them;
- provide our customers with business, technical and analytical insights into their online operations; and
- understand different types of traffic visiting websites so that customers can respond to them.

We believe that our scale, unique technology, high-quality intellectual property portfolio, strong relationships with hundreds of leading telecommunications carriers and thousands of major brands on the web, and relentless and personalized attention to customer and partner needs create significant value for stockholders and provide a meaningful edge over competitors.

Our Solutions

We offer online solutions for the security, delivery and acceleration of websites and applications. We are trusted by a large percentage of the world's most important brands, including hundreds of media companies, e-retailers, major governments, financial institutions and other leading enterprises. Across all of these customers, our mission is to make digital experiences fast, intelligent and secure.

Cloud Security Solutions

Our Cloud Security Solutions are designed to defend websites, applications and data centers against a multitude of cyberattacks. These solutions include:

- Web Application Protector – Web Application Protector is designed to safeguard web assets from web application and distributed denial of service, or DDoS, attacks, while improving performance. This offering provides easy-to-implement application security for organizations that do not have robust security teams or expertise.
- Kona Site Defender – Kona Site Defender is a cloud security solution that defends against network and application layer DDoS attacks, web application attacks and direct-to-origin attacks. This offering provides customizable protection for enterprises that want more control over their application security.
- Bot Manager – Bot Manager provides organizations with a flexible framework to better manage the wide array of bots, both helpful and malicious, accessing their websites. It offers the ability to identify bots, categorize different bots based on business or IT impact, and apply different management policies to mitigate that impact.
- Fast DNS – The Domain Name System, or DNS, translates human-readable domain names into numerical IP addresses to enable individuals who type in a website name to reach the desired location on the Internet. Our Fast DNS offering is a DNS resolution solution that is designed to quickly and dependably direct individuals to our customers' websites. Crucially, we have architected this service to protect against DNS-based DDoS attacks.
- Prolexic Routed – Prolexic Routed is a DDoS scrubbing solution that is designed to protect web- and IP-based applications, entire data centers and supporting network infrastructure from DDoS attacks. It provides cloud-based security against high-bandwidth, sustained DDoS attacks as well as potentially those that target specific applications and services.

- Client Reputation – Client Reputation provides an additional layer of security based on Akamai’s visibility into prior malicious behavior on the Akamai network. Our algorithms use both legitimate and attack traffic to profile the behavior of attacks, clients and applications. Client Reputation assigns risk scores to every known malicious IP address and enables customers to take action on individual clients based on the assessed risk to their organizations.

Enterprise Security Solutions

Our Enterprise Security Solutions are designed to help customers move from a legacy perimeter-based approach to security to what we refer to as a “Zero Trust” security model. Our approach is centered on dynamically controlling access to individual

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applications behind the network firewall and proactively protecting users from malware. Our key Enterprise Security Solutions include:

- Enterprise Application Access – Enterprise Application Access enables adaptive access to applications behind the firewall, based on identity and a multitude of dynamic security signals, without providing users access to our customer’s broader corporate network.
- Enterprise Threat Protector – Enterprise Threat Protector is designed to enable enterprise security teams to proactively and easily identify, block and mitigate targeted attacks such as malware, ransomware, phishing and data exfiltration that exploit DNS.

Web and Mobile Performance Solutions

The ultimate goal of our Web and Mobile Performance Solutions is to enable dynamic websites and applications to have instant response times, no matter where the user is, what device or browser they are using, or how they are connected to the Internet. This is accomplished through a variety of advanced technologies embedded in our platform, which can be thought of as a virtual Internet overlaying the native Internet. Key offerings include:

- Ion – Ion is a suite of intelligent performance optimization tools and controls designed to improve user experiences on the web and iOS and Android devices. This solution continuously monitors the end-user experience to adapt in real-time to changes in content, user behavior and connectivity.
- Dynamic Site Accelerator – Dynamic Site Accelerator is designed to improve reliability, increase the offload of traffic from origin servers and enhance network performance while handling the specific requirements of dynamically-generated content without a costly hardware buildout. Using real-time network optimizations and advanced caching techniques, this solution is designed to accelerate and secure interactive websites; helping customers to scale to meet sudden traffic surges arising from flash sales or other events.
- Image Manager – To help our customers cope with the multitude and variety of devices used by their users and the complexity of preparing images for delivery over the web, Image Manager automatically optimizes online images to attain the best combination of size, quality and file format suited for each image and device and automates the creation and delivery of tailored derivative image assets.
- CloudTest – CloudTest helps customers prepare for business-critical traffic events or changes to their Internet-facing environment by empowering them to conduct large-scale load testing safely. The solution allows customers to conduct additional analysis of their websites in a pre-production environment. Testing capabilities include web and mobile applications with real-time analytics and customizable dashboards that allow for root cause analysis while tests are in process.
- mPulse – mPulse is a real user monitoring offering that provides real-time website performance data to help customers improve their digital experiences. Using advance algorithms and data visualization tools, mPulse generates insights that enable enterprises to identify and address performance issues based on their impact on customer engagement, conversions, revenue and other key business metrics.

Media Delivery Solutions

In recent years, online and mobile gaming, as well as online streaming of movies, television and live events, have come to represent a significant percentage of traffic on the Internet. Providing solutions to optimize delivery of media content is an important part of our current and future strategy. Our Media Delivery Solutions are designed to enable

enterprises to execute their digital media distribution strategies, not only by providing solutions to address their volume and global reach requirements but also by improving the end-user experience, boosting reliability and reducing the cost of Internet-related infrastructure. Our offerings include:

- Adaptive Media Delivery – We provide delivery solutions for video and music streaming that are designed to cope with variable connection speeds and different devices and to reach disparate locations around the world.
- Download Media Delivery – Our download delivery offering provides accelerated distribution for large file downloads, including games, progressive media (video and audio) files, documents and other file-based content.

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- Media Services Live – This service helps simplify the preparation of live-streamed television, enabling our customers to reliably deliver high-quality live content to online audiences across multiple types of devices and platforms.
- Media Analytics – We offer a comprehensive suite of analytics tools to monitor online video viewing, while measuring audience engagement, and quality of service performance. These solutions are designed to provide actionable and relevant metrics to help businesses understand their entire media workflow from ingest to device.
- NetStorage – NetStorage is a globally-distributed cloud storage solution for our customers' content that offers automatic geographically-dispersed replication that is architected for resiliency, high availability and real time performance optimization.

Carrier Solutions

With the growth in consumer adoption of IP-delivered television and online/mobile gaming, carriers around the world have experienced significant traffic increases, resulting in congestion across networks from aggregation to backbone to interconnection. Compounding this challenge, security and personalized services are now critical for carriers to protect and grow their revenue and subscriber bases. To address these needs, our carrier offerings are designed to help customers operate a cost-efficient network that capitalizes on traffic growth and new subscriber services by reducing the complexity of building a content delivery network, or CDN, and interconnecting access providers. We also help carriers provide security and personalization services for consumer households and business subscribers. Our carrier offerings include:

- Aura Managed CDN – Aura Managed CDN is a scalable, turnkey CDN solution designed to provide network operators with CDN capabilities through an infrastructure that is maintained by Akamai. With it, an operator can leverage the same CDN techniques used by Akamai, but on servers that are dedicated to the network operator's services. Operators can deliver multi-screen video services and large objects, plus offer commercial CDN services, relying on Akamai CDN experts and technology for content provisioning, delivery and reporting.
- DNS Infrastructure – We offer intelligent recursive DNS platforms built for effective management of DNS traffic in licensed, managed and cloud-based solutions. To improve subscriber experience, our DNS Infrastructure solutions manage subscriber preferences and enable security and personalization services that are designed for network operators.
- Security and Personalization Services – Used in conjunction with our DNS Infrastructure offerings, Akamai's Secure Consumer product is a cybersecurity solution designed to protect a carrier's consumer subscribers and IoT devices from phishing, viruses, ransomware and malware. The solution includes parental controls that allow subscribers to tailor Internet access for each family member from a simple web page. Our Secure Business product is a solution designed to let carriers easily deploy cyberthreat protection to prevent ransomware, phishing, botnets and zero-day malware attacks to their small- and medium-sized business customers.

Services and Support Solutions

Akamai provides an array of service and support offerings that are designed to assist our customers with integrating, configuring, optimizing and managing our core offerings. Once customers are deployed on our network, they can rely on our professional services experts for customized solutions, problem resolution and 24/7 technical support. Special features available to enterprises that purchase our premium support solution include a dedicated technical account team, proactive service monitoring, custom technical support handling procedures and customized training.

Our Technology and Network

The Akamai Intelligent Edge Platform provides the technological underpinnings for all of our solutions. We use data generated in connection with each of our solutions to improve and augment the functionality of our overlay network and, in turn, to improve the effectiveness of our other solutions. In this approach, insights and learnings are integrated across the broader platform in support of our entire solution portfolio.

The Akamai Intelligent Edge Platform leverages more than 200,000 servers deployed in more than 1,700 networks ranging from large, backbone network providers to medium and small Internet service providers, or ISPs, to cable modem and satellite providers to universities and other networks. By deploying servers within a wide variety of networks across more than 130 countries, we are better able to manage and control routing and delivery quality to geographically diverse users. We also have thousands of peering relationships that provide us with direct paths to end-user networks, which reduce data loss, while also potentially giving us more options for delivery at reduced cost.

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To make this wide-reaching deployment effective, we use specialized technologies, such as advanced routing, load balancing, data collection and monitoring. Our intelligent routing software is designed to ensure that website visitors experience fast page loading, access to applications and content assembly wherever they are on the Internet and regardless of global or local traffic conditions. Dedicated professionals staff our network operations command center 24 hours a day, seven days a week to monitor and react to Internet traffic patterns and trends. We frequently deploy enhancements to our software globally to strengthen and improve the effectiveness of our network.

Our platform offers flexibility too. Customers can control the extent of their use of Akamai 's technology to scale on demand, using as much or as little capacity of the global platform as they require, to support widely varying traffic and rapid growth without the need for expensive and complex internal infrastructure.

Customers

As of December 31, 2018, our customers included many of the world's leading corporations, including Adobe, Airbnb, Alibaba, Autodesk, Carnival Corporation, Concur, Crate & Barrel, eBay, Electronic Arts, Epic Games, FedEx, Fidelity Investments, General Electric, Honda, IKEA, Japan Airlines, JetBlue, Lowe's Companies, Maersk Transportation & Logistics, Marriott, NBCUniversal, Panasonic, Panera Bread, PayPal, Philips, Qualcomm, Rabobank, Sony Interactive Entertainment, Spotify, Telefonica, The Coca-Cola Company, Ticketmaster, Toshiba, Turner Broadcasting, Ubisoft and Viacom. We also actively sell to government agencies. As of December 31, 2018, our public-sector customers included the Federal Aviation Administration, the U.S. Census Bureau, the U.S. Department of Defense, the U.S. Department of Labor, the U.S. Department of State and the U.S. Securities and Exchange Commission.

No customer accounted for 10% or more of total revenue for any of the years ended December 31, 2018, 2017 and 2016. Less than 10% of our total revenue in each of the years ended December 31, 2018, 2017 and 2016 was derived from contracts or subcontracts terminable at the election of the federal government, and we do not expect such contracts to account for more than 10% of our total revenue in 2019.

Sales, Service and Marketing

We market and sell our solutions globally through our direct sales and service organization and through many channel partners including AT&T, Deutsche Telecom, IBM, Orange Business Services and Telefonica Group. In addition to entering into agreements with resellers, we have several other types of sales and marketing focused alliances with entities such as system integrators, application service providers, referral partners and sales agents. By aligning with these partners, we believe we are better able to market our solutions and encourage increased adoption of our technology throughout the industry.

Our sales, service and marketing professionals are based in locations across the Americas, Europe, the Middle East and Asia and focus on direct and channel sales, sales operations, professional services, account management and technical consulting. As of December 31, 2018, we had 3,660 employees in these roles.

To support our sales efforts and promote the Akamai brand, we conduct comprehensive marketing programs. Our marketing strategies include an active public relations campaign, print advertisements, online advertisements, participation at trade shows, strategic alliances, ongoing customer communication programs, training and sales support.

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Competition

The market for our solutions is intensely competitive and characterized by rapidly changing technology, evolving industry standards and frequent new product and service innovations. We expect competition for our offerings to increase both from existing competitors and new market entrants. We compete primarily on the basis of:

- the performance and reliability of our solutions;
- return on investment in terms of cost savings and new revenue opportunities for our customers;
- reduced infrastructure complexity;
- sophistication and functionality of our offerings;
- scalability;
- security;
- ease of implementation and use of service;
- customer support; and
- price.

