

AKAMAI TECHNOLOGIES INC  
Form 10-Q  
May 10, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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Form 10-Q

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(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2013
- or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-27275

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Akamai Technologies, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
8 Cambridge Center  
Cambridge, MA 02142  
(617) 444-3000

04-3432319  
(I.R.S. Employer  
Identification Number)

(Address, Including Zip Code, and Telephone Number,  
Including Area Code, of Registrant's Principal Executive Offices)

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

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

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

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

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

The number of shares outstanding of the registrant's common stock as of May 6, 2013: 177,700,457

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FORM 10-Q  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

AKAMAI TECHNOLOGIES, INC.  
CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

	March 31, 2013	December 31, 2012
	(In thousands, except share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (including restricted cash of \$200 at December 31, 2012)	\$ 165,275	\$ 201,989
Marketable securities (including restricted securities of \$220 and \$57 at March 31, 2013 and December 31, 2012, respectively)	347,951	235,592
Accounts receivable, net of reserves of \$4,677 and \$3,807 at March 31, 2013 and December 31, 2012, respectively	232,328	218,777
Prepaid expenses and other current assets	65,677	51,604
Deferred income tax assets	20,422	20,422
Total current assets	831,653	728,384
Property and equipment, net	369,555	345,091
Marketable securities (including restricted securities of \$54 and \$43 at March 31, 2013 and December 31, 2012, respectively)	569,208	657,659
Goodwill	729,467	731,325
Acquired intangible assets, net	74,297	84,554
Deferred income tax assets	13,712	13,803
Other assets	58,775	39,811
Total assets	\$ 2,646,667	\$ 2,600,627
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 57,574	\$ 43,291
Accrued expenses and other current liabilities	119,798	133,087
Deferred revenue	33,919	26,291
Accrued restructuring	618	275
Total current liabilities	211,909	202,944
Other liabilities	47,220	49,364
Deferred revenue	2,761	2,565
Total liabilities	261,890	254,873
Commitments, contingencies and guarantees (Note 15)		
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; 201,351,880 shares issued and 177,840,407 shares outstanding at March 31, 2013 and 200,199,536 shares issued and 177,782,814 shares outstanding at December 31, 2012	2,031	2,015
Additional paid-in capital	5,207,285	5,195,543
Accumulated other comprehensive loss	(5,583)	(1,640)
	(664,741)	(624,462)

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Treasury stock, at cost, 23,511,473 shares at March 31, 2013 and 22,416,722 shares  
at December 31, 2012

Accumulated deficit	(2,154,215	) (2,225,702	)
Total stockholders' equity	2,384,777	2,345,754	
Total liabilities and stockholders' equity	\$2,646,667	\$2,600,627	

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

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AKAMAI TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	For the Three Months Ended March 31, 2013      2012	
	(In thousands, except per share data)	
Revenues	\$ 368,046	\$ 319,448
Costs and operating expenses:		
Cost of revenues	120,392	124,925
Research and development	21,905	17,480
Sales and marketing	62,690	48,995
General and administrative	55,380	51,642
Amortization of acquired intangible assets	6,060	4,767
Restructuring charge	431	60
Total costs and operating expenses	266,858	247,869
Income from operations	101,188	71,579
Interest income	1,556	1,633
Other expense, net	(132)	(441)
Gain on investments, net	52	13
Income before provision for income taxes	102,664	72,784
Provision for income taxes	31,177	29,557
Net income	\$ 71,487	\$ 43,227
Net income per weighted average share:		
Basic	\$ 0.40	\$ 0.24
Diluted	\$ 0.39	\$ 0.24
Shares used in per share calculations:		
Basic	177,899	178,120
Diluted	181,562	182,342

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



AKAMAI TECHNOLOGIES, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (UNAUDITED)

	For the Three Months Ended March 31,		
	2013	2012	
	(In thousands)		
Net income	\$ 71,487	\$ 43,227	
Other comprehensive income:			
Foreign currency translation adjustments	(4,014	) 672	
Change in unrealized gain on investments, net	81	455	
Income tax expense related to unrealized gain on investments, net	(10	) (175	)
Other comprehensive (loss) income	(3,943	) 952	
Comprehensive income	\$ 67,544	\$ 44,179	

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

AKAMAI TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	For the Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 71,487	\$ 43,227
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42,375	45,634
Stock-based compensation expense	22,931	20,924
Provision for doubtful accounts	320	370
Excess tax benefits from stock-based compensation	(4,119)	(13,414)
Gain on investments and disposal of property and equipment, net	(71)	(97)
Loss on divestiture of a business, net	(1,188)	—
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts receivable	(28,355)	(1,416)
Prepaid expenses and other current assets	(14,035)	4,309
Accounts payable, accrued expenses and other current liabilities	7,838	(5,798)
Deferred revenue	8,225	1,474
Accrued restructuring	(111)	(2,144)
Other non-current assets and liabilities	(2,257)	(566)
Net cash provided by operating activities	103,040	92,503
Cash flows from investing activities:		
Cash paid for acquired businesses, net of cash received	—	(291,638)
Purchases of property and equipment	(46,478)	(30,433)
Capitalization of internal-use software costs	(16,998)	(12,911)
Purchases of short- and long-term marketable securities	(145,350)	(280,649)
Proceeds from sales of short- and long-term marketable securities	55,509	28,000
Proceeds from maturities of short- and long-term marketable securities	66,171	89,414
Proceeds from the sale of property and equipment	260	10
Net cash used in investing activities	(86,886)	(498,207)
Cash flows from financing activities:		
Proceeds from the issuance of common stock under stock option plans	3,195	7,078
Excess tax benefits from stock-based compensation	4,119	13,414
Employee taxes paid related to net share settlement of equity awards	(17,315)	(21,655)
Repurchases of common stock	(40,278)	(7,913)
Net cash used in financing activities	(50,279)	(9,076)
Effects of exchange rate changes on cash and cash equivalents	(2,589)	307
Net decrease in cash and cash equivalents	(36,714)	(414,473)
Cash and cash equivalents at beginning of period	201,989	559,197
Cash and cash equivalents at end of period	\$ 165,275	\$ 144,724
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 16,097	\$ 11,486
Non-cash financing and investing activities:		
Capitalization of stock-based compensation, net of impairments	\$ 2,938	\$ 2,298



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

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AKAMAI TECHNOLOGIES, INC.  
NOTES TO UNAUDITED CONSOLIDATED  
FINANCIAL STATEMENTS

1. Nature of Business and Basis of Presentation

Akamai Technologies, Inc. ("Akamai" or the "Company") provides services for accelerating and improving the delivery of content and applications over the Internet. Akamai's globally distributed platform comprises more than 130,000 servers in 1,100 networks in 86 countries. The Company was incorporated in Delaware in 1998 and is headquartered in Cambridge, Massachusetts. Akamai currently operates in one industry segment: providing services for accelerating and improving delivery of content and applications over the Internet.

The accompanying interim consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information.

These financial statements include the accounts of Akamai and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in the accompanying financial statements. Certain reclassifications have been made to prior period results of operations to conform to the current period presentation.

Certain information and footnote disclosures normally included in the Company's annual audited consolidated financial statements and accompanying notes have been condensed or omitted in these interim financial statements.

Accordingly, the unaudited consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and accompanying notes included in Akamai's annual report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013.

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

2. Changes to Significant Accounting Policies

Property and Equipment

Property and equipment are recorded at cost, net of accumulated depreciation and amortization. Property and equipment generally includes purchases of items with a per-unit value greater than \$1,000 and a useful life greater than one year. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets. The Company periodically reviews the estimated useful lives of property and equipment. 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.

The Company implemented software and hardware initiatives to manage its global network more efficiently and, as a result, the expected average useful life of its network assets, primarily servers, increased from three to four years effective January 1, 2013. This change decreased depreciation on network assets in place at January 1, 2013 by approximately \$10.3 million on an after-tax basis, or \$0.06 per share, for the three months ended March 31, 2013.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued guidance and disclosure requirements for reporting of comprehensive income: amounts reclassified out of accumulated other comprehensive income. The guidance requires that an entity provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP. The guidance became effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. The adoption of this guidance in the first quarter of 2013, did not have a material impact on the Company's consolidated financial results.



### 3. Business Acquisitions and Divestitures

Consistent with its strategy to prioritize higher-margin businesses, the Company sold its Advertising Decision Solutions ("ADS") business to MediaMath in exchange for a convertible note receivable that is due and payable on July 24, 2014 (See Note 4). The transaction closed during the first quarter of 2013. These operations were not material to the Company's annual net sales, net income or earnings per share. No significant gains or losses were realized on this transaction. The accompanying interim consolidated financial statements include the impact of approximately one month of ADS operations prior to the sale. All assets and liabilities used by the business have been excluded from the consolidated balance sheet presentation. Simultaneously with the sale, the Company entered into a multi-year relationship agreement whereby MediaMath will have exclusive rights to leverage the Company's pixel-free technology for use within digital advertising and marketing applications.

During 2012, the Company completed four acquisitions, in each case by purchasing all of the outstanding capital stock of the acquired company. In December 2012, the Company acquired Verivue, Inc. ("Verivue"). In September 2012, the Company acquired FastSoft, Inc. ("FastSoft"). In March 2012, the Company acquired Cotendo, Inc. ("Cotendo"). In February 2012, the Company acquired Blaze Software, Inc. ("Blaze"). The consolidated financial statements include the operating results of each business from the date of acquisition. Pro forma results of operations for these acquisitions have not been presented because the effects of the acquisitions, individually or in the aggregate, were not material to the Company's consolidated financial results. The total amount of acquisition-related costs for the acquisitions of Verivue, FastSoft, Cotendo and Blaze was approximately \$5.8 million for the year ended December 31, 2012. These costs were included in general and administrative costs in the consolidated statements of operations.

The acquisitions of Verivue, FastSoft, Cotendo and Blaze were accounted for using the purchase method of accounting. The total purchase consideration was allocated to the assets acquired and liabilities assumed at their estimated fair values as of the date of each acquisition, as determined by management and, with respect to identified intangible assets, by management with the assistance of an appraisal provided by a third-party valuation firm. The excess of the purchase price over the amounts allocated to assets acquired and liabilities assumed has been recorded as goodwill. Goodwill associated with these acquisitions will not be amortized and will be tested for impairment at least annually as required by the accounting guidance for goodwill and other intangible assets. (See Note 10).

#### Verivue

On December 4, 2012, the Company acquired all of the outstanding common and preferred stock of Verivue in exchange for \$30.9 million in cash. In addition, the Company recorded a liability of \$1.2 million for contingent consideration related to expected achievement of post-closing milestones. Akamai acquired Verivue with a goal of complementing Akamai's Aura Network Solutions and accelerating time to market in providing a comprehensive, licensed content delivery network ("CDN") solution for network operators. The Company allocated \$20.7 million of the cost of the acquisition to goodwill and \$7.5 million to acquired intangible assets. The allocation of the purchase price is preliminary. The total weighted average useful life of the intangible assets acquired from Verivue is 6.4 years. The value of the goodwill from the acquisition can be attributed to a number of business factors, including a trained technical workforce in place in the United States and cost synergies. The total amount of goodwill related to the acquisition of Verivue expected to be deducted for tax purposes is \$5.6 million. As of March 31, 2013, the Company determined the agreed upon post-closing milestones are not expected to be achieved and therefore reversed the \$1.2 million liability recorded at December 31, 2012 for the contingent consideration.

#### FastSoft

On September 13, 2012, the Company acquired all of the outstanding common and preferred stock of FastSoft in exchange for \$14.4 million in cash. Akamai acquired FastSoft with a goal of complementing Akamai's cloud infrastructure solutions with technology for optimizing the throughput of video and other digital content across IP networks. The Company allocated \$8.9 million of the cost of the acquisition to goodwill and \$3.7 million to acquired intangible assets. The allocation of the purchase price is preliminary. The total weighted average useful life of the intangible assets acquired from FastSoft is 9.0 years. The value of the goodwill from the acquisition can be attributed to a number of business factors including a trained technical workforce in place in the United States and cost synergies. The total amount of goodwill related to the acquisition of FastSoft expected to be deducted for tax purposes

is \$2.0 million.

