PLAINS ALL AMERICAN PIPELINE LP
Form 10-Q
November 08, 2016
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

Commission File Number: 1-14569

PLAINS ALL AMERICAN PIPELINE, L.P.
(Exact name of registrant as specified in its charter)

Delaware	76-0582150
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
333 Clay Street, Suite 1600, Houston, Texas	77002
(Address of principal executive offices)	(Zip Code)

(713) 646-4100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý Yes o 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
ý Yes o 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 ý Accelerated filer o

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

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

As of November 1, 2016, there were 412,962,773 Common Units outstanding.

Table of Contents

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES
TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except unit data)

	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$31	$27
Trade accounts receivable and other receivables, net	1,946	1,785
Inventory	1,258	916
Other current assets	538	241
Total current assets	3,773	2,969
PROPERTY AND EQUIPMENT	16,103	15,654
Accumulated depreciation	(2,292)	(2,180)
Property and equipment, net	13,811	13,474
OTHER ASSETS		
Goodwill	2,353	2,405
Investments in unconsolidated entities	2,216	2,027
Linefill and base gas	899	898
Long-term inventory	146	129
Other long-term assets, net	309	386
Total assets	$23,507	$22,288
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$2,280	$2,038
Short-term debt	1,384	999
Other current liabilities	413	370
Total current liabilities	4,077	3,407
LONG-TERM LIABILITIES		
Senior notes, net of unamortized discounts and debt issuance costs	9,130	9,698
Other long-term debt	504	677
Other long-term liabilities and deferred credits	722	567
Total long-term liabilities	10,356	10,942
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
PARTNERS' CAPITAL		
Series A preferred unitholders (63,126,331 units outstanding)	1,508	—

Common unitholders (408,107,646 and 397,727,624 units outstanding, respectively)	7,240	7,580
General partner	268	301
Total partners’ capital excluding noncontrolling interests	9,016	7,881
Noncontrolling interests	58	58
Total partners’ capital	9,074	7,939
Total liabilities and partners’ capital	$23,507	$22,288

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

Table of Contents

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per unit data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(unaudited)		(unaudited)	
REVENUES				
Supply and Logistics segment revenues	$4,876	$ 5,247	$13,344	$17,225
Transportation segment revenues	159	172	482	538
Facilities segment revenues	135	132	405	393
Total revenues	5,170	5,551	14,231	18,156

COSTS AND EXPENSES

- use cash that we may need in the future to operate our business;
- incur debt on terms unfavorable to us, that we are unable to repay, or that may place burdensome restrictions on our operations;
- incur large charges or substantial liabilities; or
- become subject to adverse tax consequences or substantial depreciation, deferred compensation, or other acquisition-related accounting charges.

Any of these risks could harm our business and operating results.

Integration of an acquired company's operations may present challenges.

The integration of an acquired company requires, among other things, coordination of administrative, sales and marketing, accounting and finance functions, and expansion of information and management systems. Integration may prove to be difficult due to the necessity of coordinating geographically separate organizations and integrating personnel with disparate business backgrounds and accustomed to different corporate cultures. We may not be able to retain key employees of an acquired company. Additionally, the process of integrating a new solution or service may require a disproportionate amount of time and attention of our management and financial and other resources. Any difficulties or problems encountered in the integration of a new solution or service could have a material adverse effect on our business.

We intend to continue to acquire businesses which we believe will help achieve our business objectives. As a result, our operating costs will likely continue to grow. The integration of an acquired company may cost more than we anticipate, and it is possible that we will incur significant additional unforeseen costs in connection with such integration, which may negatively impact our earnings.

In addition, we may only be able to conduct limited due diligence on an acquired company's operations. Following an acquisition, we may be subject to liabilities arising from an acquired company's past or present operations, including liabilities related to data security, encryption and privacy of customer data, and these liabilities may be greater than the warranty and indemnity limitations that we negotiate. Any liability that is greater than these warranty and indemnity limitations could have a negative impact on our financial condition.

Even if successfully integrated, there can be no assurance that our operating performance after an acquisition will be successful or will fulfill management's objectives.

We may be unsuccessful in managing or expanding our operations, which could adversely affect our business and operating results.

We have office locations throughout the United States and in various international locations, including the UK, Germany, the Netherlands, Canada and Switzerland. If we are unable to effectively manage a large and geographically dispersed group of employees or to anticipate our future growth and personnel needs, our business may be adversely affected. As we expand our business, we add complexity to our organization and must expand and adapt our operational infrastructure and effectively coordinate throughout our organization. As a result, we have incurred and expect to continue to incur additional expense related to our continued growth. Failure to manage any future growth effectively could result in increased costs, negatively impact our customers' satisfaction with our solutions, and harm our operating results.

Our ability to provide services to our customers depends on our customers' continued high-speed access to the internet and the continued reliability of the internet infrastructure.

Our business depends on our customers' continued high-speed access to the internet, as well as the continued maintenance and development of the internet infrastructure. The future delivery of our solutions will depend on third-party internet service providers to expand high-speed internet access, to maintain a reliable network with the necessary speed, data capacity and security, and to develop complementary solutions and services, including high-speed modems, for providing reliable and timely internet access and services. All of these factors are out of our control. To the extent that the internet continues to experience an increased number of users, frequency of use, or bandwidth requirements, the internet may become congested and be unable to support the demands placed on it, and its performance or reliability may decline. Any internet outages or delays could adversely affect our ability to provide services to our customers.

Currently, internet access is provided by telecommunications companies and internet access service providers that have significant and increasing market power in the broadband and internet access marketplace. On December 14, 2017, the Federal Communications Commission classified broadband internet access service as an unregulated information service and repealed the specific rules against blocking, throttling or "paid prioritization" of content or services. In the absence of government regulation, these providers could take measures that affect their customers' ability to use our products and services, such attempting to charge their customers more for using our products and services. To the extent that internet service providers implement usage-based pricing, including meaningful bandwidth caps, or otherwise try to monetize access to their networks, we could incur greater operating expenses and customer acquisition and retention could be negatively impacted. Furthermore, to the extent network operators were to create tiers of internet access service and either charge us for or prohibit our services from being available to our customers through these tiers, our business could be negatively impacted. Some of these providers also offer products and services that directly compete with our own offerings, which could potentially give them a competitive advantage.

If we are unable to retain our existing customers, our business, financial condition and operating results would be adversely affected.

If our efforts to satisfy our existing customers are not successful, we may not be able to retain them, and as a result, our revenue and ability to grow would be adversely affected. We may not be able to accurately predict future trends in customer renewals. Customers choose not to renew their subscriptions for many reasons, including if customer service issues are not satisfactorily resolved, a desire to reduce discretionary spending, or a perception that they do not use the service sufficiently, that the solution is a poor value, or that competitive services provide a better value or experience. If our retention rate decreases, we may need to increase the rate at which we add new customers in order to maintain and grow our revenue, which may require us to incur significantly higher advertising and marketing expenses than we currently anticipate, or our revenue may decline. A significant decrease in our retention rate would therefore have an adverse effect on our business, financial condition, and operating results.

Our relationships with our partners and distributors may be terminated or may not continue to be beneficial in generating new customers, which could adversely affect our ability to increase our customer base.

We maintain a network of active partners and distributors, which refer customers to us through links on their websites or outbound promotion to their customers. The number of customers that we are able to add through these relationships is dependent on the marketing efforts of our partners and distributors, over which we have little control. If we are unable to maintain our relationships, or renew contracts on favorable terms, with existing partners and distributors or establish new contractual relationships with potential partners and distributors, we may experience delays and increased costs in adding customers, which could have a material adverse effect on us.

If we are unable to expand our base of small and medium business customers, our future growth and operating results could be adversely affected.

We have committed and continue to commit substantial resources to the expansion and increased marketing of our small and medium business solutions. If we are unable to market and sell our solutions to small and medium businesses with competitive pricing and in a cost-effective manner, our ability to grow our revenue and achieve profitability may be harmed. We believe that it is more difficult and expensive to attract and retain small and medium business customers than individual consumers, because small and medium businesses:

- may require more expensive, targeted sales campaigns;
- may have different or much more complex needs than those of individual consumers, such as archiving, version control, enhanced security requirements, and other forms of encryption and authentication, which our solutions may not adequately address; and
- may cease operations due to the sale or failure of their business.

In addition, small and medium businesses frequently have limited budgets and are more likely to be significantly affected by economic downturns than larger, more established companies. As a result, they may choose to spend funds on items other than our solutions, particularly during difficult economic times. If we are unsuccessful in meeting the needs of potential small and medium business customers, it could adversely affect our future growth and operating results.

Table of Contents

If we are unable to sustain market recognition of and loyalty to our brand, or if our reputation were to be harmed, we could lose customers or fail to increase the number of our customers, which could harm our business, financial condition and operating results.

Given our small and medium business and individual consumer market focus, maintaining and enhancing the Carbonite brand is critical to our success. We believe that the importance of brand recognition and loyalty will increase in light of increasing competition in our markets. We plan to continue investing substantial resources to promote our brand, both domestically and internationally, but there is no guarantee that our brand development strategies will enhance the recognition of our brand. Some of our existing and potential competitors have well-established brands with greater recognition than we have. If our efforts to promote and maintain our brand are not successful, our operating results and our ability to attract and retain customers may be adversely affected. In addition, even if our brand recognition and loyalty increases, this may not result in increased use of our solutions or higher revenue.

Our solutions, as well as those of our competitors, are regularly reviewed in computer and business publications. Negative reviews, or reviews in which our competitors' solutions and services are rated more highly than our solutions, could negatively affect our brand and reputation. From time-to-time, our customers express dissatisfaction with our solutions, including, among other things, dissatisfaction with our customer support, our billing policies, and the way our solutions operate. If we do not handle customer complaints effectively, our brand and reputation may suffer, we may lose our customers' confidence, and they may choose not to renew their subscriptions. In addition, many of our customers participate in online blogs about computers and internet services, including our solutions, and our success depends in part on our ability to generate positive customer feedback through such online channels where consumers seek and share information. If actions that we take or changes that we make to our solutions upset these customers, their blogging could negatively affect our brand and reputation. Complaints or negative publicity about our solutions or billing practices could adversely impact our ability to attract and retain customers and our business, financial condition, and operating results.

The termination of our relationship with any major credit card company would have a severe, negative impact on our ability to collect revenue from customers. Increases in credit card processing fees would increase our operating expenses and adversely affect our operating results.

The majority of our customers purchase our solutions online with credit cards, and our business depends upon our ability to offer credit card payment options. The termination of our ability to process payments on any major credit card would significantly impair our ability to operate our business and significantly increase our administrative costs related to customer payment processing. If we fail to maintain our compliance with the applicable data protection and documentation standards adopted by the major credit card issuers, these issuers could terminate their agreements with us, and we could lose our ability to offer our customers a credit card payment option. If these issuers increase their credit card processing fees because we experience excessive chargebacks or refunds or for other reasons, it could adversely affect our business and operating results.