We compete with companies offering products and services that address Internet performance problems, including companies that provide Internet content delivery and hosting services, security solutions, technologies used by network operators to improve the efficiency of their systems, streaming content delivery services and equipment-based solutions for Internet performance problems, such as load balancers and server switches. Other companies offer online distribution of digital media assets through advertising-based billing or revenue-sharing models that may represent an alternative method for charging for the delivery of content and applications over the Internet. In addition, existing and potential customers may decide to purchase or develop their own hardware, software or other technology solutions rather than rely on a third-party provider like us.

We believe that we compete favorably with other companies in our industry through the global scale of the Akamai Intelligent Edge Platform, which we believe provides the most effective means of meeting the needs of enterprise customers and is unique to us. In our view, we also benefit from the superior quality of our offerings, our customer service and the information we can provide to our customers about their online operations and value.

Proprietary Rights and Licensing

Our success and ability to compete are dependent on developing and maintaining the proprietary aspects of our technology and operating without infringing on the proprietary rights of others. We rely on a combination of patent, trademark, trade secret and copyright laws and contractual restrictions to protect the proprietary aspects of our technology. As of December 31, 2018, we owned, or had exclusive rights to, more than 375 U.S. patents covering our technology as well as patents issued by other countries. Our U.S.-issued patents have terms extendable to various dates between 2019 and 2037. We do not believe that the expiration of any particular patent in the near future would be materially detrimental to our business. In October 1998, we entered into a license agreement with the Massachusetts Institute of Technology, or MIT, under which we were granted a royalty-free, worldwide exclusive right to use and sublicense the intellectual property rights of MIT under various patent applications and copyrights relating to Internet content delivery technology. We seek to limit disclosure of our intellectual property by requiring employees and consultants with access to our proprietary information to execute confidentiality agreements with us and by restricting access to our source code.

Employees

As of December 31, 2018, we had 7,519 full-time and part-time employees. Our future success will depend in part on our ability to attract, retain and motivate highly qualified technical, managerial and other personnel for whom

competition is intense. Our employees are not represented by any collective bargaining unit. We believe our relations with our employees are good, and we have been acknowledged in respected publications as an excellent place to work.

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Additional Information

Akamai was incorporated in Delaware in 1998, and we have our corporate headquarters at 150 Broadway, Cambridge, Massachusetts. Our Internet website address is www.akamai.com. We make available, free of charge, on or through our Internet website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments thereto that we have filed or furnished with the Securities and Exchange Commission, or the Commission, as soon as reasonably practicable after we electronically file them with the Commission. We are not, however, including the information contained on our website, or information that may be accessed through links on our website, as part of, or incorporating such information by reference into, this annual report on Form 10-K.

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 annual report on Form 10-K or presented elsewhere by management from time to time.

We may face slowing revenue growth which could negatively impact our profitability and stock price.

In future periods, our revenue growth may not continue. In particular, our percentage revenue growth rate in 2019 is likely to be lower than in recent years. Our revenue depends on the continued growth of demand for our solutions and our ability to maintain the prices we charge for our solutions. Our traditional offerings, particularly our Media and Web Performance services, are subject to increasing pricing pressure in certain verticals due to competition and business conditions affecting those customers. Inability to maintain prices negatively impacts our profitability. Our revenue results may also fluctuate for many other reasons including the following:

- our ability to retain and increase sales of additional solutions to existing customers, attract new customers, and satisfy our customers' demands;
- commoditization of our delivery-based solutions, which would lead to lower prices and loss of customers to competitors;
- our ability to develop and sell new solutions that are not easily replicable by competitors;
- the impact of multi-vendor policies designed to reduce reliance on any particular provider, such as us;
- changes in our customer contracting models from a committed revenue structure to a "pay-as-you-go" approach, which would make it easier for customers to stop doing business with us;
- changes in usage or adoption rates of the Internet, e-commerce and electronic devices;
- the impact of competition across our business;
- inability of our customers, particularly commerce, travel and media companies, to continue their operations and spending levels; and
- general economic conditions.

We may be unable to maintain or improve our current level of profitability.

Our ability to maintain or improve our profitability is contingent on our ability to increase our revenue and limit our expenses. We base our decisions about expense levels and investments on estimates of our future revenue and future anticipated rate of growth; however, 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 incurring fees to exit certain obligations early. As a result, leveraging the Akamai Intelligent Edge Platform by increasing the amount of traffic we deliver is key to profitable revenue growth. 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 solutions;
- 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.

If we are unable to increase revenue and limit expenses, our results of operations would suffer.

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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: differentiation of technology, global presence, customer service, technical expertise, security, ease-of-use, breadth of services offered, price, and financial strength. Our 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 for their products and services, 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 products and 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 products and 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 solutions, 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 any particular external providers such as us.

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

If we do not continue to develop new solutions that are attractive to enterprises, our revenues and operating results could be adversely affected.

It is important to our revenue growth and profitability that we enter into new business areas that present significant value-generating investment opportunities. 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.

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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.

Cybersecurity breaches and attacks on our platform could lead to significant costs and disruptions that could harm our business, financial results and reputation.

In the regular course of business, 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 end-users. Maintaining the security and availability of our solutions, network and internal IT systems and the security of information we hold is a critical issue for us and our customers. Internet-based 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.

Cyberthreats are constantly evolving, increasing the difficulty of detecting and successfully defending against them. We may have no current capability to detect certain vulnerabilities, which may allow them to persist in an environment over long periods of time. Cyberthreats can have cascading impacts that unfold with increasing speed across our internal networks and systems and those of our partners and customers. Breaches of our facilities, network, or data security could disrupt the security of our systems and business applications, impair our ability to provide solutions to our customers and protect their data, result in product development delays, compromise confidential or technical business information thereby harming our reputation or competitive position, result in theft or misuse of our intellectual property or other assets, expose us to fines or other penalties, require us to allocate more resources to improved technologies, or otherwise adversely affect our business.

To defend against security threats to our internal IT systems and our cloud-based services, we must continuously engineer more secure solutions, enhance security and reliability features, improve the deployment of software updates to address security vulnerabilities, develop mitigation technologies that help to secure customers from attacks, and maintain the digital security infrastructure that protects the integrity of our network, products, and services. The cost of these steps could reduce our operating margins. If we fail to do these things well, actual or perceived security vulnerabilities in our solutions, data corruption issues, or reduced performance could harm our reputation and lead customers to reduce or delay future purchases of our solutions, or to use competing products or services.

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 risks 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 target our systems.

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 technologies, operations and personnel of acquired businesses;
- 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

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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 our 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.

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 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, increased usage of alternative working arrangements, 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,

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optimize our operations to achieve our target operating model and profitability objectives, respond to market forces, 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 due to employee distraction, 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.

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, if they occur, 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 solutions.

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 historically 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 affecting 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 solutions 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 solutions. 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 affected companies. These broad stock market fluctuations may adversely affect the market price of our common stock, regardless of our operating performance.

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

Our solutions 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 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 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 address 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 solutions 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 be exposed to legal actions by our customers.

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

Our operations are dependent in part upon transmission capacity provided by third party telecommunications network providers and access to co-location facilities to house our servers. There can be no assurance that we are adequately prepared for unexpected increases in bandwidth demands by our customers, particularly those under cyber-attack. The bandwidth we have contracted to purchase may become unavailable for a variety of reasons, including payment disputes, network providers going out of business, natural disasters, networks imposing traffic limits, or governments adopting regulations that impact network operations. In some regions, network providers may choose to compete with us and become unwilling to sell us adequate transmission capacity at fair market prices. This risk is heightened where market power is concentrated with one or a few major networks. We also may be unable to move quickly enough to augment capacity to reflect growing traffic or security demands. Failure to put in place the capacity we require to operate our business effectively could result in a reduction in, or disruption of, service to our customers and ultimately a loss of those customers.

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;
- interpretations of laws or regulations that would subject us to regulatory supervision or, in the alternative, require us to exit a country, which could lead to loss of significant revenues and have a negative impact on the quality of our solutions;
- 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.

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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 solutions in one or more countries. They could also materially affect our brand or reputation, our global operations, any international expansion efforts, our ability to attract and retain employees, our business overall, and our financial results.

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 are rapidly proliferating, 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, such as the European Union General Data Protection Regulation, or GDPR, and the California Consumer Privacy Act of 2018, and industry self-regulatory codes have been enacted and more are being considered that may affect our ability to reach current and prospective customers, to understand how our solutions 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 solutions 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 liability. Compliance with GDPR and other laws may be administratively difficult and expensive.

We also have a publicly-available privacy policy concerning our collection, use and disclosure of customer and 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 solutions 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 solutions 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:

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- 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.

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 solutions 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 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 solutions, 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 solutions 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.

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

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

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

Our future income taxes could be adversely affected by earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, or changes in tax laws, regulations, or accounting principles, as well as certain discrete items such as equity-related compensation. We have recorded certain tax reserves to address potential exposures involving our income tax and sales and use tax positions. These potential tax liabilities result from the varying application of statutes, rules, regulations and interpretations by different jurisdictions. We are currently subject to tax audits in various jurisdictions including the Commonwealth of Massachusetts. 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 be required to expend 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 the date of this report, we had total par value of \$1,150.0 million of convertible senior notes outstanding due in 2025. 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

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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.

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, growing to 38.0% of overall revenues in 2018 as compared to 34.2% in 2017. 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.

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.

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, breach of contract, 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.

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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.

Facilities transitions could be disruptive to our operations and may result in unanticipated expense and adverse effects to our cash position and cash flows.

We plan to move into our new headquarters building in Cambridge, Massachusetts in late 2019. This location represents our largest office in terms of square footage and employee headcount. Relocating our operations may be costly and could be disruptive and adversely affect productivity in the short term. We could also face unanticipated expenses associated with the transition that could adversely impact our cash position and 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 solutions could also be negatively impacted by economic conditions that, in turn, could have a negative impact on our operations or expenses.

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 that is being phased out over time so that only approximately one-third of our Board of Directors is up for re-election this year and only approximately two-thirds of our Board of Directors will be up for re-election in 2020;

• 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.

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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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We currently occupy approximately 380,000 square feet of property in Cambridge, Massachusetts where our primary corporate offices are located. The majority of the current leases for such space are scheduled to expire in December 2019. In November 2016, we executed a lease for a new primary headquarters space at 145 Broadway in Cambridge, Massachusetts, which is currently under construction. The lease is for approximately 480,000 square feet and is expected to commence when the building is substantially completed, which is expected in the fourth quarter of 2019. The initial lease term is 15 years. During 2017, we also extended our lease for 150 Broadway in Cambridge, Massachusetts, which represents 177,000 square feet of our current footprint in Cambridge, Massachusetts. The term of the extended lease is coterminous with the 145 Broadway lease.

We also have offices in other locations in the United States and other countries, the largest of which are in Santa Clara, California; Bangalore, India; and Krakow, Poland. All of our facilities are leased. We believe our facilities are sufficient to meet our needs for the foreseeable future and, if needed, additional space will be available at a reasonable cost.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Our common stock, par value \$0.01 per share, trades under the symbol "AKAM" on the NASDAQ Global Select Market.

As of February 21, 2019, there were 225 holders of record of our common stock.

We have never paid or declared any cash dividends on shares of our common stock or other securities and do not anticipate paying or declaring any cash dividends in the foreseeable future. We currently intend to retain all future earnings, if any, for use in the operation of our business.

Issuer Purchases of Equity Securities

The following is a summary of our repurchases of our common stock in the fourth quarter of 2018 (in thousands, except share and per share data):

Period ⁽¹⁾	Total Number of Shares Purchased ⁽²⁾	Average Price Paid per Share ⁽³⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽⁴⁾	Approximate Dollar Value of Shares that May Yet be Purchased Under Plans or Programs ⁽⁴⁾
October 1, 2018 – October 31, 2018	1,227,300	\$ 65.34	1,227,300	\$ 43,888
November 1, 2018 – November 30, 2018	623,295	70.41	623,295	1,100,000
December 1, 2018 – December 31, 2018	—	—	—	1,100,000
Total	1,850,595	\$ 67.05	1,850,595	\$ 1,100,000

(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 of Directors authorized an additional \$1.1 billion repurchase program through December 2021.