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#### Cotendo

On March 6, 2012, the Company acquired all of the outstanding common and preferred stock, including vested and unvested stock options, of Cotendo in exchange for \$278.9 million in cash and assumption of unvested options. Akamai acquired Cotendo with the intention of increasing Akamai's pace of innovation in the areas of cloud and mobile optimization. The Company allocated \$233.8 million of the cost of the acquisition to goodwill and \$43.8 million to acquired intangible assets. The value of the goodwill from the acquisition of Cotendo can be attributed to a number of business factors, including potential sales opportunities to provide Akamai services to Cotendo customers; a trained technical workforce in place in the United States and Israel; an existing sales pipeline and a trained sales force; and cost synergies expected to be realized. The total weighted average amortization period for the intangible assets acquired from Cotendo is 7.1 years. The intangible assets are being amortized based upon the pattern in which the economic benefits of the intangible assets are being utilized. The total amount of goodwill related to the acquisition of Cotendo expected to be deducted for tax purposes is \$45.0 million.

#### Blaze

On February 7, 2012, the Company acquired all of the outstanding common and preferred stock, including vested and unvested stock options, of Blaze in exchange for \$19.3 million in cash and assumption of unvested options. Akamai acquired Blaze with a goal of complementing Akamai's site acceleration solutions with technology designed to optimize the speed at which a web page is rendered. The Company allocated \$15.1 million of the cost of the acquisition to goodwill and \$5.1 million to acquired intangible assets. The total weighted average useful life of the intangible assets acquired from Blaze is 5.3 years. The value of the goodwill from this acquisition can be attributed to a number of business factors, including a trained technical workforce in place in Canada and cost synergies expected to be realized. The total amount of goodwill related to the acquisition of Blaze expected to be deducted for tax purposes is \$13.5 million.

#### 4. Fair Value Measurements

The Company accounts for financial assets and liabilities in accordance with a fair value measurement accounting standard. The accounting standard provides a framework for measuring fair value under GAAP and requires expanded disclosures regarding fair value 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 accounting standard also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs, where available, and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs, other than Level 1 prices, such as quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in markets that are inactive, or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities, including certain pricing models, discounted cash flow methodologies and similar techniques.

The following is a summary of marketable securities held at March 31, 2013 and December 31, 2012 (in thousands):

As of March 31, 2013	Cost	Gross Unrealized		Aggregate Fair Value	Classification on Balance Sheet	
		Gains	Losses		Short-term Marketable Securities	Long-term Marketable Securities
Available-for-sale securities:						
Certificates of deposit	\$ 3,275	\$ —	\$ —	\$ 3,275	\$ 3,221	\$ 54
Commercial paper	7,488	4	—	7,492	7,492	—
Corporate debt securities	715,141	1,306	(137 )	716,310	320,683	395,627
U.S. government agency obligations	190,061	79	(58 )	190,082	16,555	173,527
	\$ 915,965	\$ 1,389	\$ (195 )	\$ 917,159	\$ 347,951	\$ 569,208

As of December 31, 2012	Cost	Gross Unrealized		Aggregate Fair Value	Classification on Balance Sheet	
		Gains	Losses		Short-term Marketable Securities	Long-term Marketable Securities
Available-for-sale securities:						
Certificates of deposit	\$ 3,100	\$ —	\$ —	\$ 3,100	\$ 3,057	\$ 43
Commercial paper	7,481	2	(1 )	7,482	7,482	—
Corporate debt securities	691,931	1,269	(205 )	692,995	217,548	475,447
U.S. government agency obligations	189,607	95	(28 )	189,674	7,505	182,169
	\$ 892,119	\$ 1,366	\$ (234 )	\$ 893,251	\$ 235,592	\$ 657,659

Unrealized gains and unrealized temporary losses on investments classified as available-for-sale are included within accumulated other comprehensive income (loss). Upon realization, those amounts are reclassified from accumulated other comprehensive income (loss) to gain (loss) on investments, net in the statement of operations. Realized gains and losses are reflected in the income statement as gain (loss) on investments, net. As of March 31, 2013, the Company did not hold any investment-related assets that have been in a continuous loss position for more than 12 months.

The following tables detail the fair value measurements within the fair value hierarchy of the Company's financial assets, including investments and cash equivalents and liabilities, at March 31, 2013 and December 31, 2012 (in thousands):

	Total Fair Value at March 31, 2013	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
<b>Marketable Securities:</b>				
Money market funds	\$ 413	\$413	\$—	\$—
Certificates of deposit	7,775	7,775	—	—
Commercial paper	7,492	—	7,492	—
Corporate debt securities	716,310	—	716,310	—
U.S. government agency obligations	190,082	—	190,082	—
	\$ 922,072	\$8,188	\$913,884	\$—
<b>Other Assets:</b>				
Note receivable	\$ 18,882	\$—	\$—	\$18,882
	\$ 18,882	\$—	\$—	\$18,882

	Total Fair Value at December 31, 2012	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
<b>Marketable Securities:</b>				
Money market funds	\$ 22,255	\$22,255	\$—	\$—
Certificates of deposit	7,473	7,473	—	—
Commercial paper	9,482	—	9,482	—
Corporate debt securities	692,995	—	692,995	—
U.S. government agency obligations	189,674	—	189,674	—
	\$ 921,879	\$29,728	\$892,151	\$—
<b>Liabilities:</b>				
Contingent consideration obligation related to Verivue acquisition	\$ (1,200 )	\$—	\$—	\$(1,200 )
	\$ (1,200 )	\$—	\$—	\$(1,200 )

Contractual maturities of the Company's marketable securities held at March 31, 2013 and December 31, 2012 were as follows (in thousands):

	March 31, 2013	December 31, 2012
<b>Available-for-sale securities:</b>		
Due in 1 year or less	\$ 347,951	\$ 235,592
Due after 1 year through 5 years	569,208	657,659
	\$917,159	\$893,251



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The following tables reflect the activity for the Company's major classes of assets and liabilities measured at fair value using Level 3 inputs at March 31, 2013 and December 31, 2012 (in thousands):

	Other Assets- Note Receivable	Other Long-Term Liabilities- Contingent Consideration Obligation
Balance as of December 31, 2012	\$—	\$(1,200 )
Fair value adjustment for contingent consideration for acquisition of Verivue	—	1,200
Fair value of note receivable	18,882	—
Balance as of March 31, 2013	\$18,882	\$—

As of March 31, 2013 and December 31, 2012, the Company had grouped money market funds and certificates of deposit using a Level 1 valuation because market prices for such investments are readily available in active markets. As of March 31, 2013 and December 31, 2012, the Company had grouped commercial paper, U.S. government agency obligations and corporate debt securities using a Level 2 valuation because quoted prices for identical or similar assets are available in markets that are inactive.

As of March 31, 2013, the fair value of the Company's asset using Level 3 valuation consisted of a \$25.0 million face value convertible note receivable, that is due and payable on July 24, 2014, related to the divestiture of the ADS business. A key assumption in valuing the note receivable was the probability of the note ultimately converting to equity of MediaMath, as opposed to redemption in full for cash. The valuation assumed a 90% probability of being converted to equity. If a 70% probability of conversion was used, the fair value of the note would have been \$20.2 million. As of December 31, 2012, the fair value of the Company's liabilities grouped using Level 3 valuation consisted of a contingent consideration related to the acquisition of Verivue.

#### 5. Accounts Receivable

Net accounts receivable consisted of the following (in thousands):

	March 31, 2013	December 31, 2012
Trade accounts receivable	\$ 153,760	\$ 143,533
Unbilled accounts	83,245	79,051
Gross accounts receivable	237,005	222,584
Allowance for doubtful accounts	(1,178 )	(1,154 )
Reserve for cash-basis customers	(3,499 )	(2,653 )
Total accounts receivable reserves	(4,677 )	(3,807 )
Accounts receivable, net	\$ 232,328	\$ 218,777

The Company's accounts receivable balance includes unbilled amounts that represent revenues recorded for customers that are typically billed monthly in arrears. The Company records reserves against its accounts receivable balance. These reserves consist of allowances for doubtful accounts and reserves for cash-basis customers. Increases and decreases in the allowance for doubtful accounts are included as a component of general and administrative expenses. The Company's reserve for cash-basis customers increases as services are provided to customers where collection is no longer assured. Increases to the reserve for cash-basis customers are recorded as reductions of revenues. The reserve decreases and revenue is recognized when and if cash payments are received.

Estimates are used in determining these 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.

#### 6. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	March 31, 2013	December 31, 2012
Payroll and other related benefits	\$42,155	\$75,039
Bandwidth and co-location	24,054	27,260
Property, use and other taxes	44,406	22,093
Professional service fees	4,091	3,643
Other	5,092	5,052
Total	\$119,798	\$133,087

#### 7. Net Income per Share

Basic net income per share is computed using the weighted average number of common shares outstanding during the applicable period. Diluted net income per share is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of potential common stock. Potential common stock consists of shares issuable pursuant to stock options, deferred stock units and restricted stock units ("RSUs") issued by the Company.

The following table sets forth the components used in the computation of basic and diluted net income per common share (in thousands, except per share data):

	For the Three Months Ended March 31,	
	2013	2012
Numerator:		
Net income	\$71,487	\$43,227
Denominator:		
Shares used for basic net income per common share	177,899	178,120
Effect of dilutive securities:		
Stock options	1,776	2,423
RSUs and deferred stock units	1,887	1,799
Shares used for diluted net income per common share	181,562	182,342
Basic net income per common share	\$0.40	\$0.24
Diluted net income per common share	\$0.39	\$0.24

For the three months ended March 31, 2013 and 2012, certain potential outstanding stock options and service-based RSUs were excluded from the computation of diluted earnings per share because the effect of including these options and RSUs would be anti-dilutive. Additionally, certain performance-based RSUs were excluded from the computation of diluted net income per share because the underlying performance conditions for such RSUs had not been met as of these dates. The potentially outstanding shares excluded from the computation of diluted earnings per share is as follows (in thousands):

	For the Three Months Ended March 31,	
	2013	2012
Options	2,148	2,681
Service-based RSUs	495	1,024
Performance-based RSUs	1,148	2,129
Total shares excluded from computation	3,791	5,834

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

#### 8. Stockholders' Equity

##### Stock Repurchase Program

In April 2012, the Company's Board of Directors authorized a \$150.0 million stock repurchase program covering a twelve-month period commencing on May 1, 2012. In January 2013, the Board of Directors authorized a \$150.0 million extension of its share repurchase program, effective for a twelve-month period beginning February 1, 2013. The timing and amount of any future share repurchases will be determined by the Company's management based on its evaluation of market conditions and other factors. Repurchases may also be made under a Rule 10b5-1 plan, which would permit the Company to repurchase shares when the Company might otherwise be precluded from doing so under insider trading laws. The Company may choose to suspend or discontinue the repurchase program at any time. Any purchases made under the program will be reflected as an increase in cash used for financing activities. Unused amounts from the May 2012 program were not carried over to the program approved in January 2013.

During the three months ended March 31, 2013, the Company repurchased 1.1 million shares of its common stock for \$40.3 million. During the three months ended March 31, 2012, the Company repurchased 0.2 million shares of its common stock for \$7.9 million. As of March 31, 2013, the Company had \$119.3 million remaining available for future purchases of shares under the current repurchase program.