Any significant disruption in service on our websites, in our computer systems, or caused by our third party storage and system providers could damage our reputation and result in a loss of customers, which would harm our business, financial condition, and operating results.

Our brand, reputation, and ability to attract, retain and serve our customers are dependent upon the reliable performance of our websites, network infrastructure and payment systems, and our customers' ability to readily access their stored files. We have experienced interruptions in these systems in the past, including server failures that temporarily slowed down our websites' performance and our customers' ability to access their stored files, or made our websites and infrastructure inaccessible, and we may experience interruptions in the future.

In addition, while we operate and maintain elements of our websites and network infrastructure, some elements of this complex system are operated by third parties that we do not control and that would require significant time to replace. We expect this dependence on third parties to increase. In particular, we utilize Amazon Web Services and Google Cloud Storage to provide computing and storage capacity pursuant to agreements that continue until terminated upon written notice by either party. All of these third-party systems are located in data center facilities operated by third parties. Our data center leases expire at various times in 2018 and 2023 with rights of extension. If we are unable to renew these agreements on commercially reasonable terms, we may be required to transfer that portion of our computing and storage capacity to new data center facilities, and we may incur significant costs and possible service interruption in connection with doing so.

We also rely upon third party colocation providers to host our main servers. If these providers are unable to handle current or higher volumes of use, experience any interruption in operations or cease operations for any reason or if we are unable to agree on satisfactory terms for continued hosting relationships, we would be forced to enter into a relationship with other service providers or assume hosting responsibilities ourselves. If we are forced to switch data center facilities, we may not be successful in finding an alternative service provider on acceptable terms or in hosting the computer servers ourselves. We may also be limited in our remedies against these providers in the event of a failure of service.

Interruptions in our own systems, the third-party systems and facilities on which we rely, or the use of our data center facilities, whether due to system failures, computer viruses, physical or electronic break-ins, damage or interruption from human error, power losses, natural disasters or terrorist attacks, hardware failures, systems failures, telecommunications failures or other factors, could affect the security or availability of our websites and infrastructure, prevent us from being able to continuously back up our customers' data or our customers from accessing their stored data, and may damage our customers' stored files. Any financial difficulties, such as bankruptcy, faced by our third-party data center operators, our third-party colocation providers or any of the service providers with whom we or they contract may have negative effects on our business, the nature and extent of which are difficult to predict. Moreover, if our third-party data center providers or our third-party colocation providers are unable to keep up with our growing needs for capacity, this could have an adverse effect on our business. Interruptions in our services might reduce our revenue, cause us to issue credits or refunds to customers, subject us to potential liability, or harm our renewal rates.

In addition, prolonged delays or unforeseen difficulties in connection with adding storage capacity or upgrading our network architecture when required may cause our service quality to suffer. Problems with the reliability or security of our systems could harm our reputation. Damage to our reputation and the cost of remedying these problems could negatively affect our business, financial condition, and operating results.

Our proprietary systems provide redundancy at the disk level, and geospatially for vault based storage, to protect copies of stored customer files. We rely on the fact that our customers maintain the primary instance of their files. We only offer higher redundancy backup sites for our vault based solutions. As such, a total failure of our systems, or the failure of any of our systems, could result in the loss of or a temporary inability to back up our customers' data and result in our customers being unable to access their stored files. If one of our data centers fails at the same time that our customers' computers fail, we would be unable to provide stored copies of their data. If this were to occur, our reputation could be compromised and we could be subject to liability to the customers that were affected.

If the security of our customers' confidential information stored in our systems is breached or their stored files are otherwise subjected to unauthorized access, our reputation and business may be harmed, and we may be exposed to liability.

Our customers rely on our solutions to store digital copies of their files, including financial records, business information, photos, and other personally meaningful content. We also store credit card information and other personal information about our customers. An actual or perceived breach of our network security and systems or other events that cause the loss or public disclosure of, or access by third parties to, our customers' stored files could have serious negative consequences for our business, including possible fines, penalties and damages, reduced demand for our solutions, an unwillingness of customers to provide us with their credit card or payment information, an unwillingness of our customers to use our solutions, harm to our reputation and brand, loss of our ability to accept and process customer credit card orders, and time-consuming and expensive litigation. If this occurs, our business and operating results could be adversely affected. Third parties may be able to circumvent our security by deploying viruses, worms, and other malicious software programs that are designed to attack or attempt to infiltrate our systems and networks and we may not immediately discover these attacks or attempted infiltrations. Further, outside parties may attempt to fraudulently induce our employees, consultants, or affiliates to disclose sensitive information in order to gain access to our information or our customers' information. The techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, often are not recognized until launched against a target, and may originate from less regulated or remote areas around the world. As a result, we may be unable to proactively address these techniques or to implement adequate preventative or reactionary measures. In addition, employee or consultant error, malfeasance, or other errors in the storage, use, or transmission of personal information could result in a breach of customer or employee privacy. We maintain insurance coverage to mitigate the potential financial impact of these risks; however, our insurance may not cover all such events or may be insufficient to compensate us for the potentially significant losses, including the potential damage to the future growth of our business, that may result from the breach of customer or employee privacy.

Many states have enacted laws requiring companies to notify consumers of data security breaches involving their personal data. These mandatory disclosures regarding a security breach often lead to widespread negative publicity, which may cause our customers to lose confidence in the effectiveness of our data security measures. Any security breach, whether successful or not, would harm our reputation and could cause the loss of customers. Similarly, if a well-publicized breach of data security at any other cloud backup service provider or other major consumer website were to occur, there could be a general public loss of confidence in the use of the internet for cloud backup services or commercial transactions generally. Any of these events could have material adverse effects on our business, financial condition, and operating results.

Table of Contents

Security vulnerabilities, data protection breaches and cyber-attacks could disrupt our data protection platform and solutions, and any such disruption could increase our expenses, damage our reputation, harm our business and adversely affect our stock price.

We rely on third-party providers for a number of critical aspects of our cloud services and consequently we do not maintain direct control over the security or stability of the associated systems. Furthermore, the firmware, software and/or open source software that our data protection solutions utilize may be susceptible to hacking or misuse. If malicious actors compromise our solutions or if customer confidential information is hacked or otherwise accessed without authorization, our business will be harmed. In the event of the discovery of a significant security vulnerability, we would incur additional substantial expenses and our business would be harmed. If we or our third-party providers are unable to successfully prevent breaches of security relating to our solutions or customer private information, it could result in litigation and potential liability for us, damage our brand and reputation, or otherwise harm our business and our stock price.

We are subject to governmental regulation and other legal obligations related to privacy, and our actual or perceived failure to comply with such obligations could harm our business.

We receive, store, and process personal information and other customer data. Personal privacy has become a significant issue in the United States and in many other countries where we offer our solutions. The regulatory framework for privacy issues worldwide is currently complex and evolving, and it is likely to remain uncertain for the foreseeable future. There are numerous federal, state, local, and foreign laws regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other customer data, the scope of which are changing, subject to differing interpretations, and may be inconsistent among countries or conflict with other rules. We generally seek to comply with industry standards and are subject to the terms of our privacy policies and privacy-related obligations to third parties. We strive to comply with all applicable laws, policies, legal obligations, and industry codes of conduct relating to privacy and data protection to the extent possible. However, it is possible that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to customers or other third parties, our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other customer data, may result in governmental enforcement actions, litigation, or public statements against us by consumer advocacy groups or others and could cause our customers to lose trust in us, which could have an adverse effect on our reputation and business. Our customers may also accidentally disclose their passwords or store them on a mobile device that is lost or stolen, creating the perception that our systems are not secure against third-party access. Additionally, if third parties that we work with, such as vendors or developers, violate applicable laws or our policies, such violations may also put our customers’ information at risk and could in turn have an adverse effect on our business. Any significant change to applicable laws, regulations, or industry practices regarding the use or disclosure of our customers’ data, or regarding the manner in which the express or implied consent of customers for the use and disclosure of such data is obtained, could require us to modify our solutions and features, possibly in a material manner, and may limit our ability to develop new services and features that make use of the data that our customers voluntarily share with us.

Our solutions are used by customers in the health care industry and we must comply with numerous federal and state laws related to patient privacy in connection with providing our solutions to these customers.

Our solutions are used by customers in the health care industry and we must comply with numerous federal and state laws related to patient privacy in connection with providing our solutions to these customers. In particular, the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and the Health Information Technology for Economic and Clinical Health Act, or HITECH, include privacy standards that protect individual privacy by limiting the uses and disclosures of individually identifiable health information and implementing data security standards. Because our solutions may backup individually identifiable health information for our customers, our customers are mandated by HIPAA to enter into written agreements with us known as business associate agreements that require us to safeguard individually identifiable health information. Business associate agreements typically include:

- a description of our permitted uses of individually identifiable health information;

- a covenant not to disclose that information except as permitted under the agreement and to make our subcontractors, if any, subject to the same restrictions;
- assurances that appropriate administrative, physical, and technical safeguards are in place to prevent misuse of that information;
- an obligation to report to our customers any use or disclosure of that information other than as provided for in the agreement;

Table of Contents

- a prohibition against our use or disclosure of that information if a similar use or disclosure by our customers would violate the HIPAA standards;
- the ability of our customers to terminate their subscription to our solution if we breach a material term of the business associate agreement and are unable to cure the breach;
- the requirement to return or destroy all individually identifiable health information at the end of the customer's subscription; and
- access by the Department of Health and Human Services to our internal practices, books, and records to validate that we are safeguarding individually identifiable health information.

We may not be able to adequately address the business risks created by HIPAA or HITECH implementation or comply with our obligations under our business associate agreements. Furthermore, we are unable to predict what changes to HIPAA, HITECH or other laws or regulations might be made in the future or how those changes could affect our business or the costs of compliance. Failure by us to comply with any of the federal and state standards regarding patient privacy may subject us to penalties, including civil monetary penalties and, in some circumstances, criminal penalties, which could have an adverse effect on our business, financial condition, and operating results.

Our solutions operate in a wide variety of environments, systems, applications and configurations, which could result in errors or solution failures.

Because we offer solutions that solve a complex business need, undetected errors, failures, or bugs may occur, especially when solutions are first introduced or when new versions are released. Our solutions are often installed and used in large-scale computing environments with different operating systems, system management software, and equipment and networking configurations, which may cause errors or failures in our solutions or may expose undetected errors, failures, or bugs in our solutions. Our customers' computing environments are often characterized by a wide variety of standard and non-standard configurations that make pre-release testing for programming or compatibility errors very difficult and time-consuming. In addition, despite testing by us and others, errors, failures, or bugs may not be found in new solutions or releases until after distribution. In the past, we have discovered software errors, failures, and bugs in certain of our solution offerings after their introduction and, in some cases, have experienced delayed or lost revenues as a result of these errors.