During the year ended December 31, 2018, we repurchased 10.2 million shares of our common stock for an aggregate of \$750.0 million.

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Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and related notes, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other financial data included elsewhere in this annual report on Form 10-K. The consolidated statements of income and balance sheet data for all periods presented is derived from the audited consolidated financial statements included elsewhere in this annual report on Form 10-K or in prior year annual reports on Form 10-K on file with the Commission.

The following table sets forth selected financial data for the last five fiscal years (in thousands, except per share data):

Year ended December 31,	2018	2017	2016	2015	2014
Revenue	\$2,714,474	\$2,489,035	\$2,347,988	\$2,197,448	\$1,963,874
Total costs and operating expenses	2,351,975	2,174,746	1,881,478	1,731,298	1,474,355
Income from operations	362,499	314,289	466,510	466,150	489,519
Net income	298,373	222,766	320,727	321,406	333,948
Basic net income per share	1.78	1.30	1.83	1.80	1.87
Diluted net income per share	1.76	1.29	1.82	1.78	1.84
Cash, cash equivalents and marketable securities	2,101,171	1,279,528	1,616,329	1,524,235	1,628,284
Total assets	5,461,770	4,648,916	4,432,190	4,181,684	4,001,546
Convertible senior notes – Due 2019	686,552	662,913	640,087	624,288	604,851
Convertible senior notes – Due 2025	874,080	—	—	—	—
Other long-term liabilities	185,121	166,840	156,329	110,319	117,349
Total stockholders’ equity	3,191,860	3,362,469	3,270,218	3,120,848	2,945,335

Prior period information as of and for the years ended December 31, 2017 and 2016 has been restated for the adoption of the new accounting standard for revenue recognition, which we adopted on January 1, 2018. Under this standard, the way revenue is recognized changed for some of our contracts with customers and primarily impacts the timing of recognizing revenue from a small number of licensed software customers. As a result of the new standard we also began capitalizing certain commission and incentive payments. The financial data as of and for the years ended December 31, 2015 and 2014 has not been restated for these new accounting standards. See Note 2 to our consolidated financial statements included elsewhere in this annual report on Form 10-K for more details regarding this new accounting pronouncement.

During the years presented in the table above, various acquisitions occurred, the results of which are presented prospectively from the date of acquisition. These acquisitions may impact the comparability of the consolidated financial data presented above. See Note 8 to our consolidated financial statements included elsewhere in this annual report on Form 10-K for more details regarding these acquisitions.

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

This Management’s Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, should be read in conjunction with our consolidated financial statements and notes thereto that appear elsewhere in this annual report on Form 10-K. See “Risk Factors” elsewhere in this annual report on Form 10-K for a discussion of certain risks associated with our business. The following discussion contains forward-looking statements. The forward-looking statements do not include the potential impact of any mergers, acquisitions, divestitures or other events that may be announced after the date hereof.

Overview

We provide solutions for delivering, optimizing and securing content and business applications over the Internet. The key factors that influence our financial success are our ability to build on recurring revenue commitments for our performance and security offerings, increase media traffic on our network, develop new products and carefully manage our capital spending and other expenses.

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Revenue

For most of our solutions, our customers commit to contracts having terms of a year or longer, which allows us to have a consistent and predictable base level of revenue. In addition to a base level of revenue, we are also dependent on media customers where usage of our solutions 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 gaming, social media and video platform offerings, 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 solutions 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 solutions to our existing customers and adding new customers; however, we have also experienced slower revenue growth in recent quarters particularly in our web performance solutions. We expect the trend of slower revenue growth to continue in 2019 as our commerce customers experience financial pressure, we face contract renewals with large media and other customers and we experience the absence of as many large media-driven events in 2019 as compared to 2018.

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

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, in recent years we have experienced moderation in traffic usage from, and revenue attributable to, large Internet platform companies such as Amazon, Apple, Facebook, Google, Microsoft and Netflix that rely on their internal infrastructure to deliver more of their media content. We refer to these companies as our Internet Platform Customers. We do not anticipate their usage of our solutions to decrease at the same rate in the future.

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

Our profitability improved significantly in 2018 as compared to 2017 due to higher revenues as well as the effects of cost savings and efficiency initiatives we have undertaken. We expect to continue to undertake efforts intended to improve the efficiency of operations. We anticipate profitability improvement in 2019 but at a lower rate as compared to 2018. We believe we can achieve additional improvement in 2020.

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

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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.

- Payroll and related compensation costs grew in 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 approximately 1,100 employees, while headcount remained relatively flat during 2018. We expect to continue to hire employees, both domestically and internationally, in support of our strategic initiatives but do not expect overall headcount to increase significantly in 2019.

Depreciation and amortization expense related to our network equipment and internal-use software development costs increased by \$51.2 million during 2018 as compared to 2017. Due to the software and hardware initiatives we have undertaken to manage our global network more efficiently, we expect the useful lives of our network assets to be extended. This change is expected to decrease depreciation expense related to our network equipment during 2019 as compared to 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 solutions. As a result of the change, we also began capitalizing 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.

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Results of Operations

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

	2018	2017	2016
Revenue	100.0 %	100.0 %	100.0 %
Costs and operating expenses:			
Cost of revenue (exclusive of amortization of acquired intangible assets shown below)	35.1	35.2	34.5
Research and development	9.1	8.9	7.1
Sales and marketing	19.1	19.3	18.2
General and administrative	21.1	20.5	18.7
Amortization of acquired intangible assets	1.2	1.2	1.1
Restructuring charge	1.0	2.2	0.4
Total costs and operating expenses	86.6	87.3	80.0
Income from operations	13.4	12.7	20.0
Interest income	1.0	0.7	0.6
Interest expense	(1.6)	(0.8)	(0.8)
Other (expense) income, net	(0.1)	—	0.2
Income before provision for income taxes	12.7	12.6	20.0
Provision for income taxes	1.6	3.7	6.2
Net income	11.1 %	8.9 %	13.8 %

Revenue

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

	For the Years Ended December 31,				For the Years Ended December 31,			
	2018	2017	% Change	% Change at Constant Currency	2017	2016	% Change	% Change at Constant Currency
Web Division	\$1,446,052	\$1,305,401	10.8 %	10.2 %	\$1,305,401	\$1,138,492	14.7 %	14.7 %
Media and Carrier Division	1,268,422	1,183,634	7.2	6.8	1,183,634	1,209,496	(2.1)	(2.1)
Total revenue	\$2,714,474	\$2,489,035	9.1 %	8.6 %	\$2,489,035	\$2,347,988	6.0 %	6.0 %

The increase in our revenue in 2018 as compared to 2017 was primarily the result of higher media traffic volumes, increased sales of our new product offerings and continued strong growth in our Cloud Security Solutions. Cloud Security Solutions revenue for the year ended December 31, 2018 was \$657.9 million, compared to \$485.5 million for the year ended December 31, 2017, which represents a 35.5% increase. The increase in our revenue in 2017 as compared to 2016 was primarily the result of continued strong growth from our Cloud Security Solutions and from new product introductions. Overall, however, the revenue growth rates for 2017 were negatively impacted by the "do-it-yourself" efforts of our Internet Platform Customers. Cloud Security Solutions revenue for the year ended December 31, 2017 was \$485.5 million, compared to \$369.0 million for the year ended December 31, 2016, which represents a 31.6% increase.

The increase in Web Division revenue for 2018 as compared to 2017 was due to increased purchases of new solutions and upgrades to existing services by this customer base. Increased sales of our Cloud Security Solutions to Web Division customers, in particular our Kona Site Defender and Prolexic solutions, as well as our new Bot Manager offering were a principal contributor to our overall revenue growth. The increase in Web Division revenue in 2017 as

compared to 2016 was due to increased demand across most of our customer base, particularly for our Cloud Security Solutions.

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The increase in Media and Carrier Division revenue for 2018 as compared to 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 \$174.8 million in 2018 as compared to \$203.3 million in 2017. Excluding these customers, revenue increased within the Media and Carrier Division by 11.7% for 2018 as compared to 2017. The decrease in Media and Carrier Division revenue for 2017 as compared to 2016, was primarily the result of decreased traffic from our Internet Platform Customers. Excluding these customers, revenue increased within the Media and Carrier Division by 2.6% for 2017 as compared to 2016.

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

	For the Years Ended December 31,				For the Years Ended December 31,			
	2018	2017	% Change	% Change at Constant Currency	2017	2016	% Change	% Change at Constant Currency
U.S.	\$1,683,272	\$1,637,198	2.8	2.8	\$1,637,198	\$1,629,298	0.5	0.5
International	1,031,202	851,837	21.1	19.7	851,837	718,690	18.5	18.6
Total revenue	\$2,714,474	\$2,489,035	9.1	8.6	\$2,489,035	\$2,347,988	6.0	6.0

The reduced revenue from our Internet Platform Customers negatively impacted our U.S. revenue growth rates for the years ended December 31, 2018 and 2017, as these customers are based in the U.S. For the year ended December 31, 2018, approximately 38% of our revenue was derived from our operations located outside of the U.S., compared to 34% for the year ended December 31, 2017, and 31% for the year ended December 31, 2016. No single country outside of the U.S. accounted for 10% or more of revenue during any of these periods.

During 2018 and 2017, we continued to see strong revenue growth from our operations in the Asia-Pacific region. Changes in foreign currency exchange rates positively impacted our revenue by \$11.2 million in 2018 as compared to 2017, and negatively impacted our revenue by \$0.4 million in 2017 as compared to 2016.

Cost of Revenue

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

	For the Years Ended December 31,			For the Years Ended December 31,		
	2018	2017	% Change	2017	2016	% Change
Bandwidth fees	\$154,853	\$168,092	(7.9)%	\$168,092	\$168,202	(0.1)%
Co-location fees	128,082	130,181	(1.6)	130,181	129,904	0.2
Network build-out and supporting services	88,543	75,209	17.7	75,209	61,320	22.7
Payroll and related costs	238,920	216,760	10.2	216,760	189,514	14.4
Stock-based compensation, including amortization of prior capitalized amounts	45,765	36,677	24.8	36,677	31,145	17.8
Depreciation of network equipment	150,458	143,825	4.6	143,825	140,777	2.2
Amortization of internal-use software	146,864	105,093	39.7	105,093	88,244	19.1
Total cost of revenue	\$953,485	\$875,837	8.9	\$875,837	\$809,106	8.2
As a percentage of revenue	35.1	35.2		35.2	34.5	

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The increase in total cost of revenue for 2018 as compared to 2017 was primarily due to increases 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 2018;
- payroll and related costs, as well as 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 in our network.

These increases were partially offset by decreases in our bandwidth and co-location fees as we have been able to more effectively manage our network and reduce our costs.

The increase in total cost of revenue for 2017 as compared to 2016 was primarily due to increases in:

- payroll and related costs, as well as stock-based compensation, due to increased hiring in our services team to support revenue growth;
- amounts paid for network build-out and supporting services related to investments in network expansion to support our expanding web performance and cloud security solutions as a result of new product launches and our acquisitions; and
- amortization of internal-use software as we continued to release internally-developed software onto our network as a result of new product launches and significant enhancements to our existing services.

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. See Note 12 to our consolidated financial statements included elsewhere in this annual report on Form 10-K for details regarding our bandwidth usage and co-location services purchase commitments.

During 2019 we plan to continue to focus our efforts on expanding our operating margins, including continuing to manage our bandwidth and co-location costs. We do anticipate amortization of internal-use software development costs will increase in 2019 as 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; however, these costs are not expected to increase as a percentage of revenue. We also expect to change the estimated useful lives of our network servers from four years to five years. Due to software and hardware initiatives we have undertaken to manage our global network more efficiently, we expect the useful lives of our network assets to be extended. This change is expected to decrease depreciation expense related to our network equipment during 2019 as compared to 2018.

Research and Development Expenses

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

	For the Years Ended December 31,			For the Years Ended December 31,		
	2018	2017	% Change	2017	2016	% Change
Payroll and related costs	\$365,713	\$322,604	13.4 %	\$322,604	\$253,351	27.3 %
Stock-based compensation	44,034	38,863	13.3	38,863	29,739	30.7
Capitalized salaries and related costs	(174,373)	(148,998)	17.0	(148,998)	(122,084)	22.0

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Other expenses	10,791	9,965	8.3	9,965	6,622	50.5
Total research and development	\$246,165	\$222,434	10.7 %	\$222,434	\$167,628	32.7 %
As a percentage of revenue	9.1	% 8.9	%	8.9	% 7.1	%

The increases in research and development expenses for 2018 as compared to 2017 and 2017 as compared to 2016, were due to increases 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 employees acquired through acquisitions. These increases were partially offset by increases in capitalized salaries and related costs due to continued investment in internal-use software deployed on our network.