##### Stock-Based Compensation Expense

The following table summarizes the components of total stock-based compensation expense included in the Company's consolidated statements of operations for the three months ended March 31, 2013 and 2012 (in thousands):

	For the Three Months	
	2013	2012
Stock-based compensation by type of award:		
Stock options	\$ 3,189	\$ 3,100
RSUs	20,918	18,728
Shares issued under the Employee Stock Purchase Plan	1,762	1,394
Amounts capitalized as internal-use software	(2,938 )	(2,298 )
Total stock-based compensation before income taxes	22,931	20,924
Less: Income tax benefit	(6,964 )	(8,497 )
Total stock-based compensation, net of taxes	\$ 15,967	\$ 12,427
Effect of stock-based compensation on income by line item:		
Cost of revenues	\$ 2,627	\$ 2,706
Research and development expense	4,369	3,930
Sales and marketing expense	9,431	8,111
General and administrative expense	6,504	6,177
Provision for income taxes	(6,964 )	(8,497 )
Total cost related to stock-based compensation, net of taxes	\$ 15,967	\$ 12,427

In addition to the amounts of stock-based compensation reported in the table above, the Company's consolidated statements of operations for the three months ended March 31, 2013 and 2012 include stock-based compensation reflected as a component of amortization of capitalized internal-use software of \$1.9 million and \$1.8 million, respectively, before taxes.

#### 9. Accumulated Other Comprehensive (Loss)

Accumulated other comprehensive (loss) is reported as a component of stockholders' equity and consisted of the following (in thousands):

	March 31, 2013	December 31, 2012
Foreign currency translation adjustments	\$(6,368 )	\$(2,354 )
Net unrealized gain on investments, net of taxes of \$(428) at March 31, 2013 and \$(418) at December 31, 2012	785	714
Total accumulated other comprehensive (loss)	\$(5,583 )	\$(1,640 )

#### 10. Goodwill and Acquired Intangible Assets

The Company has recorded goodwill and acquired intangible assets as a result of business acquisitions that occurred between 2000 and 2012. The Company also acquired license rights from the Massachusetts Institute of Technology in 1999. In February 2012, the Company recorded goodwill of \$15.1 million and acquired intangible assets of \$5.1 million as a result of the acquisition of Blaze. In March 2012, the Company recorded goodwill of \$233.8 million and acquired intangible assets of \$43.8 million as a result of the acquisition of Cotendo. In September 2012, the Company recorded goodwill of \$8.9 million and acquired intangible assets of \$3.7 million as a result of the acquisition of FastSoft. In December 2012, the Company recorded goodwill of \$20.7 million and acquired intangible assets of \$7.5 million as a result of the acquisition of Verivue. (See Note 3).

In accordance with current accounting standards, goodwill is not amortized as it does not qualify as an amortizable intangible asset. The Company tests goodwill for impairment at least annually as required by the accounting guidance for goodwill and acquired intangible assets.

The changes in the carrying amount of goodwill were as follows (in thousands):

	Goodwill
Balance as of December 31, 2012	\$731,325
Purchase price adjustment associated with FastSoft acquisition	40
Purchase price adjustment associated with Verivue acquisition	41
Adjustment for the divestiture of Advertising Decision Solutions business	(1,939 )
Balance as of March 31, 2013	\$729,467

Acquired intangible assets that are subject to amortization consist of the following (in thousands, except for years):

	March 31, 2013			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Amortization Period in Years
Completed technology	\$62,331	\$(27,978 )	\$34,353	6
Customer relationships	100,400	(68,931 )	31,469	9
Non-compete agreements	9,170	(3,354 )	5,816	4
Trademarks and trade names	3,400	(741 )	2,659	9
Acquired license rights	490	(490 )	—	10
Total	\$175,791	\$(101,494 )	\$74,297	

	December 31, 2012			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Amortization Period in Years
Completed technology	\$71,531	\$(32,842 )	\$38,689	6
Customer relationships	104,700	(68,702 )	35,998	9
Non-compete agreements	14,770	(7,645 )	7,125	5
Trademarks and trade names	3,700	(958 )	2,742	9
Acquired license rights	490	(490 )	—	10
Total	\$195,191	\$(110,637 )	\$84,554	

Aggregate expense related to amortization of acquired intangible assets for the three months ended March 31, 2013 and 2012 was \$6.1 million and \$4.8 million, respectively. Based on the Company's acquired intangible assets as of March 31, 2013, aggregate expense related to amortization of acquired intangible assets is expected to be \$15.3 million for the remainder of 2013, and \$18.8 million, \$16.2 million, \$11.4 million and \$7.6 million for 2014, 2015, 2016 and 2017, respectively.

#### 11. Concentration of Credit Risk

Financial instruments that subject the Company to credit risk consist of cash and cash equivalents, marketable securities and accounts receivable. The Company maintains the majority of its cash, cash equivalents and marketable securities balances with major financial institutions that the Company believes are of high credit standing.

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. As of March 31, 2013 and December 31, 2012, one customer accounted for greater than 10% of the Company's accounts receivable. The Company believes that, at March 31, 2013, concentration of credit risk related to accounts receivable was not significant.

## 12. Segment and Geographic Information

Akamai's chief decision-maker, as defined under the authoritative guidance that discusses disclosures about segments of an enterprise and related information, is its Chief Executive Officer and executive management team. As of March 31, 2013, Akamai operated in one industry segment: providing services for accelerating and improving the delivery of content and applications over the Internet. The Company is managed and operated as one business and does not have separate reportable segments as defined in the guidance. A single management team that reports to the Chief Executive Officer comprehensively manages the entire business.

The Company deploys its servers into networks worldwide. As of March 31, 2013, the Company had \$240.6 million and \$129.0 million of property and equipment, net of accumulated depreciation, located in the United States and in foreign locations, respectively. As of December 31, 2012, the Company had \$225.5 million and \$119.6 million of property and equipment, net of accumulated depreciation, located in the United States and in foreign locations, respectively.

Akamai sells its services through a direct sales force and through channel partners located both in the United States and abroad. The following table summarizes the percentage of the Company's revenues derived from operations outside of the United States:

	For the Three Months Ended March 31,			
	2013	2012		
Revenues derived from outside of the United States	30	% 28	%	
Revenues derived from Europe	17	% 17	%	

No single country outside the United States accounted for 10% or more of revenues during these periods. For the three month ended March 31, 2013 and 2012, no customer accounted for 10% or more of total revenues.

## 13. Income Taxes

The Company's effective income tax rate, including discrete items, was 30.4% and 40.6% for the three months ended March 31, 2013 and 2012, respectively. The effective income tax rate is based upon estimated income for the year, the estimated composition of the income in different jurisdictions and discrete adjustments, if any, in the applicable quarterly periods, including retroactive changes in tax legislation, settlements of tax audits or assessments, the resolution or identification of tax position uncertainties, and acquisitions of other companies. The discrete items include the tax effect of the reinstatement of the federal research and development credit at the beginning of 2013, which was retroactive to 2012, certain stock options and interest and penalties related to uncertain tax positions. For the three months ended March 31, 2013, the effective income tax rate was lower than the federal statutory tax rate mainly due to the composition of income in foreign jurisdictions that is taxed at lower rates compared to the statutory tax rates in the United States, as well as the reinstatement of the federal research and development credit at the beginning of 2013 which was retroactive to 2012. For the three months ended March 31, 2012, the effective income tax rate was higher than the federal statutory tax rate mainly due to the effects of accounting for stock-based compensation in accordance with the authoritative guidance for share-based payments, and state income tax expense.

## 14. Forward Currency Contracts

The assets and liabilities of the Company's international subsidiaries are translated at the applicable exchange rate as of the balance sheet date, and revenues and expenses are translated at an average rate over the period. Resulting currency translation adjustments are recorded as a component of accumulated other comprehensive income (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. For the three months ended March 31, 2013 and 2012, the Company recorded net foreign currency losses of \$0.1 million and \$0.4 million, respectively, in the consolidated statement of operations.

The Company has entered 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 March 31, 2013 and December 31, 2012, the fair value of the forward currency contracts and the underlying net loss for the three months ended March 31, 2013 and 2012 were deemed to be immaterial.

The Company's foreign currency forward contracts include credit risk to the extent that the counterparties may be 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.

## 15. Commitments, Contingencies and Guarantees

### Operating Lease Commitments

The Company leases its facilities under non-cancelable operating leases. These operating leases expire at various dates through May 2022 and generally require the payment of real estate taxes, insurance, maintenance and operating costs. The expected minimum aggregate future obligations under non-cancelable leases as of March 31, 2013 were as follows (in thousands):

	Operating Leases
Remaining 2013	\$ 20,246
2014	26,162
2015	23,618
2016	17,501
2017	16,495
Thereafter	29,565
Total	\$ 133,587

### Purchase Commitments

The Company has long-term commitments for bandwidth usage and co-location services with various network and Internet service providers. The following table reflects the Company's minimum commitments pursuant to these contracts in effect as of March 31, 2013, as well as aggregate purchase order commitments with various vendors (in thousands):

	Payments Due by Period					
	Total	Remainder of 2013	2014	2015	2016	2017
Bandwidth and co-location agreements	89.4	72.6	12.9	3.0	0.6	0.3
Open vendor purchase orders	66.4	58.8	5.6	2.0	—	—
Total	155.8	131.4	18.5	5.0	0.6	0.3

### Litigation

The Company is party to various litigation matters that management considers routine and incidental to its business. Management does not expect the results of any of these routine actions to have a material impact on the Company's business, results of operations, financial condition or cash flows.

### Guarantees

The Company has identified guarantees in accordance with the authoritative guidance for guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others, which is an

interpretation of previous accounting statements and a rescission of previous guidance. This guidance elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. The guidance also clarifies that at the time an entity issues a guarantee, that entity must recognize an initial liability for the fair value, or market value, of the obligation it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The Company evaluates losses for guarantees under the statement for accounting for contingencies, as interpreted by the guidance for guarantor's accounting and disclosure requirements for guarantees, including direct guarantees of indebtedness of others. The Company considers such factors as the degree of probability that the Company would be required to satisfy the liability associated with the guarantee and the ability to make a reasonable estimate of the amount of loss. To date, the Company has not incurred material costs as a result of such obligations and has not accrued any liabilities related to such obligations in its financial statements. The fair value of the Company's outstanding guarantees as of March 31, 2013 was determined to be immaterial.

#### 16. Restructuring

In prior years, the Company implemented workforce reductions of employees from all areas of the Company. The Company recorded restructuring charges for the amount of one-time benefits provided to affected employees. Included in these costs was a net increase in non-cash, stock-based compensation reflecting a modification of certain stock-based awards previously granted to the affected employees. Additionally, in connection with excess and vacated facilities under long-term non-cancelable leases, the Company recorded a restructuring charge for the estimated future lease payments, less estimated sublease income, for these vacated facilities. For the three months ended March 31, 2013, the Company recorded additional restructuring charges related to a pending claim by an employee from a prior year workforce reduction. The pending claim is expected to be resolved during 2013.

The following table summarizes the accrual and usage of the restructuring charges (in thousands):

	Leases	Severance	Total
Ending Balance, December 31, 2012	\$ 517	\$ 124	\$ 641
Restructuring charge	—	431	431
Cash payments	(29	) (88	) (117
Ending Balance, March 31, 2013	\$ 488	\$ 467	\$ 955
Current portion of accrued restructuring	\$ 151	\$ 467	\$ 618
Long-term portion of accrued restructuring	\$ 337	\$ —	\$ 337

#### 17. Subsequent Events

On April 12, 2013, C. Kim Goodwin notified Akamai Technologies, Inc. that she is voluntarily resigning from the Board of Directors effective as of May 10, 2013.

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

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

We provide services for accelerating and improving the delivery of content and applications over the Internet. We primarily derive income from sales of services to customers executing contracts with terms of one year or longer, which we refer to as recurring revenue contracts or long-term contracts. This allows us to have a consistent and predictable base level of revenue which is important to our financial success. Accordingly, to be successful, we must maintain our base of recurring revenue contracts by eliminating or reducing customer cancellations or terminations and limiting the impact of price reductions reflected in contract renewals, and build on that base by adding new customers and increasing the number of services, features and functionalities that our existing customers purchase. At the same time, we must ensure that our expenses do not increase faster than, or at the same rate as, our revenues. Accomplishing these goals requires that we compete effectively in the marketplace on the basis of quality, price and the attractiveness of our services and technology.