Errors, failures, or bugs in solutions released by us could result in negative publicity, damage to our brand, returns, loss of or delay in market acceptance of our solutions, loss of competitive position, or claims by customers or others. Many of our end-user customers use our solutions in applications that are critical to their businesses and may have a greater sensitivity to defects in our solutions than to defects in other, less critical, software solutions. In addition, if an actual or perceived breach of information integrity or availability occurs in one of our end-user customer's systems, regardless of whether the breach is attributable to our solutions, the market perception of the effectiveness of our solutions could be harmed. Alleviating any of these problems could require significant expenditures of our capital and other resources and could cause interruptions, delays, or cessation of our solution licensing, which could cause us to lose existing or potential customers and could adversely affect our operating results.

If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, our ability to operate our business, and our investors views of us.

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be evaluated frequently. As part of our process of documenting and testing our internal control over financial reporting, we may identify areas for further attention and improvement. In addition, acquisitions of businesses and assets require substantial work related to the integration into our internal controls. Implementing any appropriate changes to our internal controls, or work required to integrate newly acquired businesses or assets into our internal controls, may distract our officers and employees, entail substantial costs to modify our existing processes, and take significant time to complete. These changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and harm our business. In addition, investors' perceptions that our internal controls are inadequate or that we are unable to produce accurate financial statements on a timely basis may harm our stock price and make it more difficult for us to effectively market and sell our solutions to new and existing customers.

Table of Contents

If our estimates or judgments relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our operating results could fall below expectations of securities analysts and investors, resulting in a decline in our stock price.

The preparation of financial statements in conformity with generally accepted accounting principles in the U.S. ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, stock-based compensation, valuation of inventory and accounting for income taxes. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in our stock price.

Growth may place significant demands on our management and our infrastructure.

We continue to experience substantial growth in our business. This growth has placed and may continue to place significant demands on our management and our operational and financial infrastructure. As our operations grow in size, scope, and complexity, we will need to improve and upgrade our systems and infrastructure to attract, service and retain an increasing number of customers. The expansion of our systems and infrastructure will require us to commit substantial financial, operational, and technical resources in advance of an increase in the volume of business, with no assurance that the volume of business will increase. Any such additional capital investments will increase our cost base. Continued growth could also strain our ability to maintain reliable service levels for our customers, develop and improve our operational, financial, and management controls, enhance our reporting systems and procedures, and recruit, train, and retain highly skilled personnel. If we fail to achieve the necessary level of efficiency in our organization as we grow, our business, financial condition, and operating results could be harmed.

The loss of one or more of our key personnel, or our failure to attract, integrate, and retain other highly qualified personnel, could harm our business and growth prospects.

We depend on the continued service and performance of our key personnel. We do not have long-term employment agreements with any of our officers or key employees. In addition, many of our key technologies and systems are custom-made for our business by our personnel. The loss of key personnel, including key members of our management team, as well as certain of our key marketing, sales, products development, or technology personnel, could disrupt our operations and have an adverse effect on our ability to grow our business. In addition, several of our key personnel have only recently been employed by us, and we are still in the process of integrating these personnel into our operations. Our failure to successfully integrate these key employees into our business could adversely affect our business.

To execute our growth plan, we must attract and retain highly qualified personnel. Competition for these employees is intense, and we may not be successful in attracting and retaining qualified personnel. We have from time to time in the past experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. New hires require significant training and, in most cases, take significant time before they achieve full productivity. Our recent hires and planned hires may not become as productive as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals. Many of the companies with which we compete for experienced personnel have greater resources than we have. In addition, in making employment decisions, particularly in the internet and high-technology industries, job candidates often consider the value of the equity that they are to receive in connection with their employment. In addition, employees may be more likely to voluntarily exit the Company if the shares underlying their vested and unvested options, as well as unvested restricted stock units, have significantly depreciated in value resulting in the options they are holding being significantly above the market price of our common stock and the value of the restricted stock units decreasing. If we fail to attract new personnel, or fail to retain and motivate our current personnel, our business and growth prospects could be severely harmed.

Our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovation, creativity and teamwork fostered by our culture, and our business may be harmed.

We believe that our corporate culture has been a key contributor to our success. If we do not continue to develop our corporate culture as we grow and evolve, including maintaining our culture of transparency with our employees, it could harm our ability to foster the innovation, creativity, and teamwork that we believe that we need to support our growth. As our organization grows and we are required to implement more complex organizational structures, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture, which could negatively impact our future success. In addition, the availability of a public market for our securities could create disparities of wealth among our employees, which could adversely impact relations among employees and our corporate culture in general.

Unanticipated changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our operating results and financial condition.

We are subject to income taxes in the United States and various foreign jurisdictions, and our domestic and international tax liabilities will be subject to the allocation of expenses in differing jurisdictions. Our future effective tax rates could be subject to volatility or adversely affected by a number of factors, including:

- changes in the valuation of our deferred tax assets and liabilities;
- expected timing and amount of the release of tax valuation allowances;
- expiration of, or detrimental changes in, research and development tax credit laws;
- tax effects of stock-based compensation;
- costs related to intercompany restructurings;
- changes in tax laws, regulations, accounting principles or interpretations thereof; or
- future earnings being lower than anticipated in countries where we have lower statutory tax rates and higher than anticipated earnings in countries where we have higher statutory tax rates.

In addition, we may be subject to audits of our income and sales taxes by the Internal Revenue Service and other foreign and state tax authorities. Outcomes from these audits could have an adverse effect on our operating results and financial condition.

Our ability to use net operating losses to offset future taxable income may be subject to certain limitations.

As of December 31, 2017, we had federal, state, and foreign net operating loss carryforwards, or NOLs, of $107.9 million, $72.7 million, and $6.1 million, respectively, available to offset future taxable income, which expire in various years through 2037 if not utilized. A lack of future taxable income would adversely affect our ability to utilize these NOLs before they expire. Under the provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, substantial changes in our ownership may limit the amount of pre-change NOLs that can be utilized annually in the future to offset taxable income. Section 382 of the Internal Revenue Code, or Section 382, imposes limitations on a company's ability to use NOLs if a company experiences a more-than-50-percent ownership change over a three-year testing period. Based upon our analysis as of December 31, 2017, there was no ownership change experienced during 2017. If changes in our ownership occur in the future, our ability to use NOLs may be further limited. For these reasons, we may not be able to utilize a material portion of the NOLs, even if we achieve profitability. If we are limited in our ability to use our NOLs in future years in which we have taxable income, we will pay more taxes than if we were able to fully utilize our NOLs. This could adversely affect our operating results and the market price of our common stock.

Changes in U.S. tax laws could have a material adverse effect on our business, cash flow, results of operations or financial conditions.

The Tax Cuts and Jobs Act, which has been passed by the U.S. Congress and signed by the President, contains many significant changes to the U.S. federal income tax laws, the consequences of which have not yet been determined. Changes in corporate tax rates, the realizability of the net deferred tax assets relating to our U.S. operations, the taxation of foreign earnings, and the deductibility of expenses contained in the Tax Cuts and Jobs Act or other tax reform legislation could have a material impact on the value of our deferred tax assets, could result in significant one-time charges in the current or future taxable years, and could increase our future U.S. tax expense. Furthermore, changes to the taxation of undistributed foreign earnings could change our future intentions regarding reinvestment of such earnings. The foregoing items could have a material adverse effect on our business, cash flow, results of operations or financial conditions.

We face many risks associated with our plans to expand internationally, which could harm our business, financial condition, and operating results.

We anticipate that our efforts to expand internationally will entail the marketing and advertising of our services and brand and the development of localized websites. We do not have substantial experience in selling our solutions in international markets or in conforming to the local cultures, standards, or policies necessary to successfully compete in those markets, and we must invest significant resources in order to do so. We may not succeed in these efforts or achieve our customer acquisition

Table of Contents

or other goals. For some international markets, customer preferences and buying behaviors may be different, and we may use business or pricing models that are different from our traditional subscription model to provide cloud backup and related services to customers. Our revenue from new foreign markets may not exceed the costs of establishing, marketing, and maintaining our international solutions, and therefore may not be profitable on a sustained basis, if at all.

In addition, conducting international operations subjects us to new risks that we have not generally faced in the U.S. These risks include:

- localization of our solutions, including translation into foreign languages and adaptation for local practices and regulatory requirements;
- lack of experience in other geographic markets;
- strong local competitors;
- cost and burden of complying with, lack of familiarity with, and unexpected changes in foreign legal and regulatory requirements, including consumer and data privacy laws;
- difficulties in managing and staffing international operations;
- potentially adverse tax consequences, including the complexities of transfer pricing, foreign value added or other tax systems, double taxation and restrictions, and/or taxes on the repatriation of earnings;
- dependence on third parties, including channel partners with whom we do not have extensive experience;
- compliance with the Foreign Corrupt Practices Act, economic sanction laws and regulations, export controls, and other U.S. laws and regulations regarding international business operations;
- increased financial accounting and reporting burdens and complexities;
- political, social, and economic instability abroad, terrorist attacks, and security concerns in general; and
- reduced or varied protection for intellectual property rights in some countries.

Operating in international markets also requires significant management attention and financial resources. The investment and additional resources required to establish operations and manage growth in other countries may not produce desired levels of revenue or profitability.

Our software contains encryption technologies, certain types of which are subject to U.S. and foreign export control regulations and, in some foreign countries, restrictions on importation and/or use. Any failure on our part to comply with encryption or other applicable export control requirements could result in financial penalties or other sanctions under the U.S. export regulations, including restrictions on future export activities, which could harm our business and operating results. Regulatory restrictions could impair our access to technologies that we seek for improving our solutions and may also limit or reduce the demand for our solutions outside of the U.S.

We are subject to the effects of fluctuations in foreign exchange rates, which could affect our operating results.

Our foreign operations are reported in the relevant local currency and are then translated into U.S. dollars at the applicable currency exchange rate for inclusion in our consolidated U.S. dollar financial statements. Also, although a large portion of our agreements are denominated in U.S. dollars, we may be exposed to fluctuations in foreign exchange rates with respect to customer agreements with certain of our international customers. Exchange rates between these currencies and U.S. dollars in recent years have fluctuated significantly and may do so in the future. In addition to currency translation risk, we incur currency transaction risk we enter into a transaction using a different currency than the relevant local currency. Given the volatility of exchange rates, we may be unable to manage our currency transaction risks effectively. Currency fluctuations could have a material adverse effect on our future international sales and, consequently, on our financial condition and results of operations.

Risks Related to Intellectual Property

Assertions by a third party that our solutions infringe its intellectual property, whether or not correct, could subject us to costly and time-consuming litigation or expensive licenses.