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Stock-based compensation in 2017 as compared to 2016 increased due to increased headcount and market adjustments of award sizes to existing employees due to competition for certain engineering talent.

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. For the years ended December 31, 2018, 2017 and 2016, we capitalized \$31.9 million, \$26.8 million and \$21.4 million, respectively, of stock-based compensation. These capitalized internal-use software development costs are amortized to cost of revenue over their estimated useful lives, which is generally two years, but can be up to seven years based on the software developed and its expected useful life.

We expect research and development costs to increase in 2019 as we maintain our focus on innovation. However, we do not expect these costs to increase as a percentage of revenue.

Sales and Marketing Expenses

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

	For the Years Ended December 31,			For the Years Ended December 31,		
	2018	2017	% Change	2017	2016	% Change
Payroll and related costs	\$388,320	\$342,719	13.3 %	\$342,719	\$310,099	10.5 %
Stock-based compensation	64,372	60,247	6.8	60,247	55,407	8.7
Marketing programs and related costs	41,796	48,551	(13.9)	48,551	36,904	31.6
Other expenses	22,865	30,005	(23.8)	30,005	25,475	17.8
Total sales and marketing	\$517,353	\$481,522	7.4 %	\$481,522	\$427,885	12.5 %
As a percentage of revenue	19.1	% 19.3	%	19.3	% 18.2	%

The increases in sales and marketing expenses for 2018 as compared to 2017 and 2017 as compared to 2016 were primarily due to growth in payroll and related costs from headcount increases in 2017 to support our divisions' go-to-market strategies in pursuit of growth opportunities. Our marketing programs and related costs in 2017 as compared to 2016, also increased in support of our go-to-market strategies and ongoing geographic expansion.

During 2019 we plan to continue to focus our efforts on expanding our operating margins, while we continue to refine and optimize our go-to-market efforts.

General and Administrative Expenses

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

	For the Years Ended December 31,			For the Years Ended December 31,		
	2018	2017	% Change	2017	2016	% Change
Payroll and related costs	\$188,635	\$194,199	(2.9)%	\$194,199	\$163,348	18.9 %
Stock-based compensation	53,514	44,884	19.2	44,884	41,073	9.3
Depreciation and amortization	80,014	76,128	5.1	76,128	65,780	15.7
Facilities-related costs	86,107	80,452	7.0	80,452	72,549	10.9

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Provision for doubtful accounts	2,672	3,209	(16.7)	3,209	1,235	159.8
Acquisition-related costs	2,868	23,373	(87.7)	23,373	1,028	2,173.6
License of patent	(17,146)	(16,421)	4.4	(16,421)	(8,577)	91.5
Legal and stockholder matter costs	23,091	—	nm	—	—	—
Endowment of Akamai Foundation	50,000	—	nm	—	—	—
Professional fees and other expenses	104,312	103,341	0.9	103,341	103,480	(0.1)
Total general and administrative	\$574,067	\$509,165	12.7 %	\$509,165	\$439,916	15.7 %
As a percentage of revenue	21.1 %	20.5 %		20.5 %	18.7 %	

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The increase in total general and administrative expenses for 2018 as compared to 2017 was primarily due to increases in:

a one-time endowment to the Akamai Foundation, an organization founded by certain current and former employees of the Company with a mission of supporting youth education, with a focus on mathematics, as well as other charitable causes;

legal and stockholder matter costs related to a settlement charge from our litigation with Limelight Networks, Inc., or Limelight, and costs related to amounts paid to professional service providers for advisory services provided in connection with a non-routine stockholder matter; and

stock-based compensation, primarily due to performance-based awards which experienced higher achievement in 2018 as compared to 2017.

These increases were partially offset by a decrease to acquisition-related costs due to the release of an indemnification receivable in 2017 related to a prior acquisition and a decrease to payroll and related costs as a result of our efficiency efforts.

The increase in total general and administrative expenses for 2017 as compared to 2016 was primarily due to increases in:

payroll and related costs, specifically in our network infrastructure and information technology functions in support of our security infrastructure growth and network scaling and efficiency efforts;

facilities-related costs and depreciation and amortization due to expansion of company infrastructure throughout 2016 and 2017 to support investments in engineering, go-to-market capacity and enterprise expansion initiatives, particularly expansion of our facility footprint; and

acquisition-related costs due to the release of an indemnification receivable related to a prior acquisition.

General and administrative expenses for 2018 and 2017 are broken out by category as follows (in thousands):

	For the Years Ended December 31,			For the Years Ended December 31,		
	2018	2017	% Change	2017	2016	% Change
Global functions	197,377	\$201,539	(2.1)%	\$201,539	\$189,485	6.4 %
As a percentage of revenue	7.3 %	8.1 %		8.1 %	8.1 %	
Infrastructure	308,915	297,465	3.8	297,465	255,855	16.3
As a percentage of revenue	11.4 %	12.0 %		12.0 %	10.9 %	
Other	67,775	10,161	567.0	10,161	(5,424)	nm
Total general and administrative expenses	\$574,067	\$509,165	12.7 %	\$509,165	\$439,916	15.7 %
As a percentage of revenue	21.1 %	20.5 %		20.5 %	18.7 %	

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, the endowment of the Akamai Foundation,

transformation costs and the license of a patent.

The increase in other general and administrative expenses in 2018 as compared to 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.

The increase in infrastructure general and administrative expenses in 2017 as compared to 2016 was the result of facilities-related costs and depreciation and amortization due to expansion of company infrastructure throughout 2016 and 2017 to support investments in engineering, go-to-market capacity and enterprise expansion initiatives, particularly expansion of our facility footprint. The increase in other general and administrative expenses in 2017 as compared to 2016 was due to the release of an indemnification receivable related to a prior acquisition.

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During 2019 we plan to continue to focus our efforts on expanding our operating margins, and in particular, assessing areas of third-party spending and the automation of manual tasks.

Amortization of Acquired Intangible Assets

(in thousands)	For the Years Ended December 31,			For the Years Ended December 31,		
	2018	2017	% Change	2017	2016	% Change
Amortization of acquired intangible assets	\$33,311	\$30,904	7.8 %	\$30,904	\$26,642	16.0 %
As a percentage of revenue	1.2	% 1.2	%	1.2	% 1.1	%

The increase in amortization of acquired intangible assets in 2018 as compared to 2017 and 2017 as compared to 2016 was the result of amortization of assets related to our 2016 and 2017 acquisitions.

Based on acquired intangible assets as of December 31, 2018, future amortization is expected to be approximately \$36.6 million, \$33.9 million, \$28.0 million, \$22.4 million and \$17.1 million for the years ending December 31, 2019, 2020, 2021, 2022 and 2023, respectively.

Restructuring Charge

(in thousands)	For the Years Ended December 31,			For the Years Ended December 31,		
	2018	2017	% Change	2017	2016	% Change
Restructuring charge	\$27,594	\$54,884	(49.7)%	\$54,884	\$10,301	432.8 %
As a percentage of revenue	1.0	% 2.2	%	2.2	% 0.4	%

The restructuring charge in 2018 was primarily the result of management actions intended to re-balance investments to ensure long-term growth and scale. The restructuring charge relates to certain headcount reductions and software charges for software not yet placed into service that will not be implemented due to this action.

The restructuring charge in 2017 was primarily the result of management actions intended to shift focus to more critical areas of the business and away from products that have not seen expected commercial success. The restructuring was also intended to facilitate cost efficiencies and savings. The restructuring charge relates to certain headcount and facility reductions and certain capitalized internal-use software charges for software not yet placed into service that will not be completed and implemented due to this action.

The restructuring charge in 2016 was primarily the result of changes to our organizational structure to reorganize and consolidate our products and development groups and global sales, services and marketing teams into divisions centered on our solutions. The restructuring charge relates to severance expenses for impacted employees and charges for internal-use software not yet placed into service that will not be completed and launched due to changing priorities as part of the reorganization.

In addition to the actions described above, we have also recognized restructuring charges for redundant employees, facilities and contracts associated with completed acquisitions in each of the three years presented.

We expect to incur additional restructuring charges of up to \$12.0 million in 2019 as a result of the action committed to in the fourth quarter of 2018. These charges will include severance and related expenses for terminations in the first

quarter of 2019.

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Non-Operating Income (Expense)

(in thousands)	For the Years Ended December 31,			For the Years Ended December 31,		
	2018	2017	% Change	2017	2016	% Change
Interest income	\$26,940	\$17,855	50.9 %	\$17,855	\$14,702	21.4 %
As a percentage of revenue	1.0 %	0.7 %		0.7 %	0.6 %	
Interest expense	\$(43,202)	\$(18,839)	129.3 %	\$(18,839)	\$(18,638)	1.1 %
As a percentage of revenue	(1.6)%	(0.8)%		(0.8)%	(0.8)%	
Other (expense) income, net	\$(3,148)	\$887	(454.9)%	\$887	\$3,788	(76.6)%
As a percentage of revenue	(0.1)%	— %		— %	0.2 %	

For the periods presented, interest income primarily consists of interest earned on invested cash balances and marketable securities. The increase to interest income in 2018 as compared to 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.

Interest expense is related to our debt transactions, which are described in Note 11 to the consolidated financial statements included elsewhere in this annual report on Form 10-K. The increase to interest expense for 2018 as compared to 2017 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 for the years ended December 31, 2018, 2017 and 2016 primarily represents net foreign exchange gains and losses mainly due to foreign currency exchange rate fluctuations on intercompany and other non-functional currency transactions. Other (expense) income, net may fluctuate in the future based on changes in foreign currency exchange rates or other events. Other (expense) income, net also includes gains and losses from certain equity investments.

Provision for Income Taxes

(in thousands)	For the Years Ended December 31,			For the Years Ended December 31,		
	2018	2017	% Change	2017	2016	% Change
Provision for income taxes	\$44,716	\$91,426	(51.1)%	\$91,426	\$145,635	(37.2)%
As a percentage of revenue	1.6 %	3.7 %		3.7 %	6.2 %	
Effective income tax rate	13.0 %	29.1 %		29.1 %	31.2 %	

For the year ended December 31, 2018, our effective income tax rate was lower than the federal statutory tax rate due to foreign income taxed at lower rates, the effects of stock-based compensation in accordance with authoritative guidance for share-based payments, 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. These benefits were partially offset by an intercompany sale of intellectual property and state income taxes.

For the year ended December 31, 2017, our effective income tax rate was lower than the federal statutory tax rate due to the composition of income from foreign jurisdictions that is taxed at lower rates compared to the statutory tax rates in the U.S., the re-measurement of deferred taxes at lower tax rates expected to be in place upon realization due to the U.S. Tax Cuts and Jobs Act, or TCJA, which was enacted in December 2017, the impacts of the release of the acquisition-related reserve due to the expiration of the relevant statute of limitations and U.S. federal, state and foreign research and development credits. These benefits were partially offset by a provisional charge for the one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings taken as part of the TCJA, the effects of stock-based compensation in accordance with authoritative guidance for share-based payments and state income taxes.

For the year ended December 31, 2017, the net impact of the TCJA described above was a provisional net tax expense of \$26.0 million which is comprised of a one-time transition tax expense of \$43.4 million on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017, offset by a \$17.4 million tax benefit related to the re-measurement of deferred tax assets and liabilities due to the lower corporate income tax rate. As of December 31, 2018, we have finalized the

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accounting for all of the tax effects of the TCJA and recorded a reduction of the transition tax expense of \$5.5 million and an increase to the tax benefit related to the re-measurement of deferred tax assets and liabilities of \$2.4 million.

For the year ended December 31, 2016, our effective income tax rate was lower than the federal statutory tax rate due to the composition of income from foreign jurisdictions that is taxed at lower rates compared to the statutory tax rates in the U.S., the domestic production activities deduction and U.S. federal, state and foreign research and development credits, partially offset by the effects of stock-based compensation in accordance with authoritative guidance for share-based payments and state income taxes.

The decrease in the provision for income taxes for 2018 as compared to 2017 was mainly due to the reduction in the U.S. federal statutory tax rate from 35.0% to 21.0% as part of the TCJA that was enacted in December 2017, an increase in the excess tax benefit related to stock-based compensation and the net impact of the TCJA recorded in 2017. These amounts were partially offset by an intercompany sale of intellectual property and an increase in non-deductible executive compensation.