### Recent Events

On April 12, 2013, C. Kim Goodwin notified us that she is voluntarily resigning from our Board of Directors effective as of May 10, 2013.

## Overview of Financial Results

The following sets forth, as a percentage of revenues, consolidated statements of operations data, for the periods indicated:

	For the Three Months			
	Ended March 31,			
	2013	2012		
Revenues	100.0	% 100.0	%	
Cost of revenues	32.7	39.1		
Research and development expense	6.0	5.5		
Sales and marketing expense	17.0	15.3		
General and administrative expense	15.1	16.2		
Amortization of acquired intangible assets	1.6	1.5		
Restructuring charge	0.1	—		
Total costs and operating expenses	72.5	77.6		
Income from operations	27.5	22.4		
Interest income	0.4	0.5		
Other expense, net	—	(0.1	)	
Gain on investments, net	—	—		
Income before provision for income taxes	27.9	22.8		
Provision for income taxes	8.5	9.3		
Net income	19.4	% 13.5	%	

We were profitable in 2012 and for the three months ended March 31, 2013; however, we cannot guarantee continued profitability or profitability for any period in the future at the levels we have recently experienced. We have observed the following trends and events that are likely to have an impact on our financial condition, results of operations or cash flows in the foreseeable future:

### Revenues and Customers

During the first quarter of 2013, we were able to offset lost committed recurring revenues by adding new customers and increasing sales of incremental services to our existing customers. A continuation of this trend could lead to increased revenues. Overall revenues were also impacted favorably by amounts we were paid for items such as traffic usage in excess of committed amounts and one-time events but negatively impacted by price declines.

In recent years, our unit prices offered to some customers declined as a result of increased competition. These price reductions primarily impacted customers for which we deliver high volumes of traffic over our network, such as digital media customers. To increase or maintain revenues and our profit margin, it is important that we continue to offset price declines with increased traffic, enhanced efficiencies in our network, lower co-location and bandwidth expenses and increased sales of incremental services to existing customers.

During the first quarter of 2013, we experienced an increase in the rate of traffic growth in our video and software download solutions as compared to the fourth quarter of 2012. If this trend continues, our ability to generate revenue growth would be enhanced.

We historically experience seasonal variations of higher revenues in the fourth quarter of the year and lower revenues during the summer months. We primarily attribute such variations to patterns of usage of e-commerce services by our retail customers. If this trend continues, our ability to generate quarterly revenue growth on a sequential basis could be impacted.

For the three months ended March 31, 2013, revenues derived from customers outside the United States accounted for 30% of our total revenues. For the remainder of 2013, we anticipate revenues from such customers as a percentage of our total revenues to be consistent with the first three months of 2013.

### Costs and Expenses

During the first quarter of 2013, we continued to reduce our network bandwidth costs per unit and to invest in internal-use software development to improve the performance and efficiency of our network. Our total bandwidth costs increased during the first quarter of 2013 as compared to the first quarter of 2012 due to traffic growth on our network. We believe that our overall bandwidth costs will continue to increase as a result of expected higher traffic levels, partially offset by anticipated continued reductions in bandwidth costs per unit. To achieve these lower bandwidth costs per unit, we must effectively route traffic over our network through lower cost providers.

Co-location costs are a significant percentage of total cost of revenues. By improving our internal-use software and managing our hardware deployments to enable us to use servers more efficiently, we believe we can manage the growth of co-location costs by deploying fewer servers. We will need to continue to achieve such cost reductions to maintain and improve our profitability.

Depreciation and amortization expense related to our network equipment and internal-use software development costs decreased by \$5.7 million during the first quarter of 2013 as compared to the first quarter of 2012. We implemented software and hardware initiatives to manage our global network more efficiently, and as a result, the expected average useful life of our network assets, primarily servers, increased from three to four years effective January 1, 2013. This change is expected to decrease depreciation expense related to our network equipment during 2013, as compared to 2012. We also expect to continue to enhance and add functionality to our service offerings, which would increase our internal-use software development costs attributable to employees working on such projects. As a result, we believe that the amortization of internal-use software development costs, which we include in cost of revenues, will be higher in 2013 as compared to 2012.

We expect to continue to grant restricted stock units, or RSUs, to employees in the future; therefore, we anticipate that stock-based compensation expense will increase compared to 2012 levels. As of March 31, 2013, our total unrecognized compensation costs for stock-based awards were \$190.9 million, which we expect to recognize as expense over a weighted average period of 1.4 years. We expect to recognize this expense through 2017.

During the three months ended March 31, 2013, our effective income tax rate was 30.4%. We expect our annual effective income tax rate in 2013 to increase slightly in the remaining quarters of 2013 due to the full benefit of the 2012 federal research and development credit booked as a discrete item in the first quarter of 2013 as a result of the reinstatement of the credit on January 2, 2013; this expectation does not take into consideration the effect of other discrete items recorded as a result of our compliance with the accounting guidance for stock-based compensation, any tax planning strategies or the effect of changes in tax laws and regulations.

Based on our analysis of, among other things, the aforementioned trends and events, as of the date of this quarterly report on Form 10-Q, we expect to continue to generate net income on a quarterly and annual basis during 2013; however, our future results are likely to be affected by the factors discussed in the paragraphs above as well as those identified in the section captioned "Risk Factors" and elsewhere in this quarterly report on Form 10-Q, including our ability to:

- increase our revenue by adding customers through recurring revenue contracts and limiting customer cancellations and terminations;
- offset unit price declines for our services with higher volumes of traffic delivered over our network as well as increased sales of value-added services;
- prevent disruptions to our services and network due to accidents or intentional attacks; and
- maintain our network bandwidth and co-location costs and other operating expenses consistent with our revenues.

As a result, there is no assurance that we will achieve our expected financial objectives in any future period.

Our management's discussion and analysis of our financial condition and results of operations is based upon our unaudited consolidated financial statements included elsewhere in this quarterly report on Form 10-Q, which we have prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, for

interim periods and with Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. The preparation of these unaudited consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related items, including, but not limited to, revenue recognition, accounts receivable and related reserves, valuation and impairment of investments, marketable securities and note receivable, goodwill and acquired intangible assets, capitalized internal-use software costs, impairment and useful lives of long-lived assets, tax reserves, loss contingencies and stock-based compensation costs. We base our estimates and judgments on historical experience and on various other assumptions that we believe to be reasonable under the circumstances at the time they are made. Actual results may differ from our estimates. See the section entitled “Application of Critical Accounting Policies and Estimates” in our annual report on Form 10-K for the year ended December 31, 2012 for further discussion of our critical accounting policies and estimates.

#### Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board, or FASB, issued guidance and disclosure requirements for reporting of comprehensive income: amounts reclassified out of accumulated other comprehensive income. The guidance requires that an entity provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP. The guidance became effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. The adoption of this guidance in the first quarter of 2013 did not have a material impact on our consolidated financial results.

#### Results of Operations

Revenues. Total revenues increased 15%, or \$48.6 million, to \$368.0 million for the three months ended March 31, 2013 as compared to \$319.4 million for the three months ended March 31, 2012. The following tables quantify the contribution to revenues during the periods presented from our different service offerings and industry verticals in which we sell our services, respectively (in millions):

	For the Three Months Ended March 31,	
	2013	2012
Media Delivery Solutions	\$ 181.2	\$ 154.9
Performance & Security Solutions	156.6	134.0
Service & Support Solutions	27.5	20.4
Advertising Decision Solutions	2.7	10.1
Total revenues	\$ 368.0	\$ 319.4

The increase in Media Delivery Solutions revenues for the three months ended March 31, 2013 as compared to the same period in 2012 was due to increased online media consumption and higher software download volumes. The increase in Performance and Security Solutions revenues for the three months ended March 31, 2013 as compared to the same period in 2012 was due to increase in demand for web experience and security solutions. The increase in the Service and Support Solutions revenues for the three months ended March 31, 2013 as compared to the same period in 2012 was due to strong traction in service attachment rates to core media, performance and security offerings.

	For the Three Months Ended March 31,	
	2013	2012
Media & Entertainment	\$ 160.2	\$ 134.5
Commerce	76.8	71.5
Enterprise	53.6	42.5
High Tech	59.6	54.6
Public Sector	17.8	16.3
Total revenues	\$ 368.0	\$ 319.4

A significant portion of the increase in revenues attributable to our media and entertainment vertical was driven by traffic growth stemming from increased online media consumption. Revenues from our commerce and enterprise verticals increased due to growth in application and cloud performance solutions, particularly security related solutions, sold to customers in these verticals. Revenues from our high tech vertical grew due to increased demand for cloud performance solutions and higher software download volumes. Our revenues from the public sector vertical for the three months ended March 31, 2013 did not materially change as compared to the same period in 2012.

For the three months ended March 31, 2013, approximately 30% of our revenues were derived from our operations located outside of the United States, including 17% derived from Europe. For the three months ended March 31, 2012, approximately 28% of our revenues were derived from operations outside of the United States, including 17% derived from Europe. No single country outside of the United States accounted for 10% or more of revenues during any of these periods. For the three months ended March 31, 2013, resellers accounted for 20% of revenues as compared to 21% of revenues for the three months ended March 31, 2012. For the three-month periods ended March 31, 2013 and 2012, no single customer accounted for 10% or more of revenues.

Cost of Revenues. Cost of revenues was comprised of the following (in millions) for the periods presented:

	For the Three Months Ended March 31,	
	2013	2012
Bandwidth, network built-out and service-related fees	\$ 29.2	\$ 31.3
Co-location fees	32.6	33.8
Payroll and related costs of network operations personnel	5.3	4.5
Payroll and related costs of service personnel	20.0	16.3
Stock-based compensation, including amortization of prior capitalized amounts	4.4	4.4
Depreciation and impairment of network equipment	18.5	26.8
Amortization of internal-use software	10.4	7.8
Total cost of revenues	\$ 120.4	\$ 124.9

Cost of revenues decreased 4%, or \$4.5 million, to \$120.4 million for the three months ended March 31, 2013 as compared to \$124.9 million for the three months ended March 31, 2012.

This net decrease was primarily due to decreases in:

- depreciation expense of network equipment of approximately \$14.1 million due to software and hardware initiatives we have implemented to manage our global network more efficiently, resulting in an increase in the expected average useful life of our network assets, primarily servers, from three to four years effective January 1, 2013; and
- amounts paid to network providers due to lower bandwidth and service-related fees due to reduced bandwidth costs per unit.

These decreases were partially offset by increases in:

amortization of internal-use software as we continued to invest in our infrastructure; and payroll and related costs of service personnel due to headcount growth.

Additionally, for each of the three-month periods ending March 31, 2013 and 2012, cost of revenues included stock-based compensation expense and amortization of capitalized stock-based compensation. Such expense remained consistent for the three months ended March 31, 2013 as compared to the same period in 2012. Cost of revenues during the three months ended March 31, 2013 and 2012 also included credits received of approximately \$3.4 million and \$2.0 million, respectively, from settlements and renegotiations entered into in connection with billing disputes related to bandwidth contracts. Credits of this nature may occur in the future; however, the timing and amount of credits, if any, are unpredictable.

We have long-term purchase commitments for bandwidth usage and co-location services with various network and Internet service providers. For the remainder of 2013 and for the years ending December 31, 2014, 2015, 2016 and 2017, our minimum commitments related to bandwidth usage and co-location services as of March 31, 2013 were approximately \$72.6 million, \$12.9 million, \$3.0 million, \$0.6 million and \$0.3 million, respectively.

We believe that cost of revenues will increase during the remaining quarters of 2013 as compared to the first quarter of 2013. We expect to deploy more servers and deliver more traffic on our network, which would result in higher expenses associated with the increased traffic; however, such costs are likely to be partially offset by lower bandwidth costs per unit. Additionally, for the remainder of 2013, we anticipate amortization of internal-use software development costs to increase, along with increased payroll and related costs, as we continue to make investments in our network with the expectation that our customer base will continue to expand. We expect that the depreciation expense for the remainder of 2013 will be lower than depreciation expense reported in the same period in 2012 because of the change in estimated useful lives of our network equipment.