There is frequent litigation in the software and technology industries based on allegations of infringement or other violations of intellectual property rights. Any such claims or litigation may be time-consuming and costly, divert management

Table of Contents

resources, require us to change our services, require us to credit or refund subscription fees, or have other adverse effects on our business. Many companies are devoting significant resources to obtaining patents that could affect many aspects of our business. Third parties may claim that our technologies or solutions infringe or otherwise violate their patents or other intellectual property rights.

If we are forced to defend ourselves against intellectual property infringement claims, whether they have merit or are determined in our favor, we may face costly litigation, diversion of technical and management personnel, limitations on our ability to use our current websites and technologies, and an inability to market or provide our solutions. As a result of any such claim, we may have to develop or acquire non-infringing technologies, pay damages, enter into royalty or licensing agreements, cease providing certain services, adjust our marketing and advertising activities, or take other actions to resolve the claims. These actions, if required, may be costly or unavailable on terms acceptable to us, or at all.

Furthermore, we have licensed proprietary technologies from third parties that we use in our technologies and business, and we cannot be certain that the owners' rights in their technologies will not be challenged, invalidated, or circumvented. In addition to the general risks described above associated with intellectual property and other proprietary rights, we are subject to the additional risk that the seller of such technologies may not have appropriately created, maintained, or enforced their rights in such technology.

Our success depends in large part on our ability to protect and enforce our intellectual property rights. If we are not able to adequately protect our intellectual property and proprietary technologies to prevent use or appropriation by our competitors, the value of our brand and other intangible assets may be diminished, and our business may be adversely affected.

Our future success and competitive position depend in large part on our ability to protect our intellectual property and proprietary technologies. We rely on a combination of trademark, patent, copyright, and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection and may not now or in the future provide us with a competitive advantage. Carbonite, the Carbonite Logo, MAILSTORE, DOUBLETAKE and EVAULT as well as other marks, are registered trademarks of Carbonite, Inc. in numerous countries throughout the world. The Carbonite trademark is subject to registrations covering over 40 countries. Carbonite also has additional registrations and pending applications for additional marks in the U.S. and other countries. We cannot assure you that any future trademark registrations will be issued for pending or future applications or that any registered trademarks will be enforceable or provide adequate protection of our proprietary rights. We currently have 67 issued patents and pending applications worldwide. We cannot assure you that any patents will issue from any such patent applications, that patents that issue from such applications will give us the protection that we seek, or that any such patents will not be challenged, invalidated, or circumvented. Any patents that may issue in the future from our pending or future patent applications may not provide sufficiently broad protection and may not be enforceable in actions against alleged infringers. To counter infringement or unauthorized use, we may be required to file patent infringement claims, which can be expensive and time-consuming to litigate. In addition, in an infringement proceeding, a court may decide that a patent of ours is not valid or is unenforceable, or may refuse to stop others from using the technology at issue on the grounds that our patent(s) do not cover such technology. An adverse determination of any litigation or defense proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly and could put our patent applications at risk of not being issued.

There can be no assurance that the steps that we take will be adequate to protect our technologies and intellectual property, that our trademark and patent applications will lead to registered trademarks or issued patents, that others will not develop or patent similar or superior technologies, solutions, or services, or that our trademarks, patents, and other intellectual property will not be challenged, invalidated, or circumvented by others. Furthermore, effective trademark, patent, copyright, and trade secret protection may not be available in every country in which our services are available or where we have employees or independent contractors. In addition, the legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights in internet-related industries are uncertain and still evolving. If our efforts to protect our technologies and intellectual property are inadequate, the value of our brand and other intangible assets may be diminished and competitors may be able to mimic our solutions and methods of operations. Any of these events could have a material adverse effect on our business, financial condition, and operating results.

Confidentiality agreements with employees and others may not adequately prevent disclosure of our trade secrets and proprietary information. Failure to protect our proprietary information could make it easier for third parties to compete with our solutions and harm our business.

We have devoted substantial resources to the development of our proprietary technologies and related processes. In order to protect our proprietary technologies and processes, we rely in part on trade secret laws and confidentiality agreements with our employees, licensees, independent contractors, and other advisors. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential

Table of Contents

information. In addition, others may independently discover our trade secrets, in which case we would not be able to assert trade secret rights, or develop similar technologies and processes. Further, laws in certain jurisdictions may afford little or no trade secret protection, and any changes in, or unexpected interpretations of, the intellectual property laws in any country in which we operate may compromise our ability to enforce our intellectual property rights. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure or inability to obtain or maintain trade secret protection or otherwise protect our proprietary rights could adversely affect our business.

Our use of “open source” software could negatively affect our ability to sell our solutions and subject us to possible litigation.

A portion of the technologies licensed by us to our customers incorporates so-called “open source” software, and we may incorporate open source software in the future. Such open source software is generally licensed by its authors or other third parties under open source licenses. These licenses may subject us to certain unfavorable conditions, including requirements that we offer our solutions that incorporate the open source software for no cost, that we make publicly available source code for modifications or derivative works we create based upon, incorporating, or using the open source software, and/or that we license such modifications or derivative works under the terms of the particular open source license. Additionally, if a third-party software provider has incorporated open source software into software that we license from such provider, we could be required to disclose any of our source code that incorporates or is a modification of such licensed software. If an author or other third party that distributes open source software that we use or license were to allege that we had not complied with the conditions of the applicable license, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, enjoined from the sale of our solutions that contained the open source software, and required to comply with the foregoing conditions. Any of the foregoing could disrupt the distribution and sale of our solutions and harm our business.

We rely on third-party software to develop and provide our solutions, including server software and licenses from third parties to use patented intellectual property.

We rely on software licensed from third parties to develop and offer our solutions. In addition, we may need to obtain future licenses from third parties to use intellectual property associated with the development of our solutions, which might not be available to us on acceptable terms, or at all. Any loss of the right to use any software required for the development and maintenance of our solutions could result in delays in the provision of our solutions until equivalent technology is either developed by us, or, if available from others, is identified, obtained, and integrated, which delay could harm our business. Any errors or defects in third-party software could result in errors or a failure of our solutions, which could harm our business.

If we are unable to protect our domain names, our reputation, brand, customer base, and revenue, as well as our business and operating results, could be adversely affected.

We have registered domain names for websites, or URLs, that we use in our business, such as www.carbonite.com. If we are unable to maintain our rights in these domain names, our competitors or other third parties could capitalize on our brand recognition by using these domain names for their own benefit. In addition, although we own the Carbonite domain name under various global top level domains such as .com and .net, as well as under various country-specific domains, we might not be able to, or may choose not to, acquire or maintain other country-specific versions of the Carbonite domain name or other potentially similar URLs. Domain names similar to ours have already been registered in the U.S. and elsewhere, and our competitors or other third parties could capitalize on our brand recognition by using domain names similar to ours. The regulation of domain names in the U.S. and elsewhere is generally conducted by internet regulatory bodies and is subject to change. If we lose the ability to use a domain name in a particular country, we may be forced to either incur significant additional expenses to market our solutions within that country, including the development of a new brand and the creation of new promotional materials, or elect not to sell our solutions in that country. Either result could substantially harm our business and operating results. Regulatory bodies could establish additional top-level domains, appoint additional domain name registrars, or modify the requirements for holding domain names. As a result, we may not be able to acquire or maintain the domain names that utilize the name Carbonite in all of the countries in which we currently conduct or intend to conduct business. Further, the relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights varies among jurisdictions and is unclear in some jurisdictions. We may be unable to prevent third parties from acquiring and using domain names that infringe, are similar to, or otherwise decrease the value of, our brand or our trademarks. Protecting and enforcing our rights in our domain names and determining the rights of others may require litigation, which could result in substantial costs, divert management attention, and not be decided favorably to us.

Table of Contents

Material defects or errors in our software could harm our reputation, result in significant costs to us, and impair our ability to sell our solutions.

The software applications underlying our solutions are inherently complex and may contain material defects or errors, particularly when first introduced or when new versions or enhancements are released. We have from time to time found defects or errors in our solutions, and new defects or errors in our existing solutions may be detected in the future by us or our customers. The costs incurred in correcting such defects or errors may be substantial and could harm our operating results. In addition, we rely on hardware purchased or leased and software licensed from third parties to offer our solutions. Any defects in, or unavailability of, our or third-party software or hardware that cause interruptions to the availability of our solutions could, among other things:

- cause a reduction in revenue or delay in market acceptance of our solutions;
- require us to issue credits or refunds to our customers or expose us to claims for damages;
- cause us to lose existing customers and make it more difficult to attract new customers;
- divert our development resources or require us to make extensive changes to our solutions or software, which would increase our expenses;
- increase our technical support costs; and
- harm our reputation and brand.

Risks Related to Ownership of our Common Stock

Our stock price may be volatile due to fluctuations in our operating results and other factors, each of which could cause our stock price to decline and you may be unable to sell your shares at or above the price at which you purchased your stock.

Shares of our common stock were sold in our initial public offering in August 2011 at a price of $10.00 per share, and our common stock has subsequently traded as high as $27.00 and as low as $5.75. The market price for shares of our common stock could be subject to significant fluctuations in response to various factors, most of which are beyond our control. Some of the factors that may cause the market price for shares of our common stock to fluctuate include:

- price and volume fluctuations in the overall stock market from time to time;
- fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- actual or anticipated fluctuations in our key operating metrics, financial condition, and operating results;
- loss of existing customers or inability to attract new customers;
- actual or anticipated changes in our growth rate;
- announcements of technological innovations or new offerings by us or our competitors;
- our announcement of actual results for a fiscal period that are lower than projected or expected or our announcement of revenue or earnings guidance that is lower than expected;
- changes in estimates of our financial results or recommendations by securities analysts;
- failure of any of our solutions to achieve or maintain market acceptance;
- changes in market valuations of similar companies;
- success of competitive solutions or services;
- changes in our capital structure, such as future issuances of securities or the incurrence of debt;
- announcements by us or our competitors of significant solutions or services, contracts, acquisitions, or strategic alliances;
- regulatory developments in the U.S. or foreign countries;

Table of Contents

- actual or threatened litigation involving us or our industry;
- additions or departures of key personnel;
- general perception of the future of the cloud backup market or our solutions;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- sales of our shares of common stock by our existing stockholders;
- changes in general economic, industry, and market conditions; and
- major changes in our Board of Directors or management or departures of key personnel.

In addition, the stock market in general, and the market for internet-related companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. Such litigation, if instituted against us, could result in very substantial costs, divert our management's attention and resources, and harm our business, financial condition, and operating results. In addition, recent fluctuations in the financial and capital markets have resulted in volatility in securities prices.

Our failure to raise additional capital or generate the cash flows necessary to expand our operations and invest in our business could reduce our ability to compete successfully and depress the market price of our common stock.