The decrease in the provision for income taxes for 2017 as compared to 2016 was mainly due to a decrease in profit before tax, the re-measurement of deferred taxes at lower tax rates expected to be in place upon realization as a result of the TCJA, the impacts of the release of an acquisition-related reserve due to the expiration of the relevant statute of limitations and an increase in U.S. federal, state and foreign research and development credits. These benefits were partially offset by a decrease in the domestic production activities deduction and a provisional charge for the one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as a result of the TCJA.

Our effective income tax rate may fluctuate between fiscal years and from quarter to quarter due to items arising from discrete events, such as tax benefits from the disposition of employee equity awards, tax law changes and settlements of tax audits and assessments. Our effective income tax rate is also impacted by, and may fluctuate in any given period because of, the composition of income in foreign jurisdictions where tax rates differ depending on the local statutory rates.

Refer to Note 18 to the consolidated financial statements included elsewhere in this annual report on Form 10-K for additional information regarding unrecognized tax benefits that, if recognized, would impact the effective income tax rate in the next 12 months and for the potential impact that current litigation related to an adverse audit finding could have on our results of operations.

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 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.

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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.

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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 years ended December 31, 2018, 2017 and 2016 (in thousands):

	2018	2017	2016	
Income from operations	\$362,499	\$314,289	\$466,510	
Amortization of acquired intangible assets	33,311	30,904	26,642	
Stock-based compensation	183,813	164,308	144,506	
Amortization of capitalized stock-based compensation and capitalized interest expense	28,603	19,953	15,439	
Restructuring charge	27,594	54,884	10,301	
Acquisition-related costs	2,868	23,374	1,064	
Legal and stockholder matter costs	23,091	—	890	
Endowment of Akamai Foundation	50,000	—	—	
Transformation costs	7,730	—	—	
Non-GAAP income from operations	\$719,509	\$607,712	\$665,352	
GAAP operating margin	13	% 13	% 20	%
Non-GAAP operating margin	27	% 24	% 28	%

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The following table reconciles GAAP net income to non-GAAP net income for the years ended December 31, 2018, 2017 and 2016 (in thousands):

	2018	2017	2016
Net income	\$298,373	\$222,766	\$320,727
Amortization of acquired intangible assets	33,311	30,904	26,642
Stock-based compensation	183,813	164,308	144,506
Amortization of capitalized stock-based compensation and capitalized interest expense	28,603	19,953	15,439
Restructuring charge	27,594	54,884	10,301
Acquisition-related costs	2,868	23,374	1,064
Legal and stockholder matter costs	23,091	—	890
Endowment of Akamai Foundation	50,000	—	—
Transformation costs	7,730	—	—
Amortization of debt discount and issuance costs	41,958	18,839	18,638
Loss (gain) on investments	1,481	(450)	(4,807)
Income tax effect of above non-GAAP adjustments and certain discrete tax items	(86,391)	(82,817)	(52,661)
Non-GAAP net income	\$612,431	\$451,761	\$480,739

The following table reconciles GAAP net income per diluted share to non-GAAP net income per diluted share for the years ended December 31, 2018, 2017 and 2016 (shares in thousands):

	2018	2017	2016
GAAP net income per diluted share	\$ 1.76	\$ 1.29	\$ 1.82
Amortization of acquired intangible assets	0.20	0.18	0.15
Stock-based compensation	1.09	0.95	0.82
Amortization of capitalized stock-based compensation and capitalized interest expense	0.17	0.12	0.09
Restructuring charge	0.16	0.32	0.06
Acquisition-related costs	0.02	0.14	0.01
Legal and stockholder matter costs	0.14	—	0.01
Endowment of Akamai Foundation	0.30	—	—
Transformation costs	0.05	—	—
Amortization of debt discount and issuance costs	0.25	0.11	0.11
Loss (gain) on investments	0.01	—	(0.03)
Income tax effect of above non-GAAP adjustments and certain discrete tax items	(0.51)	(0.48)	(0.30)
Non-GAAP net income per diluted share ⁽¹⁾	\$ 3.62	\$ 2.62	\$ 2.73
Shares used in per share calculations	169,188	172,711	176,215

(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 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.

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

The following table reconciles GAAP net income to Adjusted EBITDA and Adjusted EBITDA margin for the years ended December 31, 2018, 2017 and 2016 (in thousands):

	2018	2017	2016	
Net income	\$298,373	\$222,766	\$320,727	
Amortization of acquired intangible assets	33,311	30,904	26,642	
Stock-based compensation	183,813	164,308	144,506	
Amortization of capitalized stock-based compensation and capitalized interest expense	28,603	19,953	15,439	
Restructuring charge	27,594	54,884	10,301	
Acquisition-related costs	2,868	23,374	1,064	
Legal and stockholder matter costs	23,091	—	890	
Interest income	(26,940)	(17,855)	(14,702)	
Endowment of Akamai Foundation	50,000	—	—	
Transformation costs	7,730	—	—	
Amortization of debt discount and issuance costs	43,202	18,839	18,638	
Provision for income taxes	44,716	91,426	145,635	
Depreciation and amortization	372,606	321,456	292,221	
Loss (gain) on investments	1,481	(450)	(4,807)	
Other expense (income), net	1,667	(437)	1,019	
Adjusted EBITDA	\$1,092,115	\$929,168	\$957,573	
Adjusted EBITDA margin	40	% 37	% 41	%

Impact of Foreign Currency Exchange Rates

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

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

comparative period.

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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 December 31, 2018, our cash, cash equivalents and marketable securities, which primarily consisted of commercial paper and corporate bonds, totaled \$2.1 billion. Factoring in our convertible senior notes of \$1.8 billion, our net cash at December 31, 2018 was \$261.2 million. We place our cash investments in instruments that meet high-quality credit standards, as specified in our investment policy. Our investment policy also limits the amount of our credit exposure to any one issue or issuer and seeks to manage these assets to achieve our goals of preserving principal and maintaining adequate liquidity at all times.

Changes in cash, cash equivalents and marketable securities are dependent upon changes in, among other things, working capital items such as accounts receivable, deferred revenues, accounts payable 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.

As of December 31, 2018, we had cash and cash equivalents of \$351.7 million held in accounts outside the U.S. As a result of the TCJA, we have recorded a tax expense of \$39.4 million related to the one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2018. We made an election 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. As a result, our liquidity is not materially impacted by the amount of cash and cash equivalents held in accounts outside the U.S. For additional information, including information on the impact of the TCJA, see Note 18 to the consolidated financial statements included elsewhere in this annual report on Form 10-K.

Cash Provided by Operating Activities

(in thousands)	For the Years Ended December		
	2018	2017	2016
Net income	\$298,373	\$222,766	\$320,727
Non-cash reconciling items included in net income	679,648	590,249	517,649
Changes in operating assets and liabilities	30,306	(12,032)	33,436
Net cash flows provided by operating activities	\$1,008,327	\$800,983	\$871,812

The increase in cash provided by operating activities for 2018 as compared to 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 2018 and the timing of collections and payments of other working capital items. The increase in cash provided by operating activities for the 2018 as compared to 2017 was partially offset by a one-time 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.

The decrease in cash provided by operating activities for 2017 as compared to 2016 was primarily due to lower profitability as a result of the restructuring charge in 2017 and higher expenses as a result of our 2017 acquisitions. Payroll and related costs, including annual bonus and commissions payouts, were higher in 2017 as compared to 2016 due to increased headcount and higher bonus and commission attainment levels.

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Cash Used in Investing Activities

(in thousands)	For the Years Ended December 31,		
	2018	2017	2016
Cash paid for acquired businesses, net of cash acquired	\$(79)	\$(369,073)	\$(95,439)
Purchases of property and equipment and capitalization of internal-use software development costs	(405,741)	(414,778)	(316,289)
Net marketable securities activity	(98,647)	326,272	(58,484)
Other investing activities	(2,066)	(1,586)	786
Net cash used in investing activities	\$(506,533)	\$(459,165)	\$(469,426)

The increase in cash used in investing activities in 2018 as compared to 2017 was driven by marketable securities activities. In 2017 we did not reinvest all proceeds from sales and maturities of our marketable securities which created a cash inflow in that year. The increase in cash used in investing activities in 2018 as compared to 2017 was partially offset by the cash paid in 2017 for the acquisitions of Nominum, Inc. and Soasta, Inc.

The decrease in cash used in investing activities in 2017 as compared to 2016 was driven by a decrease in marketable securities activities. This was offset by the funding our 2017 acquisitions of Nominum and Soasta. We also increased our purchases of property and equipment in 2017 as compared to 2016 to support both network and facility expansion.

Subsequent to December 31, 2018, we acquired Janrain, Inc., a provider of customer identity access management solutions, for \$125.0 million. The all-cash transaction closed in January 2019.

Cash Provided by (Used in) Financing Activities

(in thousands)	For the Years Ended December 31,		
	2018	2017	2016
Activity related to convertible senior notes	\$990,390	\$—	\$—
Activity related to stock-based compensation	(1,697)	(2,715)	14,015
Repurchases of common stock	(750,000)	(361,194)	(373,794)
Other financing activities	(5,085)	(1,096)	—
Net cash provided by (used in) financing activities	\$233,608	\$(365,005)	\$(359,779)

The increase in cash provided by financing activities during 2018 as compared to 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.

The increase in cash used in financing activities during 2017 as compared to 2016 was primarily due to an increase in employee taxes paid related to net share settlement of stock-based awards.

In October 2013, the Board of Directors authorized a \$750.0 million share repurchase program, effective from October 2013 through December 2016. In February 2016, the Board of Directors authorized a \$1.0 billion share repurchase program that superseded the October 2013 repurchase program and was effective from February 2016 through December 2018. In March 2018, the Company announced that its Board of Directors 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 of Directors authorized an additional \$1.1 billion repurchase program through December 2021. Our goal for the share repurchase programs are to offset the dilution created by its employee equity compensation programs and provide the flexibility to return capital to shareholders as business and market conditions warrant.

During 2018, 2017 and 2016, we repurchased 10.2 million, 6.9 million and 7.0 million shares of our common stock, respectively, at an average price per share of \$73.54, \$52.59 and \$53.28, respectively. These repurchases have contributed to a decrease to weighted average shares over at least the past three years.

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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 11 to the consolidated financial statements included elsewhere in this annual report on Form 10-K. We used a portion of the net proceeds to repay at maturity all of our \$690.0 million outstanding aggregate principal amount of 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 11 to the consolidated financial statements included elsewhere in this annual report on Form 10-K. The notes were classified as a current liability on our consolidated balance sheet as of December 31, 2018. We repaid the full \$690.0 million in cash in February 2019, as the notes matured and no conversions occurred.

Revolving Credit Facility

In May 2018, we entered into a \$500.0 million, five-year revolving credit agreement, or the 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 December 31, 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, and settlements of other long-term liabilities.

Contractual Obligations, Contingent Liabilities and Commercial Commitments

The following table presents our contractual obligations and commercial commitments, as of December 31, 2018, for the next five years and thereafter (in thousands):

	Payments Due by Period				
Total	Less than 12 Months	12 to 36 Months	36 to 60 Months	More than 60 Months	

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Real estate operating leases	\$951,254	\$54,561	\$154,674	\$142,681	\$599,338
Bandwidth and co-location agreements	182,758	138,777	32,883	7,389	3,709
Open vendor purchase orders	178,692	156,533	21,691	468	—
Convertible senior notes	1,840,000	690,000	—	—	1,150,000
Total contractual obligations	\$3,152,704	\$1,039,871	\$209,248	\$150,538	\$1,753,047

In accordance with the authoritative guidance for accounting for uncertainty in income taxes, as of December 31, 2018, we had unrecognized tax benefits of \$67.8 million, including \$11.8 million of accrued interest and penalties. We believe that it is

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reasonably possible that \$33.2 million of our unrecognized tax benefits will be recognized by the end of 2019. The settlement period for the remaining amount of the unrecognized tax benefits is unknown.

Letters of Credit

As of December 31, 2018, we had outstanding \$7.8 million in irrevocable letters of credit issued by us in favor of third party beneficiaries, primarily related to facility leases. These irrevocable letters of credit, which are not included in the table of contractual obligations above, are unsecured and are expected to remain in effect, in some cases, until 2026.

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 Note 12 to our consolidated financial statements included elsewhere in this annual report on Form 10-K for further discussion of these indemnification agreements. The fair value of guarantees issued or modified during 2018 and 2017 was determined to be immaterial.