**Research and Development.** Research and development expenses consist primarily of payroll and related costs and stock-based compensation expense for research and development personnel who design, develop, test and enhance our services and our network. Research and development expenses increased 25%, or \$4.4 million, to \$21.9 million for the three months ended March 31, 2013 as compared to \$17.5 million for the three months ended March 31, 2012. The increases during the three months ended March 31, 2013 as compared to the same periods in 2012 were due to increases in payroll and related costs as a result of continued growth in headcount, partially offset by increases in capitalized salaries and related costs.

Research and development costs are expensed as incurred, other than certain internal-use software development costs eligible for capitalization. During the three months ended March 31, 2013 and 2012, we capitalized software development costs of \$15.5 million and \$12.3 million, respectively. These development costs consisted of external consulting expenses and payroll and payroll-related costs for personnel involved in the development of internal-use software used to deliver our services and operate our network. Additionally, during the three months ended March 31, 2013, we capitalized \$2.8 million of stock-based compensation as compared to \$2.2 million for the three months ended March 31, 2012. These capitalized internal-use software costs are amortized to cost of revenues over their estimated useful lives of two years.

The following table quantifies the changes in the various components of our research and development expenses for the periods presented (in millions):

	For the Three Months Ended March 31, 2013 as compared to 2012
Payroll and related costs	\$ 6.9
Stock-based compensation	0.4
Capitalized salaries and related costs	(3.2 )
Other expenses	0.3
Total net increase	\$ 4.4





We believe that research and development expenses, in absolute dollar terms, will increase during the remaining quarters of 2013 as compared to the first quarter of 2013 because we expect to continue to hire additional development personnel in order to make improvements to our core technology, develop new services and make refinements to our existing service offerings.

**Sales and Marketing.** Sales and marketing expenses consist primarily of payroll and related costs, stock-based compensation expense and commissions for personnel engaged in marketing, sales and support functions, as well as advertising and promotional expenses.

Sales and marketing expenses increased 28%, or \$13.7 million, to \$62.7 million for the three months ended March 31, 2013 as compared to \$49.0 million for the three months ended March 31, 2012. The increase in sales and marketing expenses during the three months ended March 31, 2013 as compared to the same periods in 2012 was primarily due to higher payroll and related costs and increases in stock-based compensation, as we invested in our go-to-market strategy to support new product introductions and our ongoing geographic expansion.

The following table quantifies the changes in the various components of our sales and marketing expenses for the periods presented (in millions):

	For the Three Months Ended March 31, 2013 as compared to 2012
Payroll and related costs	\$ 10.3
Stock-based compensation	1.3
Marketing and related costs	1.6
Other expenses	0.5
Total net increase	\$ 13.7

We believe that sales and marketing expenses will increase, in absolute dollar terms, during the remaining quarters of 2013 as compared to the first quarter of 2013 due to an expected increase in payroll and related costs as a result of continued headcount growth in our sales and marketing organization.

**General and Administrative.** General and administrative expenses consist primarily of the following components: payroll, stock-based compensation expense and other related costs, including expenses for executive, finance, legal, business applications, network management, human resources and other administrative personnel; depreciation and amortization of property and equipment we use internally; fees for professional services; rent and other facility-related expenditures for leased properties; provision for doubtful accounts; insurance costs; and non-income related taxes.

General and administrative expenses increased 7%, or \$3.7 million, to \$55.3 million for the three months ended March 31, 2013 as compared to \$51.6 million for the three months ended March 31, 2012. The increase in general and administrative expenses for the three months ended March 31, 2013 as compared to the same period in 2012 was primarily due to higher payroll and related costs due to headcount growth and an increase in facilities-related costs due to office expansion. These increases were partially offset by a decrease in acquisition-related costs.

The following table quantifies the changes in various components of our general and administrative expenses for the periods presented (in millions):

	For the Three Months Ended March 31, 2013 as compared to 2012
Payroll and related costs	\$ 4.8
Stock-based compensation	0.3
Depreciation and amortization	1.0
Legal fees	0.3
Non-income taxes	0.2
Provision for doubtful accounts	0.2
Facilities-related costs	1.2
Acquisition-related costs	(4.1 )
Consulting, advisory and other expenses	(0.2 )
Total net increase	\$ 3.7

During the remaining quarters of 2013, we expect general and administrative expenses to increase in absolute dollars as compared to the first quarter of 2013 due to anticipated higher payroll and related costs attributable to increased hiring.

**Amortization of Acquired Intangible Assets.** Amortization of acquired intangible assets consists of amortization of intangible assets acquired in business combinations and amortization of acquired license rights. Amortization of acquired intangible assets increased 27%, or \$1.3 million, to \$6.1 million for the three months ended March 31, 2013 as compared to \$4.8 million for the three months ended March 31, 2012. The increase in amortization of acquired intangible assets for the three months ended March 31, 2013 as compared to the same period in 2012 was primarily due to the amortization of assets related to the acquisitions of Blaze, Cotendo, FastSoft and Verivue during 2012, partially offset by the write-off of intangible assets recorded as part of the divestiture of our ADS business. Based on our intangible assets at March 31, 2013, we expect amortization of acquired intangible assets to be approximately \$15.3 million for the remainder of 2013, and \$18.8 million, \$16.2 million, \$11.4 million and \$7.6 million for 2014, 2015, 2016 and 2017, respectively.

**Interest Income.** Interest income includes interest earned on invested cash balances and marketable securities. Interest income for the three months ended March 31, 2013 of \$1.6 million, consistent with the three months ended March 31, 2012.

**Other Expense, net.** Other (expense) income, net primarily represents net foreign exchange gains and losses incurred and other non-operating (expense) income items. For the three months ended March 31, 2013, other expense, net was \$0.1 million as compared to \$0.4 million during the three months ended March 31, 2012. The decrease in other expense, net for the three months ended March 31, 2013 as compared to the same period in 2012 was primarily due to foreign exchange rate fluctuations on inter-company and other non functional currency transactions. Other (expense) income, net may fluctuate in the future based upon changes in foreign exchange rates or other events.

**Provision for Income Taxes.** For the three months ended March 31, 2013 and 2012, our effective income tax rate, including discrete items, was 30.4% and 40.6%, respectively. For the three months ended March 31, 2013, the effective income tax rate was lower than the federal statutory tax rate mainly due to the reinstatement of the federal research and development credit at the beginning of 2013 which included a one-time retroactive impact for fiscal year 2012, as well as the composition of income in foreign jurisdictions that is taxed at lower rates compared to the statutory tax rates in the United States. For the three months ended March 31, 2012, the effective income tax rate was higher than the federal statutory tax rate mainly due to the effects of accounting for stock-based compensation in accordance with the authoritative guidance for share-based payments and state income tax expense. The effective income tax rate is based upon the estimated income for the year, the estimated composition of the income in different jurisdictions and discrete adjustments, if any, in the applicable quarterly periods, including settlements of tax audits or assessments, the resolution or identification of tax position uncertainties, and acquisitions of other companies.

Provision for income taxes increased 5%, or \$1.6 million, to \$31.2 million for the three months ended March 31, 2013 as compared to \$29.6 million for the three months ended March 31, 2012. The increase in the three months ended



March 31, 2013 as compared to the same period in 2012 was mainly due to the increase in operating income, offset by a decrease related to the federal research and development credit which was reinstated in early 2013 and a change in the composition of projected income in different jurisdictions.

While we expect our effective income tax rate to increase slightly during the remaining quarters of 2013, this expectation does not take into consideration the effect of discrete items that may be recorded in the future. The effective tax rate could be materially different depending on the nature and timing of dispositions of incentive stock options and other employee equity awards. Further, our effective tax rate may fluctuate within a fiscal year and from quarter to quarter due to items arising from discrete events, including settlements of tax audits and assessments, the resolution or identification of tax position uncertainties and acquisitions of other companies.

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

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

#### Non-GAAP Financial Measures

In addition to providing financial measurements based on generally accepted accounting principles in the United States of America, or GAAP, we provide additional financial metrics that are not prepared in accordance with GAAP, or non-GAAP. Management uses non-GAAP financial measures, in addition to GAAP financial measures, to understand and compare operating results across accounting periods, for financial and operational decision making, for planning and forecasting purposes and to evaluate our financial performance.

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

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

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

**Amortization of acquired intangible assets** - We incurred amortization of intangible assets, included in our GAAP financial statements, related to various acquisitions we made. The amount of an acquisition's purchase price allocated to intangible assets and term of its related amortization can vary significantly and are unique to each acquisition. Therefore, we exclude amortization of acquired intangible assets 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 to our employees and executives, the expense varies with changes in the stock price and market conditions at the time of grant, varying valuation methodologies, subjective assumptions and the variety of award types. This

makes the comparison of our current financial results to previous and future periods difficult to interpret. Therefore, we believe it is useful to exclude stock-based compensation and amortization of capitalized stock-based compensation in order to better understand the performance of our core business performance and to be consistent with the way the investors evaluate our performance and comparison of our operating results to peer companies.

**Restructuring charges (benefits)** - We incurred restructuring charges and benefits, included in our GAAP financial statements, primarily due to workforce reductions and estimated costs of exiting facility lease commitments. We exclude these items when evaluating our continuing business performance as such items are not consistently recurring and do not reflect expected future operating expense, nor provide meaningful evaluation of current and past operations of our business.

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

**Gain on divestiture of a business** - We recognized gains associated with the divestiture of our Advertising Decisions Solutions business. We exclude gains on divestiture of a business because sales of this nature occur infrequently and are not considered part of our core business operations.

**Income tax effect of non-GAAP adjustments** - We exclude the income tax impact of the non-GAAP adjustments described above to properly reflect the income attributable to our core operations. In addition, we exclude tax benefits and charges which do not relate to our core operations, for example valuation allowances and purchase accounting items.

The following table reconciles GAAP net income to non-GAAP net income and non-GAAP net income per diluted share for the periods presented:

	Unaudited For the Three Months Ended March 31, 2013      2012 (in thousands, except per share data)	
Net income	\$71,487	\$43,227
Amortization of acquired intangible assets	6,060	4,767
Stock-based compensation	22,931	20,924
Amortization of capitalized stock-based compensation	1,901	1,755
Acquisition-related costs	337	4,452
Restructuring charges	431	60
Gain on divestiture of a business, net	(1,188)	—
Income tax-effect of above non-GAAP adjustments	(8,726)	(9,889)
Total non-GAAP net income	\$93,233	\$65,296
Non-GAAP net income per diluted share	\$0.51	\$0.36
Shares used in per share calculations	181,562	182,342



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 trend. Adjusted EBITDA eliminates items that are either not part of our core operations or do not require a cash outlay. We define Adjusted EBITDA as GAAP net income excluding the following items: interest, income taxes, depreciation and amortization of tangible and intangible assets, stock-based compensation expense; amortization of capitalized stock-based compensation; restructuring charges and benefits; acquisition-related costs and benefits; certain gains and losses on investments; foreign exchange gains and losses; loss on early extinguishment of debt; gains and losses on legal settlements and other non-recurring or unusual items that may arise from time to time.

The following table reconciles GAAP net income to Adjusted EBITDA for the periods presented:

	Unaudited For the Three Months Ended March 31, 2013      2012 (in thousands)	
Net income	\$ 71,487	\$ 43,227
Amortization of acquired intangible assets	6,060	4,767
Stock-based compensation	22,931	20,924
Amortization of capitalized stock-based compensation	1,901	1,755
Acquisition-related costs	337	4,452
Restructuring charges	431	60
Gain on divestiture of a business, net	(1,188 )	—
Interest income, net	(1,608 )	(1,646 )
Provision for income taxes	31,177	29,557
Depreciation and amortization	34,414	39,112
Other expense, net	132	441
Adjusted EBITDA	\$ 166,074	\$ 142,649

#### Liquidity and Capital Resources

To date, we have financed our operations primarily through public and private sales of debt and equity securities, proceeds from exercises of stock awards and cash generated by operations.