Although we currently anticipate that our available funds will be sufficient to meet our cash needs for the next 12 months, we may require additional financing in the future. Our ability to obtain financing will depend, among other things, on our development efforts, business plans, operating performance and condition of the capital markets at the time we seek financing. If we need to raise additional funds, we may not be able to obtain debt or equity financing on favorable terms, if at all. If we raise additional equity financing, our stockholders may experience significant dilution of their ownership interests, and the per share value of our common stock could decline. If we engage in debt financing, we may be required to accept terms that restrict our ability to incur additional indebtedness and force us to maintain specified liquidity or other ratios. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

- develop or enhance our solutions;
- continue to expand our development, sales, and marketing organizations;
- acquire complementary technologies, solutions, or businesses;
- expand our operations in the U.S. or internationally;
- hire, train, and retain employees;
- respond to competitive pressures or unanticipated working capital requirements; or
- continue our operations.

Future sales of shares of our common stock by existing stockholders could depress the market price of our common stock.

If our existing stockholders sell, or indicate an intent to sell, a substantial number of shares of our common stock in the public market, the trading price of our common stock could decline significantly.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have never declared or paid any cash dividends on our common stock and do not intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth and continuing operations. Therefore, you are not likely to receive any dividends on your shares of common stock for the foreseeable future and the success of an investment in shares of our common stock will depend upon any future appreciation in their value. Our common stock may not appreciate in value or even maintain the price at which our stockholders have purchased their shares.

Table of Contents

We cannot guarantee that we will repurchase our common stock pursuant to our stock repurchase program or that our stock repurchase program will enhance long-term stockholder value. Stock repurchases could also increase the volatility of the price of our common stock and could diminish our cash reserves.

Our board of directors has previously authorized a stock repurchase program. Repurchases of our common stock pursuant to our stock repurchase program could affect the market price of our common stock or increase its volatility. For example, the existence of a stock repurchase program could cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. Additionally, our stock repurchase program could diminish our cash reserves, which may impact our ability to finance future growth and to pursue possible future strategic opportunities and acquisitions. There can be no assurance that any stock repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we determine to repurchase our stock. Although our stock repurchase program is intended to enhance long-term stockholder value, there is no assurance that it will do so and short-term stock price fluctuations could reduce the program's effectiveness.

The conditional conversion feature of our convertible notes, if triggered, may materially and adversely affect our financial condition and operating results.

In the event the conditional conversion feature of our outstanding $143.8 million aggregate principal amount of convertible senior notes (the "Convertible Notes") is triggered, holders of the Convertible Notes will be entitled to convert the Convertible Notes at any time during specified periods at their option. If one or more holders elect to convert their Convertible Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Convertible Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Convertible Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The accounting method for convertible debt securities that may be settled in cash, such as the Convertible Notes, could have a material effect on our reported financial results.

Under Accounting Standards Codification 470-20, Debt with Conversion and Other Options, which we refer to as ASC 470-20, an entity must separately account for the liability and equity components of certain convertible debt instruments (such as the Convertible Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the Convertible Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet, and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the Convertible Notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the notes to their face amount over the term of the Convertible Notes. We will report lower net income (or greater net loss) in our financial results because ASC 470-20 requires interest to include both the current period's amortization of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results, the market price of our common stock and the trading price of the Convertible Notes.

In addition, under certain circumstances, convertible debt instruments (such as the Convertible Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method if we have the ability and intent to settle in cash, the effect of which is that the shares issuable upon conversion of the Convertible Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Convertible Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that we will be able to demonstrate and continue to demonstrate the ability or intent to settle in cash or that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Convertible Notes, then our diluted earnings per share would be adversely affected.

Anti-takeover provisions contained in our certificate of incorporation, bylaws as well as provisions of Delaware law, could impair a takeover attempt.

Our certificate of incorporation and bylaws contain provisions that could have the effect of delaying or preventing changes in control or changes in our management without the consent of our board of directors. These provisions include:

Table of Contents

- a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;
- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the exclusive right of our board of directors to elect a director 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;
- the ability of our board of directors to determine to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by the chairman of the board of directors, the chief executive officer, or the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action;
- limiting the liability of, and providing indemnification to, our directors and officers;
- controlling the procedures for the conduct and scheduling of stockholder meetings;
- providing the board of directors with the express power to postpone previously scheduled annual meetings of stockholders and to cancel previously scheduled special meetings of stockholders;
- providing that directors may be removed prior to the expiration of their terms by stockholders only for cause; and
- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which 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 us.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock. Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

Table of Contents

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Principal Office Locations

Our corporate headquarters and executive offices are located in Boston, Massachusetts, in a 52,588 square-foot facility under a lease expiring on December 31, 2024. In addition, we operate a 26,019 square-foot facility in Salt Lake City, Utah under a lease expiring on December 31, 2024, and a 22,685 square-foot facility in Indianapolis, Indiana under a lease expiring on June 30, 2025. We also have additional offices throughout the United States and in various international locations. These additional office leases expire between 2018 and 2022.

The main purpose and function of each office location is to support business activities such as information technology, research and development, product support, development and management, sales and general administration. All of our facilities are fully adequate and suitable for the functions that are performed in each location and we have capacity headroom to accommodate infrastructure growth over the near term foreseeable future within our facilities.

Data Centers

Our principal data centers are located in Ashburn, Virginia; Chandler, Arizona; and Phoenix, Arizona. We have additional data centers throughout the United States and in various international locations. Our data center leases expire between 2018 and 2023. We have capacity headroom built into our primary leases to accommodate infrastructure growth within the lease periods should we need to add more space or power to our existing footprint.

ITEM 3. LEGAL PROCEEDINGS

See Note 12 - Commitments and Contingencies – Litigation to our consolidated financial statements included in this Annual Report for information concerning litigation. In addition to the lawsuit involving Realtime Data LLC, from time to time, we have been and may become involved in legal proceedings arising in the ordinary course of our business. Although the results of litigation and claims cannot be predicted with certainty, we are not presently involved in any other legal proceeding in which the outcome, if determined adversely to us, would be expected to have a material adverse effect on our business, operating results, or financial condition. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on The NASDAQ Global Market under the symbol "CARB." The following table shows the high and low sale prices per share of our common stock as reported on The NASDAQ Global Market for the periods indicated:

	2017		2016	
	High	Low	High	Low
First Quarter	$21.50	$15.30	$10.01	$6.50
Second Quarter	$24.60	$18.20	$10.62	$7.30
Third Quarter	$24.35	$18.55	$15.48	$9.30
Fourth Quarter	$27.00	$21.35	$19.63	$14.10

Holders

As of February 28, 2018, we had approximately 23 holders of record of our common stock. This does not include the number of persons whose stock is held in nominee or "street" name accounts through brokers.

Dividends

We have never declared or paid, and do not anticipate declaring or paying, any cash dividends on our common stock. Any future determination as to the declaration and payment of dividends, would be at the discretion of our Board of Directors and will depend on then existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects, and other factors that our Board of Directors may deem relevant.

Securities Authorized for Issuance under Equity Compensation Plans

Our equity plan information required by this item is incorporated by reference to the information in Part III, Item 12 of this Annual Report.

Recent Sales of Unregistered Securities

Not applicable.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs (3)
October 1, 2017 - October 31, 2017	—	$ —	—	$ 5,214,409
November 1, 2017 - November 30, 2017	11,762	$ 22.75	—	$ 5,214,409
December 1, 2017 - December 31, 2017	11,762	$ 23.65	—	$ 5,214,409
Total	23,524		—	

(1) During the three months ended December 31, 2017, 23,524 shares were withheld to satisfy tax withholding obligations in connection with the vesting of restricted stock units. We did not repurchase any shares of our common stock pursuant to our previously-announced program.

(2) The average price per share for each of the months in the fiscal quarter was calculated by dividing (a) the sum for the aggregate value of the tax withholding obligations by (b) the sum of the number of shares withheld.

(3) In May 2015, our Board of Directors authorized a $20.0 million share repurchase program that was subsequently increased to $30.0 million on March 22, 2017.

Table of Contents

Performance Graph

The following performance graph compares the cumulative total return to stockholders on our common stock for the period from December 31, 2012 through December 31, 2017 against the cumulative total return of The NASDAQ Composite Index and The NASDAQ-100 Technology Sector Index. The comparison assumes $100 was invested in our common stock and each of the indices upon the closing of trading on December 31, 2012 and assuming the reinvestment of dividends, if any. We have never declared or paid any cash dividends on our common stock and does not anticipate paying any cash dividends in the foreseeable future.

The performance shown on the graph below is based on historical results and are not indicative of, nor intended to forecast, future performance of our common stock.

This performance graph shall not be deemed “soliciting material” or to be “filed” with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Carbonite, Inc. under the Securities Act of 1933, as amended.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

You should read the following selected consolidated financial and other data below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements, related notes, and other financial information included in this Annual Report. The selected consolidated financial and other data in this section are not intended to replace the consolidated financial statements and are qualified in their entirety by the consolidated financial statements and related notes included elsewhere in this Annual Report.

The consolidated statements of operations data for the years ended December 31, 2017, 2016, and 2015 and the consolidated balance sheets data as of December 31, 2017 and 2016 are derived from our audited consolidated financial statements included elsewhere in this Annual Report. The consolidated statements of operations data for the years ended December 31, 2014 and 2013 and the consolidated balance sheets data as of December 31, 2015, 2014 and 2013 are derived from our audited consolidated financial statements not included in this Annual Report. Historical results are not necessarily indicative of the results to be expected in the future.