Legal Matters

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.

Significant Accounting Policies and Estimates

See Note 2 to the consolidated financial statements included elsewhere in this annual report on Form 10-K for information regarding recent and newly adopted accounting pronouncements.

Application of Critical Accounting Policies and Estimates

Overview

Our MD&A is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. These principles require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, cash flow and related disclosure of contingent assets and liabilities. Our estimates include those related to revenue recognition, accounts receivable and related reserves, valuation and impairment of marketable securities, capitalized internal-use software development costs, goodwill and acquired intangible assets, income tax reserves, impairment and useful lives of long-lived assets and stock-based compensation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances at the time such estimates are made. Actual results may differ from these estimates. For a complete description of our significant accounting policies, see Note 2 to our consolidated financial statements included elsewhere in this annual report on Form 10-K.

Definitions

We define our critical accounting policies as those policies that require us to make subjective estimates and judgments about matters that are uncertain and are likely to have a material impact on our consolidated financial statements. Our estimates are based upon assumptions and judgments about matters that are highly uncertain at the time an accounting estimate is made and applied and require us to assess a range of potential outcomes.

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Review of Critical Accounting Policies and Estimates

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.

Accounts Receivable and Related Reserves

Trade accounts receivable are recorded at the invoiced amounts and do not bear interest. In addition to trade accounts receivable, our accounts receivable balance includes unbilled accounts that represent revenue recorded for customers that is typically billed within one month. We record reserves against our accounts receivable balance. These reserves primarily consist of allowances for doubtful accounts. Increases and decreases in the allowance for doubtful accounts are included as a component of general and administrative expense in the consolidated statements of income.

Estimates are used in determining our reserves and are based upon our review of outstanding balances on a customer-specific, account-by-account basis. The allowance for doubtful accounts is based upon a review of customer receivables from prior sales with collection issues where we no longer believe that the customer has the ability to pay for prior services provided. We perform ongoing credit evaluations of our customers. If such an evaluation indicates that payment is no longer reasonably assured for services provided, any future services provided to that customer will result in creation of a cash basis reserve until we receive consistent payments.

Valuation and Impairment of Marketable Securities

We measure the fair value of our financial assets and liabilities at the end of each reporting period. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We have certain financial assets and liabilities recorded at fair value (principally cash equivalents and short- and long-term marketable securities) that have been classified as Level 1, 2 or 3 within the fair value hierarchy. Fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the reporting date. Fair values determined by Level 2 inputs utilize data points other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Fair values determined by Level 3 inputs are based on unobservable data points for the asset or liability.

Marketable securities are considered to be impaired when a decline in fair value below cost basis is determined to be other-than-temporary. We periodically evaluate whether a decline in fair value below cost basis is other-than-temporary by considering available evidence regarding these investments including, among other factors, the duration of the period that, and

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extent to which, the fair value is less than cost basis; the financial health of, and business outlook for, the issuer, including industry and sector performance and operational and financing cash flow factors; overall market conditions and trends; and our intent and ability to retain our investment in the security for a period of time sufficient to allow for an anticipated recovery in market value. Once a decline in fair value is determined to be other-than-temporary, a write-down is recorded and a new cost basis in the security is established. Assessing the above factors involves inherent uncertainty. Write-downs, if recorded, could be materially different from the actual market performance of marketable securities in our portfolio if, among other things, relevant information related to our investments and marketable securities was not publicly available or other factors not considered by us would have been relevant to the determination of impairment.

Impairment and Useful Lives of Long-Lived Assets

We review our long-lived assets, such as property and equipment and acquired intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Events that would trigger an impairment review include a change in the use of the asset or forecasted negative cash flows related to the asset. When such events occur, we compare the carrying amount of the asset to the undiscounted expected future cash flows related to the asset. If this comparison indicates that impairment is present, the amount of the impairment is calculated as the difference between the carrying amount and the fair value of the asset. If a readily determinable market price does not exist, fair value is estimated using discounted expected cash flows attributable to the asset. The estimates required to apply this accounting policy include forecasted usage of the long-lived assets, the useful lives of these assets and expected future cash flows. Changes in these estimates could materially impact results from operations.

Goodwill and Acquired Intangible Assets

We test goodwill for impairment on an annual basis, as of December 31, or more frequently if events or changes in circumstances indicate that the asset might be impaired. We have concluded that we have one reporting unit and that our chief operating decision maker is our chief executive officer and the executive management team. We have assigned the entire balance of goodwill to our one reporting unit. The fair value of the reporting unit was based on our market capitalization as of each of December 31, 2018 and 2017, and it was substantially in excess of the carrying value of the reporting unit at each date.

Acquired intangible assets consist of completed technologies, customer relationships, trademarks and trade names, non-compete agreements and acquired license rights. We engaged third party valuation specialists to assist us with the initial measurement of the fair value of acquired intangible assets. Acquired intangible assets, other than goodwill, are amortized over their estimated useful lives based upon the estimated economic value derived from the related intangible assets.

Income Taxes

Our provision for income taxes is comprised of a current and a deferred portion. The current income tax provision is calculated as the estimated taxes payable or refundable on tax returns for the current year. The deferred income tax provision is calculated for the estimated future tax effects attributable to temporary differences and carryforwards by using expected tax rates in effect in the years during which the differences are expected to reverse or the carryforwards are expected to be realized.

We currently have net deferred tax assets, comprised of net operating loss, or NOL, carryforwards, tax credit carryforwards and deductible temporary differences. Our management periodically weighs the positive and negative evidence to determine if it is more likely than not that some or all of the deferred tax assets will be realized. In

determining our net deferred tax assets and valuation allowances, annualized effective tax rates and cash paid for income taxes, management is required to make judgments and estimates about domestic and foreign profitability, the timing and extent of the utilization of NOL 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 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 our tax reserves contains assumptions based on past experiences and judgments about the interpretation of statutes, rules and regulations by taxing jurisdictions. It is possible that the costs of the ultimate tax liability or benefit from these matters may be more or less than the amount that we estimated.

Uncertainty in income taxes is recognized in our consolidated financial statements using a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed more-likely-than-not to be sustained based on technical

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merit, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that we believe has a greater than 50% likelihood of being realized upon ultimate settlement.

Accounting for Stock-Based Compensation

We issue stock-based compensation awards including stock options, restricted stock units and deferred stock units. We measure the fair value of these awards at the grant date and recognize such fair value as expense over the vesting period. We have selected the Black-Scholes option pricing model to determine the fair value of stock option awards and the Monte Carlo simulation model to determine the fair value of market-based restricted stock unit awards. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating the expected life of the stock awards and the volatility of the underlying common stock. Our assumptions may differ from those used in prior periods. Changes to the assumptions may have a significant impact on the fair value of stock-based awards, which could have a material impact on our financial statements. Judgment is also required in estimating the number of stock-based awards that are expected to be forfeited. Should our actual forfeiture rates differ significantly from our estimates, our stock-based compensation expense and results of operations could be materially impacted. In addition, for awards that vest and become exercisable only upon achievement of specified performance conditions, we make judgments and estimates each quarter about the probability that such performance conditions will be met or achieved. Changes to the estimates we make from time to time may have a significant impact on our stock-based compensation expense and could materially impact our result of operations.

Capitalized Internal-Use Software Costs

We capitalize salaries and related costs, including stock-based compensation, of employees and consultants who devote time to the development of internal-use software development projects, as well as interest expense related to our senior convertible notes. Capitalization begins during the application development stage, once the preliminary project stage has been completed. If a project constitutes an enhancement to previously-developed software, we assess whether the enhancement creates additional functionality to the software, thus qualifying the work incurred for capitalization. Once the project is available for general release, capitalization ceases and we estimate the useful life of the asset and begin amortization. We periodically assess whether triggering events are present to review internal-use software for impairment. Changes in our estimates related to internal-use software would increase or decrease operating expenses or amortization recorded during the period.

Item 7A. 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.

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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 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 (expense) income, net. Foreign currency transaction gains and losses from these forward contracts were determined to be immaterial during the years ended December 31, 2018, 2017 and 2016. We do not enter into derivative financial instruments for trading or speculative purposes.

Translation Exposure

To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency-denominated transactions will result in increased revenue and 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 December 31, 2018 and 2017, no customer had an accounts receivable balance of 10% or more of our accounts receivable. We believe that at December 31, 2018, the concentration of credit risk related to accounts receivable was insignificant.

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Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Akamai Technologies, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Akamai Technologies, Inc. and its subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2018, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for revenues from contracts with customers in 2018.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated

financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts
February 28, 2019

We have served as the Company's auditor since 1998.

Table of ContentsAKAMAI TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,036,455	\$ 313,382
Marketable securities	855,650	398,554
Accounts receivable, net of reserves of \$1,534 and \$1,281 at December 31, 2018 and 2017, respectively	479,889	461,457
Prepaid expenses and other current assets	163,360	172,853
Total current assets	2,535,354	1,346,246
Property and equipment, net	910,618	862,535
Marketable securities	209,066	567,592
Goodwill	1,487,404	1,498,688
Acquired intangible assets, net	168,348	201,259
Deferred income tax assets	34,913	36,231
Other assets	116,067	136,365
Total assets	\$ 5,461,770	\$ 4,648,916
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 99,089	\$ 80,278
Accrued expenses	328,304	283,743
Deferred revenue	69,083	70,495
Convertible senior notes	686,552	—
Other current liabilities	27,681	22,178
Total current liabilities	1,210,709	456,694
Deferred revenue	4,557	6,062
Deferred income tax liabilities	19,624	17,823
Convertible senior notes	874,080	662,913
Other liabilities	160,940	142,955
Total liabilities	2,269,910	1,286,447
Commitments and contingencies (Note 12)		
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; 162,904,550 and 169,893,324 shares issued and outstanding at December 31, 2018 and 2017, respectively	1,629	1,699
Additional paid-in capital	3,670,033	4,073,362
Accumulated other comprehensive loss	(48,912)	(21,930)
Accumulated deficit	(430,890)	(690,662)
Total stockholders' equity	3,191,860	3,362,469
Total liabilities and stockholders' equity	\$ 5,461,770	\$ 4,648,916

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

Table of ContentsAKAMAI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)	For the Years Ended December 31,		
	2018	2017	2016
Revenue	\$2,714,474	\$2,489,035	\$2,347,988
Costs and operating expenses:			
Cost of revenue (exclusive of amortization of acquired intangible assets shown below)	953,485	875,837	809,106
Research and development	246,165	222,434	167,628
Sales and marketing	517,353	481,522	427,885
General and administrative	574,067	509,165	439,916
Amortization of acquired intangible assets	33,311	30,904	26,642
Restructuring charge	27,594	54,884	10,301
Total costs and operating expenses	2,351,975	2,174,746	1,881,478
Income from operations	362,499	314,289	466,510
Interest income	26,940	17,855	14,702
Interest expense	(43,202)	(18,839)	(18,638)
Other (expense) income, net	(3,148)	887	3,788
Income before provision for income taxes	343,089	314,192	466,362
Provision for income taxes	44,716	91,426	145,635
Net income	\$298,373	\$222,766	\$320,727
Net income per share:			
Basic	\$1.78	\$1.30	\$1.83
Diluted	\$1.76	\$1.29	\$1.82
Shares used in per share calculations:			
Basic	167,312	171,559	174,917
Diluted	169,188	172,711	176,215

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 Years Ended December		
	31, 2018	2017	2016
Net income	\$298,373	\$222,766	\$320,727
Other comprehensive income (loss):			
Foreign currency translation adjustments	(27,585)	36,151	(14,815)
Change in unrealized gain (loss) on investments, net of income tax (provision) benefit of \$(200), \$245 and \$432 for the years ended December 31, 2018, 2017 and 2016, respectively	603	(406)	(688)
Other comprehensive (loss) income	(26,982)	35,745	(15,503)
Comprehensive income	\$271,391	\$258,511	\$305,224