As of March 31, 2013, our cash, cash equivalents and marketable securities, which consisted of corporate debt securities, U.S. Treasury and government agency securities and commercial paper, totaled \$1.1 billion. 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, maintaining adequate liquidity at all times, and maximizing returns subject to our investment policy.

Net cash provided by operating activities was \$103.0 million for the three months ended March 31, 2013, compared to \$92.5 million for the three months ended March 31, 2012. The increase in cash provided by operating activities for the three months ended March 31, 2013 as compared to the same period in 2012 was primarily due to an increase in net income, a decrease in excess tax benefits from stock-based compensation and an increase in accrued taxes, partially offset by an increase in accounts receivable and prepaid expenses. We expect that cash provided by operating activities will increase due to an expected increase in cash collections related to anticipated higher revenues, partially offset by an anticipated increase in operating expenses that require cash outlays such as salaries and commissions.

Net cash used in investing activities was \$86.9 million for the three months ended March 31, 2013, compared to \$498.2 million for the three months ended March 31, 2012. Cash used in investing activities for the three months ended March 31, 2013 reflects cash paid for purchases of marketable securities of \$145.4 million and purchases of property and equipment of \$63.5 million, including \$17.0 million related to the capitalization of internal-use software





development costs. Amounts attributable to these purchases were offset, in part, by proceeds from sales and maturities of short- and long-term marketable securities of \$121.7 million. Cash used in investing activities for the three months ended March 31, 2012 reflects cash paid for the acquisitions of Blaze and Cotendo of \$291.6 million, net of cash received, purchases of marketable securities of \$280.6 million and purchases of property and equipment of \$43.3 million, including \$12.9 million related to the capitalization of internal-use software development costs. Amounts attributable to these purchases and investments were offset, in part, by proceeds from sales and maturities of short- and long-term marketable securities of \$117.4 million. For 2013, we expect total capital expenditures, a component of cash used in investing activities, to increase slightly as a percent of revenue as compared to 2012. We expect to fund such capital expenditures through cash generated from operations.

Net cash used in financing activities was \$50.3 million for the three months ended March 31, 2013, as compared to \$9.1 million for the three months ended March 31, 2012. Cash used in financing activities during the three months ended March 31, 2013 consisted of \$40.3 million related to our common stock repurchase program as described more fully below, as well as \$17.3 million used for taxes paid related to net share settlements of equity awards. This was partially offset by cash provided by financing activities for the three months ended March 31, 2013 of \$4.1 million related to excess tax benefits resulting from the exercise of stock options and vesting of RSUs and proceeds of \$3.2 million from exercises of stock options under our stock option plans. Cash used in financing activities during the three months ended March 31, 2012 consisted of \$7.9 million related to our common stock repurchase program, as well as \$21.7 million used for taxes paid related to net share settlements of equity awards. This was partially offset by cash provided by financing activities during the three months ended March 31, 2012 of \$13.4 million related to excess tax benefits resulting from the exercise of stock options and vesting of RSUs and proceeds of \$7.1 million from exercises of stock options under our stock option plans.

Changes in cash, cash equivalents and marketable securities are dependent upon changes in, among other things, working capital items such as deferred revenues, accounts payable, accounts receivable and various accrued expenses, as well as changes in our capital and financial structure due to common stock repurchases, debt repurchases and issuances, stock option exercises, purchases and sales of equity investments and similar events.

The following table presents the net inflows and outflows of cash, cash equivalents and marketable securities for the periods presented (in millions):

	For the Three Months Ended March 31,	
	2013	2012
Cash, cash equivalents and marketable securities balance at the beginning of the period	\$ 1,095.2	\$ 1,230.0
Changes in cash, cash equivalents and marketable securities:		
Receipts from customers	358.6	330.9
Payments to vendors	(193.9)	(180.6)
Payments for employee payroll	(118.7)	(94.1)
Stock option exercises	3.2	7.1
Cash used in business acquisitions, net of cash acquired	—	(291.6)
Employee taxes paid related to net share settlement of equity awards	(17.3)	(21.7)
Common stock repurchases	(40.3)	(7.9)
Realized and unrealized gains on marketable investments, net	0.1	0.5
Interest income	1.6	1.6
Other	(6.1)	4.5
Net decrease	(12.8)	(251.3)
Cash, cash equivalents and marketable securities balance at the end of the period	\$ 1,082.4	\$ 978.7

In April 2012, our Board of Directors authorized a one-year \$150.0 million stock repurchase program commencing on May 1, 2012. In January 2013, our Board of Directors authorized a \$150.0 million extension of its share repurchase program, effective for a twelve-month period beginning February 1, 2013. Unused amounts under the May 2012 program were not carried over to the program approved in January 2013. During the three months ended March 31, 2013, we repurchased 1.1 million shares of common stock at an average price of \$36.79 per share for an aggregate of \$40.3 million. During the three months ended March 31, 2012, we repurchased 0.2 million shares of common stock at an average price of \$35.45 per share for an aggregate of \$7.9 million. The timing and amount of any future share repurchases will be determined by our management based on its evaluation of market conditions and other factors. Repurchases may also be made under a Rule 10b5-1 plan, which would permit us to repurchase shares when we might otherwise be precluded from doing so under insider trading laws. Subject to applicable securities laws requirements, we may choose to suspend or discontinue the repurchase program at any time. Any purchases made under the program will be reflected as an increase in cash used in financing activities. See Item 2 of Part II of this quarterly report on Form 10-Q for more detailed information about our repurchases.

We believe, based on our present business plan, that our current cash, cash equivalents and marketable securities and forecasted cash flows from operations will be sufficient to meet our cash needs for working capital and capital expenditures for at least the next 24 months. If the assumptions underlying our business plan regarding future revenue and expenses change, if we are unable to liquidate our marketable securities, or if unexpected opportunities or needs arise, we may seek to raise additional cash by selling equity or debt securities. We may not, however, be able to sell equity or debt securities on terms we consider reasonable, or at all. If additional funds are raised through the issuance of equity or debt securities, these securities could have rights, preferences and privileges senior to those accruing to holders of common stock, and the terms of any such debt could impose restrictions on our operations. The sale of additional equity or convertible debt securities could result in additional dilution to our existing stockholders. See “Risk Factors” in Item 1A of Part II of this quarterly report on Form 10-Q for a discussion of additional factors that could affect our liquidity.

#### Contractual Obligations, Contingent Liabilities and Commercial Commitments

The following table presents our contractual obligations and commercial commitments, as of March 31, 2013, for the next five years and thereafter (in millions):

	Payments Due by Period				
	Total	Less than 12 Months	12-36 Months	36-60 Months	More than 60 Months
Bandwidth and co-location agreements	\$ 89.6	\$ 78.4	\$ 10.6	\$ 0.5	\$ 0.1
Real estate operating leases	133.5	26.9	47.7	33.4	25.5
Open vendor purchase orders	66.4	59.8	6.6	—	—
Total	\$ 289.5	\$ 165.1	\$ 64.9	\$ 33.9	\$ 25.6

In accordance with authoritative guidance issued by the FASB, as of March 31, 2013, we had unrecognized tax benefits of \$27.2 million, which included approximately \$6.0 million of accrued interest and penalties. We do not expect to recognize any material tax benefits in 2013, but we are not otherwise able to provide a reasonably reliable estimate of the timing of future payments relating to these unrecognized tax benefits and related obligations.

#### Letters of Credit

As of March 31, 2013, we had \$6.1 million in outstanding irrevocable letters of credit in favor of third-party beneficiaries, primarily related to facility leases. These irrevocable letters of credit are unsecured and are expected to remain in effect until December 2019.

#### Off-Balance Sheet Arrangements

We have entered into indemnification agreements with third parties, including vendors, customers, landlords, our officers and directors, shareholders of acquired companies, joint venture partners and third parties to which we license technology. Generally, these indemnification agreements require us to reimburse losses suffered by a third party due to various events, such as lawsuits arising from patent or copyright infringement or our negligence. These indemnification obligations are considered off-balance sheet arrangements in accordance with the authoritative guidance



for guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others. See also Note 11 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2012 for further discussion of these indemnification agreements. The fair value of guarantees issued or modified during the three months ended March 31, 2013 was determined to be immaterial. As of March 31, 2013, we did not have any additional material off-balance sheet arrangements.

#### Litigation

We are party to litigation that we consider to be routine and incidental to our business. Management does not expect the results of any of these actions to have a material impact on our business, results of operations, financial condition, or cash flows.

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

#### Interest Rate Risk

Our portfolio of cash equivalents and short- and long-term investments is maintained in a variety of securities, including government agency obligations, high quality corporate bonds and money market funds. Investments are classified as available-for-sale securities and carried at their fair market value with cumulative unrealized gains or losses recorded as a component of accumulated other comprehensive income (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. Foreign exchange rate fluctuations may adversely impact our consolidated results of operations as exchange rate fluctuations on transactions denominated in currencies other than our functional currencies result in gains and losses that are reflected in our consolidated statements of operations. To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency-denominated transactions will result in increased net revenues and operating expenses. Conversely, our net revenues and operating expenses will decrease when the U.S. dollar strengthens against foreign currencies. We do not enter into financial instruments for trading or speculative purposes.

#### Transaction Exposure

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 other income (expense), net. Foreign currency transaction gains and losses from these forward contracts were determined to be immaterial during the three months ended March 31, 2013.

#### Translation Exposure

Foreign exchange rate fluctuations may 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 recognized as an adjustment to stockholders' equity which is reflected in our balance sheet under accumulated other comprehensive income (loss).

#### 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. To reduce risk, we routinely assess the financial strength of our customers. Based on such assessments, we believe that our accounts receivable credit risk exposure is limited. As of March 31, 2013 and December 31, 2012, one customer had an account receivable balance of 10% of our accounts receivable. We believe that, at March 31, 2013, concentration of credit risk related to accounts receivable was not significant.

#### Item 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2013. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2013, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended March 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

The following are important factors, among others, that could cause our actual operating results to differ materially from those indicated or suggested by forward-looking statements made in this quarterly report on Form 10-Q or presented elsewhere by management from time to time. We have not made any material changes in the risk factors previously disclosed in our annual report on Form 10-K for the year ended December 31, 2012.

We face intense competition, the consequences of which could adversely affect our business.

We compete in markets that are intensely competitive and rapidly changing. The competitive landscape is varied and presents numerous different challenges including:

- Current and potential competitors may have greater name recognition, broader customer relationships and substantially greater financial, technical and marketing resources than we do.

- Some competitors may attract customers by offering less-sophisticated versions of services than we provide at lower prices than those we charge.

- Nimbler companies may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements, resulting in superior offerings.

- Some current or potential competitors may bundle their offerings with other services, software or hardware in a manner that may discourage enterprises from purchasing any service we offer.

Both existing and potential customers may decide to purchase or develop their own hardware, software and other technology solutions rather than rely on an external provider like Akamai. As a result, our competitors include hardware manufacturers, software companies and other entities that offer Internet-related solutions that are not service-based.

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

We depend on the development of new services and enhancement to existing services. If we fail to innovate and respond to emerging technological trends and customers' changing needs, our operating results and market share may suffer.

The market for our services is characterized by rapidly changing technology, evolving industry standards and new product and service introductions. Our ability to provide new and innovative solutions to address the evolving ways enterprises use the Internet is important to our future growth and profitability. If we fail to do so, our operating results will likely be significantly harmed. If other companies develop technological or business model innovations in the markets we seek to address that are, or are perceived to be, equivalent or superior to our services, then we could lose market share and our revenue and profitability would also suffer. In addition, our customers' business models may change in ways that we do not anticipate, and the failure to address these changes could reduce or eliminate our customers' needs for our services. The process of developing new technologies is complex and uncertain; we must commit significant resources to developing new services or enhancements to our existing services before knowing whether our investments will result in services the market will accept. Furthermore, we may not successfully execute our technology initiatives because of errors in planning or timing, technical or operational hurdles that we fail to overcome in a timely fashion, misunderstandings about market demand or a lack of appropriate resources.