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands, except share and per share data)				
Consolidated statements of operations data:					
Revenue	$239,462	$206,986	$136,616	$122,620	$107,194
Cost of revenue (1)	70,067	60,937	38,784	38,567	34,881
Gross profit	169,395	146,049	97,832	84,053	72,313
Operating expenses (1):					
Research and development	46,160	33,298	28,085	24,132	20,919
General and administrative	43,331	41,332	37,265	17,862	14,275
Sales and marketing	90,922	73,347	53,671	49,882	47,349
Restructuring charges	1,047	856	469	762	322
Total operating expenses	181,460	148,833	119,490	92,638	82,865
Loss from operations	(12,065)	(2,784)	(21,658)	(8,585)	(10,552)
Interest and other income (expense), net	(6,866)	(122)	40	45	8
Other income (expense), net	1,252	190	105	(443)	(6)
Loss before income taxes	(17,679)	(2,716)	(21,513)	(8,983)	(10,550)
(Benefit) provision for income taxes	(13,677)	1,383	102	367	55
Net loss	(4,002)	(4,099)	(21,615)	(9,350)	(10,605)
Basic and diluted net loss per share attributable to common stockholders	$(0.14)	$(0.15)	$(0.80)	$(0.35)	$(0.41)
Weighted-average number of common shares used in computing basic and diluted net loss per share	27,779,098	27,028,636	27,187,910	26,816,879	26,166,554

(1) Stock-based compensation included in the consolidated statements of operations data above was as follows:

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Cost of revenue	$1,061	$807	$730	$539	$508
Research and development	1,969	868	1,171	1,285	955
General and administrative	7,827	6,161	7,226	3,216	2,250
Sales and marketing	1,885	1,064	1,089	1,025	1,064

Table of Contents

	As of December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Consolidated balance sheet data:					
Cash and cash equivalents	$128,231	$59,152	$63,936	$46,084	$50,392
Working capital (deficit)	24,515	(28,647)	(28,217)	(23,767)	(11,080)
Total assets	312,819	144,759	125,990	131,754	109,161
Deferred revenue, including current portion	124,514	107,591	98,703	91,424	84,000
Total liabilities	274,554	138,925	124,917	117,216	96,340
Total stockholders’ equity	38,265	5,834	1,073	14,538	12,821

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands, except percentage data)				
Key metrics:					
Bookings	$245,864	$209,284	$144,106	$128,183	$115,988
Annual retention rate	87 %	86 %	84 %	83 %	84 %
Renewal rate	85 %	84 %	82 %	80 %	80 %
Adjusted free cash flow	$20,233	$18,180	$14,274	$15,072	$5,974

Refer to Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations - Key Business Metrics below for the definitions of these key metrics. Bookings and adjusted free cash flow are financial data that are not calculated in accordance with GAAP. The tables below provide reconciliation of bookings and adjusted free cash flow to revenue and cash provided by operating activities, respectively, the most directly comparable financial measures calculated and presented in accordance with GAAP. The presentation of non-GAAP financial information should not be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP.

Our management uses annual retention rate to determine the stability of our customer base and to evaluate the lifetime value of our customer relationships. As customers’ annual and multi-year subscriptions come up for renewal throughout the calendar year based on the dates of their original subscriptions, measuring retention on a trailing twelve month basis at the end of each quarter provides our management with useful and timely information about the stability of our customer base. Management uses renewal rate to monitor trends in customer renewal activity.

Our management uses bookings as a proxy for cash receipts. Bookings represent the aggregate dollar value of customer subscriptions and software arrangements, which may include multiple revenue elements, such as software licenses, hardware, professional services and post-contractual support, received by us during a period. We initially record a subscription fee as deferred revenue and then recognize it ratably, on a daily basis, over the life of the subscription period. Management uses bookings and adjusted free cash flow as measures of our operating performance; for planning purposes, including the preparation of our annual operating budget; to allocate resources to enhance the financial performance of our business; to evaluate the effectiveness of our business strategies; to provide consistency and comparability with past financial performance; to determine capital requirements; to facilitate a comparison of our results with those of other companies; and in communications with our Board of Directors concerning our financial performance. We also use bookings and adjusted free cash flow as factors when determining management’s incentive compensation. Management believes that the use of bookings and adjusted free cash flow provides consistency and comparability with our past financial performance, facilitates period-to-period comparisons of operations, and also facilitates comparisons with other peer companies, many of which use similar non-GAAP financial measures to supplement their GAAP results.

Although bookings and adjusted free cash flow are frequently used by investors and securities analysts in their evaluations of companies, these metrics have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results of operations as reported under GAAP. Some of these limitations are:

- bookings do not reflect our receipt of payment from customers;
- adjusted free cash flow does not reflect our future requirements for contractual commitments to vendors;

Table of Contents

- adjusted free cash flow does not reflect the non-cash component of employee compensation or depreciation and amortization of property and equipment; and
- other companies in our industry may calculate bookings or free cash flow or similarly titled measures differently than we do, limiting their usefulness as comparative measures.

The following tables present reconciliations of our bookings and adjusted free cash flow to revenue and cash provided by operating activities, respectively, the most directly comparable financial measures calculated and presented in accordance with GAAP.

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Revenue	$239,462	$206,986	$136,616	$122,620	$107,194
Add change in deferred revenue, net of foreign exchange (excluding acquired and divested deferred revenue)	6,402	2,298	7,490	5,563	8,794
Bookings	$245,864	$209,284	$144,106	$128,183	$115,988

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Cash provided by operating activities	$31,330	$13,165	$13,197	$22,678	$14,625
Subtract capital expenditures	(17,351)	(6,582)	(9,730)	(14,495)	(9,801)
Free cash flow	13,979	6,583	3,467	8,183	4,824
Add payments related to corporate headquarter relocation	—	—	1,309	3,872	—
Add acquisition-related payments	5,707	9,989	1,406	2,053	—
Add hostile takeover-related payments	—	—	1,791	100	—
Add CEO transition payments	—	—	29	634	—
Add restructuring-related payments	359	341	—	—	—
Add cash portion of lease exit charge	—	343	887	230	1,150
Add litigation-related payments	188	924	5,385	—	—
Adjusted free cash flow	$20,233	$18,180	$14,274	$15,072	$5,974

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and related notes appearing elsewhere in this Annual Report. The following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in "Risk Factors."

Overview

We provide backup, disaster recovery, high availability and workload migration technology (the "Carbonite Data Protection Platform"). The Carbonite Data Protection Platform supports businesses in locations around the world with secure and scalable global cloud infrastructure. We continue to invest in strategic acquisitions and integrate these acquisitions into our portfolio of data protection solutions, in order to expand our addressable market and increase our strategic importance to customers.

We derive the majority of our revenue from subscription fees with consistently strong retention rates. The remainder of our revenue is derived from software arrangements, which often contain multiple revenue elements, such as software licenses, hardware, professional services and post-contract customer support. We sell our solutions globally, and our customers primarily come from the following primary sources: directly from our website, our inside sales team, acquisitions, or from our network of channel partners, including distributors, value-added resellers, managed service providers, and global systems integrators.

We invest in customer acquisition because the market for our solutions is highly competitive. We support our sales network with a marketing approach that leverages our growing brand awareness to generate broad market demand. Our marketing efforts are designed to attract prospective customers and enroll them as paying customers, either through immediate sales, free trials or communication of the benefits of our solutions and development of ongoing relationships.

On January 31, 2017, we completed the acquisition of all the outstanding capital stock of DoubleTake Software, Inc. for a purchase price of $65.9 million. In addition, on August 14, 2017, we entered into an asset purchase agreement with Datacastle Corporation for a purchase price of $9.6 million pursuant to which we acquired all the assets associated with Datacastle's cloud data backup, caching and analytics software and services for data protection purposes. As discussed below, we recently entered into an agreement to acquire all of the issued and outstanding capital stock of Mozy, Inc., a cloud backup service for businesses and consumers. We believe these acquisitions strengthen our overall leadership position in the data protection market and strengthen our technology portfolio.

Our operating costs continue to grow as we invest in strategic acquisitions, new customer acquisition, cross-sell efforts, and research and development. We expect to continue to devote substantial resources to integration, global expansion, customer acquisition, and product innovation. In addition, we expect to invest heavily in our operations to support our anticipated growth. In October 2017, we initiated a restructuring program ("2017 Plan") to streamline operations and reduce operating costs. We recorded restructuring charges of $1.0 million for employee severance related to the reduction of our workforce. We estimate that we will incur restructuring charges between $1.5 million and $2.1 million related to the employee severance under the 2017 Plan. Activities under the 2017 Plan are expected to be substantially completed by the end of the first half of 2018.

We generally defer revenue over our customers' subscription periods but expense marketing costs as incurred. As a result of these factors, we expect to continue to incur GAAP operating losses on an annual basis for the foreseeable future.

Our Business Model

As the majority of our business is driven by subscription services, we evaluate the profitability of a customer relationship over its lifecycle. We generally incur customer acquisition costs and capital equipment costs in advance of subscriptions while recognizing revenue ratably over the terms of the subscriptions. As a result, a customer relationship may not be profitable or result in positive cash flow at the beginning of the subscription period, even though it may be profitable or result in positive cash flow over the life of the customer relationship. While we offer monthly, annual and multi-year subscription plans, a majority of our customers are currently on annual subscription plans. The annual or multi-year commitments of our customers enhance management's visibility into revenue, and charging customers at the beginning of the subscription period provides working capital.

Table of Contents

Key Business Metrics

Our management regularly reviews a number of financial and operating metrics, including the following key metrics, to evaluate our business. Bookings and adjusted free cash flow are financial data that are not calculated in accordance with GAAP. The presentation on non-GAAP financial information should not be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. Refer to Item 6. Selected Financial Data for a reconciliation to the most comparable financial measures presented in accordance with GAAP.

- Bookings. We calculate bookings as revenue recognized during a particular period plus the change in total deferred revenue, excluding deferred revenue recorded in connection with acquisitions and divestitures, net of foreign exchange during the same period. Our management uses this measure as a proxy for cash receipts. Bookings represent the aggregate dollar value of customer subscriptions and software arrangements, which may include multiple revenue elements, such as software licenses, hardware, professional services and post-contractual support, received by us during a period. We initially record a subscription fee as deferred revenue and then recognize it ratably, on a daily basis, over the life of the subscription period.
- Annual retention rate. We calculate annual retention rate as the percentage of subscription customers on the last day of the prior year who remain customers on the last day of the current year. Our management uses these measures to determine the stability of our customer base and to evaluate the lifetime value of our customer relationships.
- Renewal rate. We define renewal rate for a period as the percentage of customers who renew annual or multi-year subscriptions that expire during the period presented. Our management uses this measure to monitor trends in customer renewal activity.
- Adjusted free cash flow. We calculate adjusted free cash flow by subtracting the cash paid for the purchase of property and equipment and adding the payments related to corporate headquarter relocation, acquisitions, hostile takeover, CEO transition, restructuring, litigation and the cash portion of the lease exit charge from net cash provided by operating activities. Our management uses adjusted free cash flow to assess our business performance and evaluate the amount of cash generated by our business.

Subscription renewals may vary during the year based on the date of our customers' original subscriptions. As we recognize subscription revenue ratably over the subscription period, this generally has not resulted in a material seasonal impact on our revenue but may result in material monthly and quarterly variances in one or more of the key business metrics described above.

Performance Highlights

For the years ended December 31, 2017, 2016 and 2015, we had the following results:

- We generated revenue of $239.5 million, $207.0 million, and $136.6 million, respectively. Revenue increased by $32.5 million, or 16%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016, and $70.4 million, or 52%, for the year ended December 31, 2016, as compared to the year ended December 31, 2015.
- Cash flow from operations was $31.3 million, $13.2 million, and $13.2 million, respectively.

The following table presents our performance highlights for certain non-GAAP and other key metrics for the periods presented:

	Years Ended December 31,		
	2017	2016	2015
Key metrics (1):	(in thousands, except percentage data)		
Bookings	$245,864	$209,284	$144,106
Annual retention rate	87 %	86 %	84 %
Renewal rate	85 %	84 %	82 %
Adjusted free cash flow	$20,233	$18,180	$14,274

(1) Refer to the Key Business Metrics section above for the definition of these key metrics, and refer to Item 6. Selected Financial Data for the reconciliation of bookings and adjusted free cash flow to the most directly comparable financial measures presented in accordance with GAAP.