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 Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	\$298,373	\$222,766	\$320,727
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	434,520	372,313	334,302
Stock-based compensation	183,813	164,308	144,506
Provision (benefit) for deferred income taxes	2,339	(7,244)	9,629
Amortization of debt discount and issuance costs	41,958	18,839	18,638
Restructuring-related software charge	4,940	31,965	4,587
Other non-cash reconciling items, net	12,078	10,068	5,987
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:			
Accounts receivable	(30,445)	(50,054)	(2,970)
Prepaid expenses and other current assets	(4,132)	(28,968)	42,145
Accounts payable and accrued expenses	42,238	33,232	18,491
Deferred revenue	(919)	2,938	(3,512)
Other current liabilities	9,422	16,378	5,484
Other non-current assets and liabilities	14,142	14,442	(26,202)
Net cash provided by operating activities	1,008,327	800,983	871,812
Cash flows from investing activities:			
Cash paid for acquisitions, net of cash acquired	(79)	(369,073)	(95,439)
Purchases of property and equipment	(217,609)	(254,146)	(180,949)
Capitalization of internal-use software development costs	(188,132)	(160,632)	(135,340)
Purchases of short- and long-term marketable securities	(873,697)	(326,497)	(781,061)
Proceeds from sales of short and long-term marketable securities	16,569	219,916	57,740
Proceeds from maturities of short and long-term marketable securities	758,481	432,853	664,837
Other non-current assets and liabilities	(2,066)	(1,586)	786
Net cash used in by investing activities	(506,533)	(459,165)	(469,426)
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	62,608	55,680	59,560
Employee taxes paid related to net share settlement of stock-based awards	(64,305)	(58,395)	(45,545)
Repurchases of common stock	(750,000)	(361,194)	(373,794)
Other non-current assets and liabilities	(5,085)	(1,096)	—
Net cash used in financing activities	233,608	(365,005)	(359,779)
Effects of exchange rate changes on cash and cash equivalents	(12,844)	12,990	(7,891)
Net increase (decrease) in cash and cash equivalents	722,558	(10,197)	34,716
Cash, cash equivalents and restricted cash at beginning of year	314,429	324,626	289,910
Cash, cash equivalents and restricted cash at end of year	\$1,036,987	\$314,429	\$324,626

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AKAMAI TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS, continued

(in thousands)	For the Years Ended December		
	31, 2018	2017	2016
Supplemental disclosure of cash flow information:			
Cash paid for income taxes, net of refunds received in the years ended December 31, 2018, 2017 and 2016 of \$18,501, \$6,750 and \$1,664, respectively	\$45,129	\$91,640	\$120,233
Non-cash financing and investing activities:			
Purchases of property and equipment and capitalization of internal-use software development costs included in accounts payable and accrued expenses	54,867	27,209	36,742
Capitalization of stock-based compensation	34,785	28,851	23,093
Reconciliation of cash, cash equivalents and restricted cash:			
Cash and cash equivalents	\$1,036,455	\$313,382	\$324,169
Restricted cash	532	1,047	457
Cash, cash equivalents and restricted cash	\$1,036,987	\$314,429	\$324,626

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

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AKAMAI TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share data)	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated		Total Stockholders' Equity
	Shares	Amount			Other Comprehensive Loss	Accumulated Deficit	
Balance at January 1, 2016	177,212,181	\$1,772	\$4,437,420	\$ —	\$ (42,172)	\$(1,234,155)	\$3,162,865
Issuance of common stock upon the exercise of stock options and vesting of restricted and deferred stock units, net of shares withheld for employee taxes	2,194,699	22	(27,416)				(27,394)
Issuance of common stock under employee stock purchase plan	863,419	9	39,905				39,914
Stock-based compensation			166,987				166,987
Tax benefit from stock-based award activity, net			(3,584)				(3,584)
Repurchases of common stock	(7,015,502)			(373,794)			(373,794)
Treasury stock retirement		(70)	(373,724)	373,794			—
Net income						320,727	320,727
Foreign currency translation adjustment					(14,815)		(14,815)
Change in unrealized gain on investments, net of tax					(688)		(688)
Balance at December 31, 2016	173,254,797	1,733	4,239,588	—	(57,675)	(913,428)	3,270,218
Issuance of common stock upon the exercise of stock options and vesting of restricted and deferred stock units, net of shares withheld for employee taxes	2,453,961	24	(40,562)				(40,538)
Issuance of common stock under employee stock purchase plan	1,052,684	11	42,291				42,302
Stock-based compensation			193,170				193,170
Repurchases of common stock	(6,868,118)			(361,194)			(361,194)
Treasury stock retirement		(69)	(361,125)	361,194			—
Net income						222,766	222,766
Foreign currency translation adjustment					36,151		36,151
Change in unrealized gain on investments, net of tax					(406)		(406)
Balance at December 31, 2017	169,893,324	\$1,699	\$4,073,362	\$ —	\$ (21,930)	\$(690,662)	\$3,362,469

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AKAMAI TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY, continued

(in thousands, except share data)	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated		Total Stockholders' Equity
	Shares	Amount			Other Comprehensive Loss	Accumulated Deficit	
Balance at December 31, 2017	169,893,324	\$ 1,699	\$4,073,362	\$ —	\$ (21,930)	\$(690,662)	\$3,362,469
Cumulative-effect adjustment to accumulated deficit related to adoption of new accounting pronouncement						(38,601)	(38,601)
Issuance of common stock upon the exercise of stock options and vesting of restricted and deferred stock units, net of shares withheld for employee taxes	2,235,212	22	(56,566)				(56,544)
Issuance of common stock under employee stock purchase plan	973,975	10	50,678				50,688
Stock-based compensation			218,416				218,416
Equity component of convertible senior notes, net of deferred tax of \$4,971 and issuance costs of \$4,418			275,836				275,836
Issuance of warrants related to convertible senior notes			119,945				119,945
Purchase of note hedge related to convertible senior notes			(261,740)				(261,740)
Repurchases of common stock	(10,197,961)			(750,000)			(750,000)
Treasury stock retirement		(102)	(749,898)	750,000			—
Net income						298,373	298,373
Foreign currency translation adjustment					(27,585)		(27,585)
Change in unrealized gain on investments, net of tax					603		603
Balance at December 31, 2018	162,904,550	\$ 1,629	\$3,670,033	\$ —	\$ (48,912)	\$(430,890)	\$3,191,860

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

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AKAMAI TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business and Basis of Presentation

Akamai Technologies, Inc. (the “Company”) provides solutions for delivering, optimizing and securing content and business applications over the Internet. Its globally-distributed platform comprises more than 200,000 servers across 130 countries. The Company was incorporated in Delaware in 1998 and is headquartered in Cambridge, Massachusetts. The Company currently operates in one industry segment: providing cloud services for delivering, optimizing and securing content and business applications over the Internet.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in the accompanying consolidated financial statements.

2. Summary of Significant Accounting Policies

Use of Estimates

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. These principles require management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the amounts disclosed in the related notes to the consolidated financial statements. Actual results and outcomes may differ materially from management’s estimates, judgments and assumptions. Significant estimates, judgments and assumptions used in these financial statements include, but are not limited to, those related to revenue, accounts receivable and related reserves, valuation and impairment of investments and marketable securities, valuation and useful lives of acquired intangible assets, useful lives and realizability of long-lived assets, capitalized internal-use software development costs, income tax reserves and accounting for stock-based compensation. Estimates are periodically reviewed in light of changes in circumstances, facts and experience. The effects of material revisions in estimates are reflected in the consolidated financial statements prospectively from the date of the change in estimate.

Cash, Cash Equivalents and Marketable Securities

Cash and cash equivalents consist of cash held in bank deposit accounts and short-term, highly-liquid investments with remaining maturities of three months or less at the date of purchase. Marketable securities consist of corporate, government and other securities. Securities having remaining maturities of less than one year from the date of the balance sheet are classified as short-term, and those with maturities of more than one year from the date of the balance sheet are classified as long-term in the consolidated balance sheet.

The Company classifies its debt securities with readily determinable market values as available-for-sale. These investments are classified as marketable securities on the consolidated balance sheets and are carried at fair market value, with unrealized gains and losses considered to be temporary in nature and reported as accumulated other comprehensive loss, a separate component of stockholders’ equity. The Company reviews all investments for reductions in fair value that are other-than-temporary. When such reductions occur, the cost of the investment is adjusted to fair value through recording a loss on investments in the consolidated statements of income. Gains and losses on investments are calculated on the basis of specific identification.

Marketable securities are considered to be impaired when a decline in fair value below cost basis is determined to be other-than-temporary. The Company periodically evaluates whether a decline in fair value below cost basis is

other-than-temporary by considering available evidence regarding these investments including, among other factors: the duration of the period that, and extent to which, the fair value is less than cost basis; the financial health and business outlook of the issuer, including industry and sector performance and operational and financing cash flow factors; overall market conditions and trends; and the Company's intent and ability to retain its investment in the security for a period of time sufficient to allow for an anticipated recovery in market value. Once a decline in fair value is determined to be other-than-temporary, a write-down is recorded and a new cost basis in the security is established. Assessing the above factors involves inherent uncertainty. Write-downs, if recorded, could be materially different from the actual market performance of marketable securities in the Company's portfolio if, among other things, relevant information related to the marketable securities was not publicly available or other factors not considered by the Company would have been relevant to the determination of impairment.

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Accounts Receivable and Related Reserves

The Company's accounts receivable balance includes unbilled amounts that represent revenue recorded for customers that are typically billed monthly in arrears. The Company records reserves against its accounts receivable balance. These reserves primarily consist of allowances for doubtful accounts. Increases and decreases in the allowance for doubtful accounts are included as a component of general and administrative expense in the consolidated statements of income. Estimates are used in determining the Company's reserves and are based upon the Company's review of outstanding balances on a customer-specific, account-by-account basis. The allowance for doubtful accounts is based upon a review of customer receivables from prior sales with collection issues where the Company no longer believes that the customer has the ability to pay for services previously provided. The Company also performs ongoing credit evaluations of its customers. If such an evaluation indicates that payment is no longer reasonably assured for services provided, any future services provided to that customer will result in the creation of a cash-basis reserve until the Company receives consistent payments. The Company does not have any off-balance sheet credit exposure related to its customers.

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.

Concentrations of Credit Risk

The amounts reflected in the consolidated balance sheets for accounts receivable, other current assets, accounts payable, accrued liabilities and other current liabilities approximate fair values due to their short-term maturities. The Company maintains the majority of its cash, cash equivalents and marketable securities with major financial institutions that the Company believes to be of high credit standing. The Company believes that, as of December 31, 2018, its concentration of credit risk related to cash equivalents and marketable securities was not significant.

Concentrations of credit risk with respect to accounts receivable are primarily limited to certain customers to which the Company makes substantial sales. The Company's customer base consists of a large number of geographically-dispersed customers diversified across several industries. To reduce risk, the Company routinely assesses the financial strength of its customers. Based on such assessments, the Company believes that its accounts receivable credit risk exposure is limited. For the years ended December 31, 2018, 2017 and 2016, no customer accounted for more than 10% of total revenue. As of December 31, 2018 and 2017, no customer had an accounts receivable balance greater than 10% of total accounts receivable. The Company believes that, as of December 31,

2018, its concentration of credit risk related to accounts receivable was not significant.

Fair Value of Financial Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company has certain financial assets and liabilities recorded at fair value, principally cash equivalents and short- and long-term marketable securities that have been classified as Level 1, 2 or 3 within the fair value hierarchy. Fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the reporting date. Fair values determined by Level 2 inputs utilize data points other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Fair values determined by Level 3 inputs are based on unobservable data points for the asset or liability.

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Property and Equipment

Property and equipment are recorded at cost, net of accumulated depreciation and amortization. Property and equipment generally include purchases of items with a per-unit value greater than \$1,000 and an estimated useful life greater than one year. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the related lease terms or their estimated useful lives. The Company periodically reviews the estimated useful lives of property and equipment, and any changes to the estimated useful lives are recorded prospectively from the date of the change.

Upon retirement or sale, the cost of the assets disposed of and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in income from operations. Repairs and maintenance costs are expensed as incurred.

Goodwill, Acquired Intangible Assets and Long-Lived Assets

Goodwill is the amount by which the cost of acquired net assets in a business combination exceeds the fair value of the net identifiable assets on the date of purchase and is carried at its historical cost. The Company tests goodwill for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company performs its impairment test of goodwill as of December 31 each year. As of December 31, 2018, 2017 and 2016, the fair value of the Company's reporting unit was substantially in excess of the carrying value. The tests did not result in an impairment to goodwill during the years ended December 31, 2018, 2017 and 2016.

Acquired intangible assets consist of completed technologies, customer relationships, trademarks and trade names, non-compete agreements and acquired license rights. Acquired intangible assets, other than goodwill, are amortized over their estimated useful lives based upon the estimated economic value derived from the related intangible asset.