Numerous factors could cause our revenue growth rate and profitability to decline.

Our revenue growth rate may decline in future periods as a result of a number of factors, including increasing competition, pricing pressure, the decline in growth rate percentages as our revenues increase to higher levels and macroeconomic factors affecting certain aspects of our business. We also believe our profitability may decrease because we have large fixed expenses and expect to continue to incur significant bandwidth, co-location and other expenses, including increased depreciation on network equipment purchased in recent years. As a result, we may not be able to continue to maintain our current level of profitability in 2013 or on a quarterly or annual basis thereafter. There are numerous factors that could, alone or in combination with other factors, impede our ability to increase revenues and/or moderate expenses, including:

- continuing market pressure to decrease our prices, particularly in our media business;
- the impact of lower pricing and other terms in renewal agreements we enter into with existing customers;
- failure to experience traffic growth and increase sales of our core services and advanced features to offset price declines;
- significant increases in co-location and bandwidth costs, head count or other operating expenses;
- increased competition;
- inability to increase sales to new and existing customers faster than the rate of loss of existing customers and revenues; and
- failure of a significant number of customers to pay our fees on a timely basis or at all or failure to continue to purchase our services in accordance with their contractual commitments.

We are increasing our investment in engineering, sales, service and marketing activities. These investments may achieve delayed or lower than expected benefits which could harm our operating results.

We are increasing our investment in personnel and other resources related to our engineering, sales, service and marketing functions as we focus on innovation and expansion of our operations, particularly in areas such as web acceleration services, media delivery services, carrier products, hybrid cloud optimization services, and security solutions. We are likely to recognize the costs associated with these investments earlier than some of the anticipated benefits, and the return on these investments may be lower, or may develop more slowly, than we expect. If we do not achieve the benefits anticipated from these investments, or if the achievement of these benefits is delayed, our operating results may be adversely affected.

We may be unable to replace lost revenues due to customer cancellations or renewals at lower rates.

Our customers have no obligation to renew their agreements for our services after the expiration of their existing terms, which are typically 12 to 24 months. We cannot predict our renewal rates. Some may elect not to renew and others may renew at lower prices, lower committed traffic levels, or for shorter contract lengths. Historically, a significant percentage of our renewals, particularly with larger customers, have involved unit price declines as competition has increased and the market for certain parts of our business has matured. If that trend continues in the future, we will need to sell more services or attract new customers to increase our revenues and improve or maintain profitability. Our renewal rates may decline as a result of a number of factors, including competitive pressures, customer dissatisfaction with our service, customers' inability to continue their operations and spending levels, the impact of dual vendor policies, customers implementing or increasing their use of in-house technology solutions and general economic conditions. It is key to our profitability that we offset lost committed recurring revenue due to customer cancellations, terminations, price reductions or other less favorable terms by adding new customers and increasing the number of services, features and functionalities that our existing customers purchase. If we are unable to do so, our revenue will decline and our business will suffer.

We may be unable to develop robust strategic relationships with third parties that expand our distribution channels and increase revenues; such failure could significantly limit our long-term growth.

Our future success will likely require us to maintain and increase the number and depth of our relationships with resellers, systems integrators and other strategic partners and to leverage those relationships to expand our distribution channels and increase revenues. The need to develop such relationships can be particularly acute in areas outside of the United States. We have not always been successful at developing these relationships due to the complexity of our





services, our historical reliance on an internal sales force, a past lack of strategic focus on such arrangements and other factors. Recruiting and retaining qualified channel partners and training them in the use of our technology and services 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 channel. Those systems, processes and procedures may become increasingly complex and difficult to manage. The time and expense required for 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 of relationships with channel partners -- and any inability to successfully execute on the partnerships we initiate -- could significantly impede our revenue growth prospects in the short and long term.

If we fail to manage effectively our operations, expected growth, diversification and changes to our business could harm us.

Our future operating results will depend on our ability to manage our operations. We hired a new Chief Executive Officer effective January 1, 2013, and he has made and may want to make further changes to our strategic plan, service offerings, organizational structure, or other aspects of the company. These initiatives may not work as intended, or may take longer to be effective, which could have a negative impact on our results of operations and growth projections.

As a result of the diversification of our business, personnel growth, acquisitions and international expansion in recent years, many of our employees are now based outside of our Cambridge, Massachusetts headquarters. However, most 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.

We have greatly increased our employee base in recent years. We expect that by the end of 2013 more than 50% of our employee population will have been at Akamai for fewer than two years. It is important to our continued success that we hire qualified employees, properly train them and manage out poorly-performing personnel, all while maintaining our corporate culture and spirit of innovation. If we are not successful at these efforts, our growth and operations could be adversely affected.

As our business evolves, we must also expand and adapt our operational infrastructure. Our business relies on our data systems, billing systems, and other operational and financial reporting and control systems. All of these systems have become increasingly complex in the recent past due to the diversification and complexity of our business, acquisitions of new businesses with different systems and increased regulation over controls and procedures. To manage our technical support infrastructure effectively, we will need to continue to upgrade and improve our data systems, billing systems and other operational and financial systems, procedures and controls. These upgrades and improvements will require a dedication of resources and in some cases are likely to be complex. 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.

Because our services are complex and are deployed in complex environments, they may have errors or defects that could seriously harm our business.

Our services are highly complex and are designed to be deployed in and across numerous large and complex networks that we do not control. From time to time, we have needed to correct errors and defects in the software that underlies our services and platform. In the future, there may be additional errors and defects in our software that may adversely affect our operations. We may not have in place adequate quality assurance procedures to ensure that we detect errors in our software in a timely manner. If we are unable to efficiently and cost-effectively fix errors or other problems that may be identified, or if there are unidentified errors that allow persons to improperly access our services, we could experience loss of revenues and market share, damage to our reputation, increased expenses and legal actions by our customers. If we elect to move into new areas that involve handling personally identifiable information or other important assets or transactions entrusted to us by our customers, the potential risks we face and magnitude of losses could increase.

Any unplanned interruption in the functioning of our network or services or attacks on our internal information technology systems could lead to significant costs and disruptions that could reduce our revenues and harm our business, financial results and reputation.

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Our business is dependent on providing our customers with fast, efficient and reliable distribution of applications and content over the Internet. For our core services, we currently provide a standard guarantee that our networks will deliver Internet content 24 hours a day, 7 days a week, 365 days a year. If we do not meet this standard, affected customers may be entitled to credits. Our network or services could be disrupted by numerous events, including natural disasters, unauthorized access to our servers, failure or refusal of our third-party network providers to provide the necessary capacity, power losses and intentional disruptions of our services, such as disruptions caused by software viruses or attacks by unauthorized users.

Cybersecurity attacks and other security breaches could expose us to liability and our reputation and business could suffer.

We are in the information technology business, and our services and network transmit and store our customers' information and data as well as our own. We have a reputation for a secure and reliable platform and services and have invested a great deal of time and resources in protecting the integrity and security of our services and internal and external data that we manage. Nevertheless, there have been, and in the future are likely to be, attempts to gain unauthorized access to our information technology systems in order to steal information about our technology, financial data or other information or take other actions that would be damaging to our customers and us. Such attacks may be pursued through viruses, worms and other malicious software programs that attack our platform, exploit potential security vulnerabilities of our services, create system disruptions and cause shutdowns or denials of service. Data may also be accessed or modified improperly as a result of employee or supplier error or malfeasance, and third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our data, our customers' data or our IT systems. As we expand our emphasis on selling security-related solutions, we may become a more attractive target for attacks on our infrastructure. Security risks for us will also increase as we continue to grow our cloud-based offerings and services, especially in customer sectors involving particularly sensitive data such as health sciences, financial services and the government. We have acquired a number of companies over the years and may continue to do so in the future. While we make significant efforts to address any IT security issues with respect to our acquisitions, we may still inherit such risks when we integrate these acquisitions within Akamai.

There can be no assurance that attacks by unauthorized users will not be attempted in the future, that our security measures will be effective, that we will quickly detect an attack, or that a successful attack would not be damaging. Any widespread interruption of the functioning of our network or services would reduce our revenues and could harm our business, financial results and reputation. Any insurance coverage we carry may not be sufficient to cover all or a significant portion of the losses we could suffer from an attack. Any breach of the security of our information systems could lead to the unauthorized release of valuable confidential information, including trade secrets, material nonpublic information about our customers, personally identifiable information about individuals, financial information and sensitive data that others could use to compete against us. Such events could likely harm our business and reputation. If the security solutions we offer to address the Internet security needs of our customers fail to operate effectively or to provide benefits promised by us, we could suffer from reduced revenues and harm to our business and reputation. We may have insufficient transmission and co-location space, which could result in interruptions in our services and loss of revenues.

Our operations are dependent in part upon transmission capacity provided by third-party telecommunications network providers and access to co-location facilities to house our servers. There can be no assurance that we are adequately prepared for unexpected increases in bandwidth demands by our customers. The bandwidth we have contracted to purchase may become unavailable for a variety of reasons, including payment disputes, network providers going out of business or networks imposing traffic limits. In some regions, network providers may choose to compete with us and become unwilling to sell us adequate transmission capacity at fair market prices. Any failure of network providers on which we rely to provide the capacity we require, due to financial or other reasons, may result in a reduction in, or interruption of, service to our customers and ultimately loss of those customers. In recent years, it has become increasingly expensive to house our servers at network facilities. We expect this trend to continue. These increased expenses have made, and will make, it more costly for us to expand our operations and more difficult for us to maintain or improve our profitability.

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

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

As part of our business strategy, we have entered, and may seek to enter, into business combinations, acquisitions, and other strategic relationships that may be difficult to integrate, disrupt our business, dilute stockholder value and divert management attention.

We have completed numerous acquisitions in recent years. If attractive acquisition opportunities arise in the future, we may seek to enter into additional business combinations or purchases. We may also enter into other types of strategic relationships that involve technology sharing or close cooperation with other companies. Acquisitions and other complex transactions are accompanied by a number of risks, including the following:

- the difficulty of integrating the operations and personnel of acquired companies;
- the potential disruption of our ongoing business;
- the potential distraction of management;
- expenses related to the transactions;
- that 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 could decrease our net income and earnings per share; 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. In addition, we may not be able to recognize any expected synergies or benefits in connection with a future acquisition or combination. If we are not successful in completing acquisitions or other strategic transactions that we may pursue in the future, we may incur substantial expenses and devote significant management time and resources without a successful result. Future acquisitions could require use of substantial portions of our available cash or result in dilutive issuances of securities. Technology sharing or other strategic relationships we enter into may give rise to disputes over intellectual property ownership, operational responsibilities and other significant matters. Such disputes may be expensive and time-consuming to resolve.

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

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

- quarterly variations in operating results;
- introduction of new products, services and strategic developments by us or our competitors;
- market speculation about whether we are a takeover target;
- changes in financial estimates and recommendations by securities analysts;
- failure to meet the expectations of public market analysts;
- purchases or sales of our stock by our officers and directors;
- macro-economic factors;



- repurchases of shares of our common stock;
- performance by other companies in our industry; and
- geopolitical conditions such as acts of terrorism or military conflicts.

Furthermore, our revenues, particularly those attributable to usage of our services beyond customer commitments, can be difficult to forecast, and, as a result, our quarterly operating results can fluctuate substantially. This concern is particularly acute with respect to our media customers and commerce customers for which holiday sales are a key but unpredictable driver of usage of our services. As we introduce new services and potentially increase software licensing, we expect to face additional challenges with our forecasting processes. Also, 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, our stock price may decrease significantly in reaction.

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 for technology companies in particular, have experienced significant volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the market price of our common stock, regardless of our operating performance.