Table of Contents

The following table presents our bookings by type of customer for the periods presented:

	Years Ended December 31,			2017 versus 2016	2016 versus 2015
	2017	2016	2015	%	%
	(in thousands)				
Business	$164,051	$124,363	$54,471	32 %	128 %
Consumer	81,813	84,921	89,635	(4)%	(5)%
Total bookings	$245,864	$209,284	$144,106	17 %	45 %

Our bookings increased by $36.6 million for the year ended December 31, 2017, compared to the corresponding period in 2016, primarily due to the inclusion of bookings from the acquisition of DoubleTake during 2017 and increased sales of higher priced business solutions. Our bookings increased by $65.2 million for the year ended December 31, 2016, compared to the corresponding period in 2015, primarily due to our acquisition of EVault and increased sales of our higher priced business solutions. We continue to focus on growing our relationships with active reseller partners, with bookings related to sales of business solutions representing 67% of total bookings for the year ended December 31, 2017, up from 59% in the year ended December 31, 2016 and 38% in the year ended December 31, 2015. We expect these trends to continue and therefore expect bookings for our business solutions to continue to represent an increasing percentage of total bookings. Our total bookings growth rate for the year ended December 31, 2017 was impacted by a decline in our growth rates in consumer bookings. We do not expect this trend to continue, as we expect an increase in consumer bookings growth rates in the upcoming year.

Adjusted free cash flow for the year ended December 31, 2017 increased by $2.1 million compared to the year ended December 31, 2016, primarily due to the timing of payments, partially offset by an increase in purchases of property, plant and equipment related to the capital investments in our data centers. Adjusted free cash flow for the year ended December 31, 2016 increased by $3.9 million compared to the year ended December 31, 2015, primarily due to a $3.1 million decrease in purchases of property, plant and equipment.

Key Components of our Consolidated Statements of Operations

Revenue

We derive our revenue principally from subscription fees related to our service solutions as well as the sale of software arrangements, which often contain multiple revenue elements, such as software licenses, hardware, professional services and post-contract customer support. We initially record a customer subscription fee as deferred revenue and then recognize it as revenue ratably, on a daily basis, over the life of the subscription period.

Cost of revenue

Cost of revenue consists primarily of costs associated with our data center operations and customer support centers, including wages and benefits for personnel, depreciation of equipment, amortization of developed technology, rent, utilities and broadband, cost of hardware, equipment maintenance, hosting fees, software license fees, and allocated overhead. The expenses related to hosting our services and supporting our customers are related to the number of customers and the complexity of our services and hosting infrastructure. Our cost of storage, on a per gigabyte (GB) basis, has decreased over time due to decreases in storage prices and greater efficiency in our data center operations. We have also experienced a downward trend in the cost of storage equipment and broadband service, which we expect will continue in the future. Over the long term, we expect these expenses to increase in absolute dollars, but decrease as a percentage of revenue due to improved efficiencies in supporting customers.

Gross profit and gross margin

Historically, our gross margins have expanded due to the introduction of higher priced solutions, a downward trend in the cost of storage equipment and services, and efficiencies of our customer support personnel in supporting our customers. We expect these trends to continue over the long term.

Operating expenses

Research and development. Research and development expenses consist primarily of wages and benefits for development personnel, third-party outsourcing costs, hosting fees, consulting fees, rent, and depreciation. We focus our research and development efforts on enhancements and ease of use of our solutions. These efforts result in updated versions and new suites of our solutions, while not changing the underlying technology. The majority of our research and development employees and contractors are located at our corporate headquarters in the U.S. and at our office in Canada. We expect that research and

32

Table of Contents

development expenses will increase in absolute dollars and as a percentage of revenue on an annual basis as we continue to enhance and expand our services.

General and administrative. General and administrative expenses consist primarily of wages and benefits for management, finance, accounting, human resources, legal and other administrative personnel, legal and accounting fees, insurance, acquisition and other corporate expenses. We expect that general and administrative expenses will increase in absolute dollars on an annual basis so that we can support the anticipated growth of our business.

Sales and marketing. Sales and marketing expenses consist primarily of wages and benefits for sales and marketing personnel, advertising costs, creative expenses for advertising programs, credit card fees, commissions paid to third-party partners and affiliates, and the cost of providing free trials. We expect that we will continue to commit significant resources to our sales and marketing efforts to grow our business and awareness of our brand and solutions. We expect that sales and marketing expenses will continue to increase in absolute dollars on an annual basis.

Restructuring charges. Restructuring charges consist of charges related to the Company's restructuring efforts associated with the reorganization and consolidation of certain operations as well as disposal of certain assets. See Note 13—Restructuring to our consolidated financial statements included in this Annual Report for additional information.

Results of Operations

The following table sets forth, for the periods presented, data from our consolidated statements of operations as a percentage of revenue that each line item represents. The period-to-period comparison of financial results is not necessarily indicative of future results. The information contained in the tables below should be read in conjunction with financial statements and related notes included elsewhere in this Annual Report.

	Years Ended December 31,		
	2017	2016	2015
	(% of revenue)		
Consolidated statements of operations data:			
Revenue	100.0 %	100.0 %	100.0 %
Cost of revenue	29.3	29.4	28.4
Gross profit	70.7	70.6	71.6
Operating expenses:			
Research and development	19.3	16.1	20.6
General and administrative	18.1	20.0	27.3
Sales and marketing	38.0	35.4	39.3
Restructuring charges	0.4	0.4	0.3
Total operating expenses	75.8	71.9	87.5
Loss from operations	(5.1)	(1.3)	(15.9)
Interest (expense) income, net	(2.8)	(0.1)	—
Other (expense) income, net	0.5	0.1	0.2
Loss before income taxes	(7.4)	(1.3)	(15.7)
(Benefit) provision for income taxes	(5.7)	0.7	0.1
Net loss	(1.7)%	(2.0)%	(15.8)%

Comparison of Years Ended December 31, 2017, 2016, and 2015

Revenue

	Years Ended December 31,			2017 versus 2016		2016 versus 2015	
	2017	2016	2015	Amount	%	Amount	%
	(in thousands, except percentage data)						
Revenue	$ 239,462	$ 206,986	$ 136,616	$32,476	15.7%	$70,370	51.5%

33

Table of Contents

Revenue increased by $32.5 million, or 16%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to the inclusion of revenue from our recently acquired DoubleTake product offerings and increased sales of higher priced business solutions, partially offset by a decline in our growth rates in consumer revenue. Revenue increased by $70.4 million, or 52%, for the year ended December 31, 2016, as compared to the year ended December 31, 2015, primarily due to our acquisition of EVault and increased sales of our higher priced business solutions. Revenue from our business solutions were approximately $155.8 million in 2017 compared to $118.4 million in 2016 and $46.1 million in 2015.

Cost of revenue, gross profit, and gross margin

	Years Ended December 31,			2017 versus 2016		2016 versus 2015	
	2017	2016	2015	Amount	%	Amount	%
	(in thousands, except percentage data)						
Cost of revenue	$70,067	$60,937	$38,784	$9,130	15.0 %	$22,153	57.1 %
Percent of revenue	29.3 %	29.4 %	28.4 %				
Components of cost of revenue:							
Personnel-related costs	$25,992	$23,513	$13,853	$2,479	10.5 %	$9,660	69.7 %
Hosting and depreciation costs	20,528	21,758	19,553	(1,230)	(5.7)%	2,205	11.3 %
Amortization	8,179	2,632	1,281	5,547	210.8 %	1,351	105.5%
Software and other	15,368	13,034	4,097	2,334	17.9 %	8,937	218.1%
Total cost of revenue	$70,067	$60,937	$38,784	$9,130	15.0 %	$22,153	57.1 %
Gross profit	$169,395	$146,049	$97,832	$23,346	16.0 %	$48,217	49.3 %
Gross margin	70.7 %	70.6 %	71.6 %				

Our gross margin increased to 70.7% from 70.6% for the year ended December 31, 2017 as compared to the year ended December 31, 2016, driven principally by an increased percentage of our revenues derived from higher margin business solutions and efficiencies realized in our data centers.

Our gross margin decreased to 70.6% from 71.6% for the year ended December 31, 2016, as compared to the year ended December 31, 2015, primarily due to sales of our EVault solutions, which have a lower gross margin than our other business solutions, partially offset by efficiencies realized in our data centers and our customer support organization.

Cost of revenue increased by $9.1 million for the year ended December 31, 2017, as compared to the year ended December 31, 2016, driven largely by the costs of sales of our DoubleTake offerings and amortization. Amortization increased by $5.5 million, mainly related to additional developed technology amortization associated with the DoubleTake acquisition in January 2017. Personnel-related costs increased by $2.5 million associated with supporting our customers. Software and other costs increased $2.3 million associated with an increase of $1.8 million for software and support contracts and $0.7 million increase in consulting expenses. These increases were partially offset by a decrease in hosting and depreciation costs of $1.2 million associated with efficiencies realized in our data centers.

Cost of revenue increased by $22.2 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015, driven largely by the costs of sales of our EVault offerings. The increase in software and other costs was driven principally by an increase of $5.1 million in additional software, royalty and consulting largely associated with our EVault service offerings, $2.8 million of hardware costs for customers who purchased an appliance. Amortization increased by $1.4 million related to additional amortization of intangible assets associated with the EVault acquisition in January 2016. Personnel-related costs increased $9.7 million due to additional headcount to deliver our EVault service offerings and support our customers. Hosting and depreciation costs increased $2.2 million primarily due to $1.2 million in increased rent and $0.9 million of increased broadband costs to support our hosting infrastructure.

Table of Contents

Operating expenses

Research and development

	Years Ended December 31,			2017 versus 2016		2016 versus 2015	
	2017	2016	2015	Amount	%	Amount	%
	(in thousands, except percentage data)						
Research and development	$46,160	$33,298	$28,085	$12,862	38.6%	$5,213	18.6 %
Percent of revenue	19.3 %	16.1 %	20.6 %				
Components of research and development:							
Personnel-related costs	$34,207	$25,418	$21,179	$8,789	34.6%	$4,239	20.0 %
Third-party outsourcing costs	1,747	1,230	3,498	517	42.0%	(2,268)	(64.8)%
Hosting, outside contractors and other	10,206	6,650	3,408	3,556	53.5%	3,242	95.1 %
Total research and development	$46,160	$33,298	$28,085	$12,862	38.6%	$5,213	18.6 %

Research and development expenses increased by $12.9 million for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to an increase of personnel-related costs of $8.8 million associated with additional research and development headcount driven by the inclusion of acquired DoubleTake and Datacastle research and development employees and an increase of $1.1 million in stock-based compensation expense associated with new grants. The increase in hosting, consulting and other expenses was driven by an increase of $2.2 million of consulting and independent contractor expenses associated with enhancing the functionality and ease of use of our solutions and $0.8 million of acquisition and integration-related expenses associated with the acquisition of DoubleTake. Additionally, third party outsourcing costs increased by $0.5 million.