Long-lived assets, including property and equipment and acquired intangible assets, are reviewed for impairment whenever events or changes in circumstances, such as service discontinuance, technological obsolescence, significant decreases in the Company's market capitalization, facility closures or work-force reductions indicate that the carrying amount of the long-lived asset may not be recoverable. When such events occur, the Company compares the carrying amount of the asset to the undiscounted expected future cash flows related to the asset. If this comparison indicates that an impairment is present, the amount of the impairment is calculated as the difference between the carrying amount and the fair value of the asset.

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 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.

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

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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.

Cost of Revenue

Cost of revenue consists primarily of fees paid to network providers for bandwidth and to third-party network data centers for housing servers, also known as co-location costs. Cost of revenue also includes employee costs for services delivery and network operation, build-out and support of the Company's network; network storage costs; cost of software licenses; depreciation of network equipment used to deliver the Company's services; amortization of network-related internal-use software; and costs for the production of live events streamed by the Company for customers. The Company enters into contracts for bandwidth with third-party network providers with terms typically ranging from several months to five years. These contracts generally commit the Company to pay minimum monthly

fees plus additional fees for bandwidth usage above the committed level. In some circumstances, Internet service providers (“ISPs”) make rack space available for the Company’s servers and access to their bandwidth at a discount or no cost. In exchange, the ISP and its customers benefit by receiving content through a local Company server resulting in better content delivery. The Company does not consider these relationships to represent the culmination of an earnings process. Accordingly, the Company does not recognize as revenue the value to the ISPs associated with the use of the Company’s servers, nor does the Company recognize as expense the value of the rack space and bandwidth received at discounted or no cost.

Research and Development Costs and Capitalized Internal-Use Software

Research and development costs consist primarily of payroll and related personnel costs for the design, development, deployment, testing and enhancement of the Company’s services and network. Costs incurred in the development of the Company’s services are expensed as incurred, except certain internal-use software development costs eligible for capitalization.

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Capitalized costs include external consulting fees, payroll and payroll-related costs and stock-based compensation for employees in the Company's development and information technology groups who are directly associated with, and who devote time to, the Company's internal-use software projects. Capitalization begins when the planning stage is complete and the Company commits resources to the software project, and continues during the application development stage. Capitalization ceases when the software has been tested and is ready for its intended use. Costs incurred during the planning, training and post-implementation stages of the software development life-cycle are expensed as incurred. The Company amortizes completed internal-use software that is used on its network to cost of revenue over its estimated useful life.

Accounting for Stock-Based Compensation

The Company recognizes compensation costs for all stock-based payment awards made to employees based upon the awards' grant-date fair value. The stock-based payment awards include stock options, restricted stock units, deferred stock units and employee stock purchases related to the Company's employee stock purchase plan.

For stock options, the Company has selected the Black-Scholes option-pricing model to determine the fair value of stock option awards. For stock awards with market-based vesting conditions, the Company uses a Monte Carlo simulation to determine the fair value of the award. For stock options, restricted stock units and deferred stock units that contain only a service-based vesting feature, the Company recognizes compensation cost on a straight-line basis over the award's vesting period. For awards with a performance condition-based vesting feature, the Company recognizes compensation cost on a graded-vesting basis over the award's expected vesting period, commencing when achievement of the performance condition is deemed probable. In addition, for awards that vest and become exercisable only upon achievement of specified performance conditions, the Company makes judgments and estimates each quarter about the probability that such performance conditions will be met or achieved. Any changes to those estimates that the Company makes from time to time may have a significant impact on the stock-based compensation expense recorded and could materially impact the Company's results of operations.

Foreign Currency Translation and Forward Currency Contracts

The assets and liabilities of the Company's subsidiaries are translated at the applicable exchange rate as of the balance sheet date, and revenue and expenses are translated at an average rate over the period. Resulting currency translation adjustments are recorded as a component of accumulated other comprehensive loss, a separate component of stockholders' equity. Gains and losses on inter-company and other non-functional currency transactions are recorded in other (expense) income, net.

The Company enters 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 current earnings in other (expense) income, net. As of December 31, 2018 and 2017, the fair value of the forward currency contracts and the underlying net gains for the years ended December 31, 2018, 2017 and 2016 were immaterial.

The Company's foreign currency forward contracts may be exposed to credit risk to the extent that its counterparties are unable to meet the terms of the agreements. The Company seeks to minimize counterparty credit (or repayment) risk by entering into transactions only with major financial institutions of investment grade credit rating.

Income Taxes

The Company's provision for income taxes is comprised of a current and a deferred portion. The current income tax provision is calculated as the estimated taxes payable or refundable on tax returns for the current year. The deferred

income tax provision is calculated as the estimated future tax effects attributable to temporary differences and carryforwards using expected tax rates in effect in the years during which the differences are expected to reverse or the carryforwards are expected to be realized.

The Company currently has net deferred tax assets consisting of net operating loss (“NOL”) carryforwards, tax credit carryforwards and deductible temporary differences. Management periodically weighs the positive and negative evidence to determine if it is more likely than not that some or all of the deferred tax assets will be realized.

The Company has recorded certain tax reserves to address potential exposures involving its income tax positions. These potential tax liabilities result from the varying application of statutes, rules, regulations and interpretations by different taxing jurisdictions. The Company's estimate of the value of its tax reserves contains assumptions based on past experiences and judgments about the interpretation of statutes, rules and regulations by taxing jurisdictions. It is possible that the costs of the ultimate tax liability or benefit from these matters may be more or less than the amount the Company estimated.

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Uncertainty in income taxes is recognized in the Company's consolidated financial statements using a two-step process. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed more-likely-than-not to be sustained based on technical merit, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement.

In December 2017, the U.S. Tax Cuts and Jobs Act (the "TCJA") was enacted, making significant changes to the Internal Revenue Code. The U.S. Securities and Exchange Commission staff issued guidance for the accounting for certain income tax effects of the TCJA, which allowed the Company to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. As of December 31, 2018, the Company has finalized the accounting for all of the tax effects of the TCJA.

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.

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

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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

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The following table details the changes to the consolidated statements of income for the years ended December 31, 2017 and 2016 as a result of the retrospective adoption of the new revenue recognition standard (in thousands, except per share data):

	December 31, 2017			December 31, 2016		
	As Previously Reported	Revenue Recognition Standard Adjustments	As Revised	As Previously Reported	Revenue Recognition Standard Adjustments	As Revised
Revenue	\$2,502,996	\$ (13,961)	\$2,489,035	\$2,340,049	\$ 7,939	\$2,347,988
Costs and operating expenses:						
Cost of revenue (exclusive of amortization of acquired intangible assets)	875,758	79	875,837	809,001	105	809,106
Sales and marketing	493,632	(12,110)	481,522	426,967	918	427,885
Total costs and operating expenses	2,186,777	(12,031)	2,174,746	1,880,455	1,023	1,881,478
Income from operations	316,219	(1,930)	314,289	459,594	6,916	466,510
Income before provision for income taxes	316,122	(1,930)	314,192	459,446	6,916	466,362
Provision for income taxes	97,801	(6,375)	91,426	143,314	2,321	145,635
Net income	218,321	4,445	222,766	316,132	4,595	320,727
Net income per share:						
Basic	\$1.27	\$ 0.03	\$1.30	\$1.81	\$ 0.02	\$1.83
Diluted	\$1.26	\$ 0.03	\$1.29	\$1.79	\$ 0.03	\$1.82

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The statements of comprehensive income for the years ended December 31, 2017 and 2016 were also impacted by the adjustments to net income of \$4.4 million and \$4.6 million, respectively. The opening balance at January 1, 2016 within the statements of stockholders' equity was adjusted for the cumulative impact of adopting the new guidance for periods prior to the year ended December 31, 2016. The statement of stockholders' equity for the years ended December 31, 2017 and 2016 were impacted by an adjustment to foreign currency translation adjustment of \$1.5 million and \$(0.7) million, respectively, and an adjustment to net income of \$4.4 million and \$4.6 million, respectively.

The following table details the changes to the consolidated statement of cash flows for the years ended December 31, 2017 and 2016 as a result of the retrospective adoption of the new revenue recognition and statement of cash flow standards (in thousands):

	December 31, 2017			
	As Previously Reported	Revenue Recognition Standard Adjustments	Cash Flow Standard Adjustments	As Revised
Cash flows from operating activities:				
Net income	\$218,321	\$ 4,445	\$	—\$222,766
Adjustments to reconcile net income to net cash provided by operating activities:				
Benefit for deferred income taxes	(869)	(6,375)	—	(7,244)
Changes in operating assets and liabilities, net of effects of acquisitions:				
Accounts receivable	(63,825)	13,771	—	(50,054)
Prepaid expenses and other current assets	(22,311)	(6,657)	—	(28,968)
Deferred revenue	1,142	1,796	—	2,938
Other non-current assets and liabilities	21,422	(6,980)	—	14,442
Net cash provided by operating activities	800,983	—	—	800,983
Cash flows from investing activities:				
Other non-current assets and liabilities	(2,098)	—	512	(1,586)
Net cash used in investing activities	(459,677)	—	512	(459,165)
Effects of exchange rate changes on cash, cash equivalents and restricted cash	12,912	—	78	12,990
Net increase in cash, and cash equivalents and restricted cash	(10,787)	—	590	(10,197)
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	313,382	—	1,047	314,429

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	December 31, 2016			
	As Previously Reported	Revenue Recognition Standard Adjustments	Cash Flow Standard Adjustments	As Revised
Cash flows from operating activities:				
Net income	\$316,132	\$ 4,595	\$	—\$320,727
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for deferred income taxes	7,308	2,321	—	9,629
Changes in operating assets and liabilities, net of effects of acquisitions:				
Accounts receivable	3,356	(6,326)	—	(2,970)
Prepaid expenses and other current assets	23,881	18,264	—	42,145
Deferred revenue	(1,213)	(2,299)	—	(3,512)
Other non-current assets and liabilities	(9,647)	(16,555)	—	(26,202)
Net cash provided by operating activities	871,812	—	—	871,812
Cash flows from investing activities:				
Other non-current assets and liabilities	782	—	4	786
Net cash used in investing activities	(469,430)	—	4	(469,426)
Effects of exchange rate changes on cash, cash equivalents and restricted cash	(7,907)	—	16	(7,891)
Net increase in cash, and cash equivalents and restricted cash	34,696	—	20	34,716
Cash, cash equivalents and restricted cash at beginning of period	289,473	—	437	289,910
Cash, cash equivalents and restricted cash at end of period	324,169	—	457	324,626

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

Leases

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 disclose key information about leasing arrangements. This standard will impact all of the Company's leases, including leases for real estate and co-location facilities.

The Company adopted this standard on January 1, 2019 on a modified retrospective basis. The Company elected the package of practical expedients available under the transition provisions of the guidance, and also elected the expedient that allows aggregation of lease and non-lease components of an arrangement to be included in the right-of-use assets and lease liabilities on the balance sheet.

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The Company 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 and finalized its accounting policies with respect to the new standard. The Company has substantially implemented a lease accounting software tool, collected the necessary data to implement the new guidance and designed the related processes and internal controls. As of the filing of these financial statements, the Company has record right-of-use assets of approximately \$350.0 million and lease liabilities of approximately \$375.0 million on its consolidated balance sheet at adoption. However, the Company is still in the process of quantifying certain leases that are complex in nature and require updates to the Company's software. These leases are not significant, but are currently excluded from the right-of-use asset and lease liability balances. The adoption is not expected to impact the Company's results of operations or cash flows.

Credit Losses on Financial Instruments

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.

Stranded Tax Effects Resulting from U.S. Tax Cuts and Jobs Act

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 TCJA that was enacted in 2017. This guidance will be effective for the Company on January 1, 2019. The Company has determined that the of the adoption of this new accounting guidance will not have a material impact to its consolidated financial statements.

Fair Value Disclosure

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, 2020. The Company is evaluating the impact the update will have on its disclosures.

Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract

In August 2018, the FASB issued guidance which addresses 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 for 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.

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3. Fair Value Measurements

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

As of December 31, 2018	Amortized Cost	Gross Unrealized		Aggregate Fair Value	Classification on Balance Sheet	
		Gains	Losses		Short-Term Marketable Securities	Long-Term Marketable Securities
Certificates of deposit	\$ 40,000	\$ —	\$ (7)	\$ 39,993	\$ 39,993	\$ —
Commercial paper	282,996	—	(50)	282,946	282,946	—
Corporate bonds	685,653					