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

Our future success depends upon the continued 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. None of our officers or key employees is bound by an employment agreement for any specific term. Members of our senior management team have left Akamai over the years for a variety of reasons, and we cannot be certain that there will not be additional departures, which may be disruptive to our operations. We compensate our officers and employees in part through equity incentives, including stock options. Some of these stock options held by our officers and employees have exercise prices in excess of the current market price of our common stock, which has diminished the retentive value of such options. The loss of the services of any of our key employees could hinder or delay the implementation of our business model and the development and introduction of, and negatively impact our ability to sell, our services.

We may need to defend against patent or copyright infringement claims, which would cause us to incur substantial costs.

Other companies or individuals, including our competitors, may hold or obtain patents or other proprietary rights that would prevent, limit or interfere with our ability to make, use or sell our services or develop new services, which could make it more difficult for us to increase revenues and improve or maintain profitability. Persons holding Internet-related patents or other intellectual property rights are increasingly bringing suits alleging infringement of such rights against both technology providers and customers that use such technology. Any such action naming Akamai could be costly to defend or lead to an expensive settlement or judgment against us.

We have agreed to indemnify our customers if our services infringe specified intellectual property rights; therefore, we could become involved in litigation brought against customers if our services and technology are implicated. Any litigation or claims, whether or not valid, brought against us or pursuant to which we indemnify our customers could result in substantial costs and diversion of resources and require us to do one or more of the following:

- cease selling, incorporating or using 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. In the event of a successful claim of infringement against us and our failure or inability to obtain a license to the infringed technology, our business and operating results could be materially adversely affected.





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 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. Developments and changes in patent law, such as changes in interpretations of the joint infringement standard, could also restrict how we enforce certain patents we hold. Monitoring unauthorized use of our services is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. 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. 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.

If our license agreement with MIT terminates, our business could be adversely affected.

We have licensed from the Massachusetts Institute of Technology, or MIT, technology that is covered by various patents and copyrights relating to Internet content delivery technology. Some of our core technology is based in part on the technology covered by these patents, patent applications and copyrights. Our license is effective for the life of the patents and patent applications; however, under limited circumstances, such as a cessation of our operations due to our insolvency or our material breach of the terms of the license agreement, MIT has the right to terminate our license. A termination of our license agreement with MIT could have a material adverse effect on our business.

We rely on certain "open-source" software the use of which could result in our having to distribute our proprietary software, including our source code, to third parties on unfavorable terms, which could materially affect our business. Certain of our service offerings use software that is subject to open-source licenses. Open-source code is software that is freely accessible, usable and modifiable. 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 such 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 divert resources away from our development efforts. In addition, the terms relating to disclosure of derivative works in many open-source licenses are unclear. We periodically review our compliance with the open-source licenses we use and do not believe we will be required to make our proprietary software freely available. However, 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.

If our ability to deliver media files in popular proprietary content formats were to become restricted or cost-prohibitive, demand for our content delivery services could decline, we could lose customers and our financial results could suffer.

Significant portions of our business depend on our ability to deliver media content in all major formats. If our legal right or technical ability to store and deliver content in one or more popular proprietary content formats, such as Adobe® Flash® or Windows® Media, were to become limited, our ability to serve our customers in these formats would be impaired and the demand for our content delivery services would decline by customers using these formats. Owners of proprietary content formats may be able to block, restrict or impose fees or other costs on our use of such formats, which could lead to additional expenses for us and for our customers, or which could prevent our delivery of this type of content altogether. Such interference could result in a loss of existing customers, increased costs and impairment of our ability to attract new customers, which would harm our revenue, operating results and growth. 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 United States of America. The preparation of these financial statements requires us to make estimates and judgments

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

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

Our future income taxes could be adversely affected by earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, or changes in tax laws, regulations, or accounting principles, as well as certain discrete items such as equity-related compensation. We have recorded certain tax reserves to address potential exposures involving our income, sales and use and franchise tax positions. These potential tax liabilities result from the varying application of statutes, rules, regulations and interpretations by different jurisdictions. Our reserves, however, may not be adequate to cover our total actual liability. Although we believe our estimates and reserves 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 controls over financial reporting were effective as of March 31, 2013, 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 accordingly. 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 and if we expand through acquisitions of other companies, our internal controls may become more complex and we will require significantly more resources to ensure our internal controls remain effective. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we or our independent registered public accounting firm identify material weaknesses, the disclosure of that fact, even if quickly remediated, could reduce the market's confidence in our financial statements and harm our stock price.

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. Weakness in the United States and/or worldwide economy has had and could continue to have a negative effect on our operating results, including decreases in revenues and operating cash flows. If the U.S. government fails to reach a budget compromise in 2013, automatic spending cuts and tax increases could impact the economy and the businesses of our customers. In addition, the current sovereign debt crisis concerning certain European countries, including Greece, Italy, Ireland, Portugal and Spain and related European financial restructuring efforts, may cause the value of European currencies, including the Euro, to deteriorate, thus reducing the purchasing power of European customers, which could limit the amount of services they purchase from us. 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 revenues. Additionally, in a down-cycle economic environment, we may experience the negative effects of increased competitive pricing pressure, customer loss, a slow down in commerce over the Internet and corresponding decrease in traffic delivered over our

network and failures by customers to pay amounts owed to us on a timely basis or at all. Suppliers on which we rely for servers, bandwidth, co-location and other services could also be negatively impacted by economic conditions that, in turn, could have a negative impact on our operations or expenses. There can be no assurance, therefore, that current economic conditions

or worsening economic conditions or a prolonged or recurring recession will not have a significant adverse impact on our operating results.

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

A portion of our revenues is derived from international operations. Revenues 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, there is no guarantee that such program will be fully effective.

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

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

- currency exchange rate fluctuations and limitations on the repatriation and investment of funds;
- inability to repatriate funds held by our foreign subsidiaries to the United States at favorable tax rates;
- difficulties in transferring funds from or converting currencies in certain countries;
- unexpected changes in regulatory requirements resulting in unanticipated costs and delays;
- interpretations of laws or regulations that would subject us to regulatory supervision or, in the alternative, require us to exit a country, which could have a negative impact on the quality of our services or our results of operations;
- uncertainty regarding liability for content or services;
- adjusting to different employee/employer relationships and different regulations governing such relationships;
- corporate and personal liability for alleged or actual violations of laws and regulations;
- difficulty in staffing, developing and managing foreign operations as a result of distance, language and cultural differences; and
- potentially adverse tax consequences.

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

Changes in regulations or user concerns regarding privacy and protection of user data could adversely affect our business.

Federal, state, foreign and international laws and regulations may govern the collection, use, retention, sharing and security of data that we receive from our customers, visitors to their websites and others. In addition, we have a publicly-available privacy policy concerning collection, use and disclosure of user data. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any privacy-related laws, government regulations or directives, or industry self-regulatory principles could result in damage to our reputation or proceedings or actions against us by governmental entities or others, which could potentially have an adverse effect on our business.



A large number of legislative proposals pending before the U.S. Congress, various state legislative bodies and foreign governments concern data privacy and retention issues related to our business. It is not possible to predict whether, when, or the extent to which such legislation may be adopted. In addition, the interpretation and application of user data protection laws are currently unsettled. These laws may be interpreted and applied inconsistently from jurisdiction to jurisdiction and inconsistently with our current data protection policies and practices. Complying with potentially varying international requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

Internet-related and other laws could adversely affect our business.

Laws and regulations that apply to communications and commerce over the Internet are becoming more prevalent. In particular, the growth and development of the market for online commerce has prompted calls for more stringent copyright protection, tax, consumer protection, cybersecurity, content, anti-discrimination and privacy laws, both in the United States and abroad, that may impose additional burdens on companies conducting business online or providing Internet-related services such as ours. Other potential regulatory proposals could seek to mandate changes to the economic relationships among participants in the Internet ecosystem. The adoption of any of these measures could negatively affect both our business directly as well as the businesses of our customers, which could reduce their demand for our services. In addition, domestic and foreign government attempts to regulate the operation of the Internet through legislation, treaties or regulations could negatively impact our business.

Global climate change regulations could adversely impact our business.

Recent scientific studies and other news reports suggest the possibility of global climate change. In response, governments may adopt new regulations affecting the use of fossil fuels or requiring the use of alternative fuel sources. In addition, our customers may require us to take steps to demonstrate that we are taking ecologically responsible measures in operating our business. Our deployed network of tens of thousands of servers consumes significant energy resources, including those generated by the burning of fossil fuels. It is possible that future regulatory or legislative initiatives or customer demands could affect the costs of operating our network of servers and our other operations. Such 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 revenues and damage to our reputation.

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

We derive revenues from 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. If the U.S. government fails to reach a budget compromise in 2013, automatic spending cuts could reduce the budgets of agencies that buy our services. These factors may join to limit the revenues we derive from government contracts in the future. Additionally, government contracts are generally subject to audits and investigations which could result in various 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.

Provisions of our charter documents 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 amended and restated certificate of incorporation, amended and restated by-laws and Delaware law could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders.

These provisions include:

- A classified board structure so that only approximately one-third of our board of directors is up for re-election in any one year;

- Our board of directors has the right to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;





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; such provisions may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company; and

Our board of directors may issue, without stockholder approval, shares of undesignated preferred stock; the ability to issue undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

### Issuer Purchases of Equity Securities

The following is a summary of our repurchases of our common stock in the first quarter of 2013:

Period(1)	(a) Total Number of Shares Purchased(2)	(b) Average Price Paid per Share(3)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (4)	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under Plans or Programs	
January 1, 2013 – January 31, 2013	228,705	\$ 40.01	228,705	\$ 29,380,727	(5)
February 1, 2013 – February 28, 2013	238,446	\$ 37.00	238,446	\$ 141,621,448	(6)
March 1, 2013 – March 31, 2013	627,600	\$ 35.54	627,600	\$ 119,316,802	(7)
Total	1,094,751		1,094,751		

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

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

(3) Includes commissions paid.

In April 2012, the Company's Board of Directors authorized a \$150.0 million stock repurchase program covering a twelve-month period commencing on May 1, 2012. In January 2013, the Board of Directors authorized a \$150.0 million extension of its share repurchase program, effective for a twelve-month period beginning February 1, 2013. Unused amounts from the April 2012 program were not carried over to the January 2013 program. See Note 8 to our unaudited consolidated financial statements included elsewhere in this quarterly report on Form 10-Q.

Reflects \$150.0 million from the 2012 program minus the total aggregate amount purchased during such month (5) and all prior months during which the 2012 repurchase program was in effect and the aggregate commissions paid in connection therewith.

Reflects \$150.0 million from the 2013 program minus the total aggregate amount purchased during such month (6) and the aggregate commissions paid in connection therewith. Based on settlement date, an additional \$0.4 million used for repurchases made under the 2012 program during February 2013 is excluded from presentation.

Reflects \$150.0 million from the 2013 program minus the total aggregate amount purchased during such month (7) and all prior months during which the 2013 repurchase program was in effect and the aggregate commissions paid in connection therewith.

Item 6. Exhibits

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

**SIGNATURES**

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

Akamai Technologies, Inc.

May 10, 2013

By: /s/ JAMES BENSON  
James Benson  
Chief Financial Officer  
(Duly Authorized Officer, Principal Financial Officer)

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EXHIBIT INDEX

Exhibit 31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/ Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/ Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
Exhibit 32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document.**
101.SCH	XBRL Taxonomy Extension Schema Document.**
101.CAL	XBRL Taxonomy Calculation Linkbase Document.**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.**
101.LAB	XBRL Taxonomy Label Linkbase Document.**
101.PRE	XBRL Taxonomy Presentation Linkbase Document.**

\*\* Submitted electronically herewith

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at March 31, 2013 and December 31, 2012, (ii) Condensed Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012, (iii) Condensed Consolidated Statements of Comprehensive Income for the three ended March 31, 2013 and 2012, (iv) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012 and (v) Notes to Condensed Consolidated Financial Statements.