Research and development expenses increased by $5.2 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015, primarily as a result of the increase in research and development personnel associated with the EVault acquisition. In addition, an initiative to decrease dependency on outsourced development contributed to the increase in personnel related costs and the reduction in third party outsourcing costs. The increase in hosting, consulting and other expenses was driven by $1.0 million of additional facility and depreciation costs, $0.9 million of consulting and acquisition and $0.6 million of integration-related expenses.

General and administrative

	Years Ended December 31,			2017 versus 2016		2016 versus 2015	
	2017	2016	2015	Amount	%	Amount	%
	(in thousands, except percentage data)						
General and administrative	$43,331	$41,332	$37,265	$1,999	4.8 %	$4,067	10.9 %
Percent of revenue	18.1 %	20.0 %	27.3 %				
Components of general and administrative:							
Personnel-related costs	$24,515	$21,471	$17,687	$3,044	14.2 %	$3,784	21.4 %
Professional fees	11,503	11,255	16,451	248	2.2 %	(5,196)	(31.6)%
Consulting, taxes and other	7,313	8,606	3,127	(1,293)	(15.0)%	5,479	175.2 %
Total general and administrative	$43,331	$41,332	$37,265	$1,999	4.8 %	$4,067	10.9 %

General and administrative expenses increased by $2.0 million for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily as a result of increased personnel-related costs associated with additional headcount to support our overall growth and an increase of $1.7 million in stock-based compensation expense associated with new grants. The decrease in consulting, taxes and other expenses related to a decrease of $1.7 million in one-time transactional tax expense owed to foreign tax authorities, a decrease in bad debt expense of $1.1 million, partially offset by an increase in consulting and independent contractor expenses of $0.6 million and amortization of intangibles of $0.2 million. Professional fees remained relatively consistent for the year ended December 31, 2017 compared to the year ended December 31, 2016.

General and administrative expenses increased by $4.1 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015, primarily as a result of an increase in general and administrative personnel associated with the EVault acquisition. For the year ended December 31, 2016, consulting, taxes and other increased by $5.5 million driven principally by $1.5 million in one-time transactional tax expenses and increased costs associated with the EVault acquisition.

Table of Contents

Professional fees decreased because of a $7.8 million decrease in litigation and hostile takeover defense costs, partially offset by an increase of $1.6 million in acquisition-related costs and $1.1 million in audit and tax-related expenses.

Sales and marketing

	Years Ended December 31,			2017 versus 2016		2016 versus 2015	
	2017	2016	2015	Amount	%	Amount	%
	(in thousands, except percentage data)						
Sales and marketing	$ 90,922	$ 73,347	$ 53,671	$ 17,575	24.0 %	$ 19,676	36.7 %
Percent of revenue	38.0 %	35.4 %	39.3 %				
Components of sales and marketing:							
Personnel-related costs	$ 42,350	$ 31,828	$ 19,498	$ 10,522	33.1 %	$ 12,330	63.2 %
Advertising costs	16,416	17,833	15,040	(1,417)	(7.9)%	2,793	18.6 %
Costs of credit card transactions and offering free trials	7,275	6,508	7,383	767	11.8 %	(875)	(11.9)%
Agency fees, consulting and other	24,881	17,178	11,750	7,703	44.8 %	5,428	46.2 %
Total sales and marketing	$ 90,922	$ 73,347	$ 53,671	$ 17,575	24.0 %	$ 19,676	36.7 %

Sales and marketing expenses increased by $17.6 million for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to an increase of personnel-related costs of $10.5 million associated with additional sales and marketing headcount driven by the inclusion of acquired DoubleTake sales and marketing employees. Additionally, agency fees, consulting and other costs increased by $7.7 million associated with promoting our expanded set of offerings and the inclusion of the DoubleTake business in our consolidated results. This increase was driven by an increase in consulting and independent contractor expenses of $1.7 million, travel and entertainment expenses of $1.3 million, software and hosted solutions expenses of $1.1 million, integration expenses of $0.9 million and amortization expenses of $0.6 million associated with additional customer relationships amortization for the 2017 acquisitions. Advertising costs declined by $1.4 million related to a reduction in our traditional radio media spend compared to the year ended December 31, 2016.

Sales and marketing expenses increased by $19.7 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015, primarily as a result of the EVault acquisition. Advertising costs increased by $2.8 million due to an increase in our overall marketing efforts associated with promoting our expanded set of offerings to a broader audience. These cost increases were offset by a reduction in free trial offerings and presale support of $0.9 million. The increase in agency fees, consulting and other was due primarily to $3.1 million of go-to-market and branding strategy costs.

Restructuring charges

	Years Ended December 31,			2017 versus 2016		2016 versus 2015	
	2017	2016	2015	Amount	%	Amount	%
	(in thousands, except percentage data)						
Restructuring	$ 1,047	$ 856	$ 469	$ 191	22.3 %	$ 387	82.5 %
Percent of revenue	0.4 %	0.4 %	0.3 %				

Restructuring expenses for the year ended December 31, 2017 were $1.0 million, as we initiated a restructuring program in October 2017 to streamline operations and reduce operating costs by reducing our workforce, as discussed above. We recorded restructuring charges of $0.9 million for the year ended December 31, 2016, primarily related to the reorganization and consolidation of certain operations as well as disposal of certain assets in 2016. Restructuring charges of $0.5 million were recorded for the year ended December 31, 2015, primarily related to the completion of our data center optimization program as well as a change in estimate of our lease exit charge for our former Boston, Massachusetts corporate headquarters. Refer to Note 13—Restructuring to our consolidated financial statements included in this Annual Report for additional information.

Loss from operations

Operating loss for the year ended December 31, 2017 was ($12.1) million, compared to ($2.8) million for the year ended December 31, 2016. The increase in operating loss during the year ended December 31, 2017 is primarily a result of increases in sales and marketing expenses, research and development expenses, and costs of revenue.

Operating loss for the year ended December 31, 2016 was ($2.8) million, compared to ($21.7) million for the year ended December 31, 2015. The decrease in operating loss during the year ended December 31, 2016 is primarily a result of an increase in revenue, partially offset by increases in cost of revenue, sales and marking expenses, research and development expenses and general and administrative expenses.

Non-operating income (expense)

	Years Ended December 31,			2017 versus 2016		2016 versus 2015	
	2017	2016	2015	Amount	%	Amount	%
	(in thousands, except percentage data)						
Interest (expense) income, net	$ (6,866)	$ (122)	$ 40	$(6,744)	5,527.9%	$(162)	(405.0)%
Percent of revenue	(2.8)%	(0.1)%	— %				
Other income (expense), net	$ 1,252	$ 190	$ 105	$1,062	558.9 %	$85	81.0 %
Percent of revenue	0.5 %	0.1 %	0.2 %				

Interest (expense) income, net increased by $6.7 million for the year ended December 31, 2017 as compared to the year ended December 31, 2016, primarily due to cash interest expense of $2.7 million and amortization of the debt discount and debt issuance costs of $4.5 million related to our convertible senior notes (the “Convertible Notes”) issued in April 2017, partially offset by $0.6 million of interest income related to interest on our highly liquid investments. Interest (expense) income, net remained relatively consistent for the year ended December 31, 2016 as compared to the year ended December 31, 2015.

Other income (expense), net primarily represents net foreign exchange gains and losses and other non-operating expense and income items. Other income (expense), net increased by $1.1 million for the year ended December 31, 2017 as compared to the year ended December 31, 2016, primarily due to a gain on the sale of businesses of $0.8 million. Other income (expense), net remained relatively consistent for the year ended December 31, 2016 as compared to the year ended December 31, 2015.

(Benefit) provision for income taxes

	Years Ended December 31,			2017 versus 2016		2016 versus 2015	
	2017	2016	2015	Amount	%	Amount	%
	(in thousands, except percentage data)						
(Benefit) provision for income taxes	$ (13,677)	$ 1,383	$ 102	$(15,060)	(1,088.9)%	$1,281	1,255.9%
Percent of revenue	(5.7)%	0.7 %	0.1 %				

We recorded income tax (benefit) provision of ($13.7) million, $1.4 million and $0.1 million for the years ended December 31, 2017, 2016 and 2015, respectively. For the year ended December 31, 2017, our tax provision was primarily driven by a tax benefit for a U.S. valuation allowance release, foreign income taxes, and refundable Federal Alternative Minimum Tax ("AMT"). The partial release of U.S. valuation allowance is due to a net deferred tax liability recorded in the acquisition of DoubleTake. The U.S. net deferred tax liability primarily relates to non-tax deductible intangible assets recognized in the financial statements which generate a deferred tax liability. The net deferred tax liability established is estimated to be a source of income to utilize previously unrecognized deferred tax assets in the U.S. Therefore, the Company has recorded a discrete tax benefit of $14.6 million for the release of U.S. valuation allowance related to the deferred tax liability recorded in purchase accounting. The U.S. maintains a valuation allowance on the overall U.S. net deferred tax asset as it is deemed more likely than not the U.S. net deferred tax asset will not be realized. For the year ended December 31, 2016, our tax provision was primarily driven by foreign income taxes, Federal AMT and state income taxes. For the year ended December 31, 2015, our tax provision was primarily driven by Federal AMT, state income taxes, and foreign income taxes, partially offset by a release of a reserve for an uncertain tax position due to the close of an audit for one of our foreign subsidiaries.

Liquidity and Capital Resources

As of December 31, 2017, we had cash and cash equivalents of $128.2 million, of which $106.4 million was held in the United States and $21.8 million of which was held by our international subsidiaries. If the undistributed earnings of our foreign subsidiaries are needed for our operations in the United States, we would be required to accrue and pay non-U.S. withholding taxes upon repatriation in certain non-U.S. jurisdictions. Our current plans are not expected to require repatriation of cash and investments to fund our U.S. operations and, as a result, we intend to indefinitely reinvest our foreign earnings to fund our foreign subsidiaries.

Source of funds

We believe, based on our current operating plan, that our existing cash and cash equivalents and cash provided by operations, as well as access to a new revolving credit facility that we expect to enter into in connection with the acquisition of Mozy, Inc., will be sufficient to meet our anticipated cash needs for the foreseeable future.

On April 4, 2017, we issued, in a private offering, $143.8 million aggregate principal amount of Convertible Notes. The Convertible Notes accrue interest at 2.50% per year, payable semiannually in arrears on April 1 and October 1 of each year. The Convertible Notes will mature on April 1, 2022, unless earlier repurchased, redeemed or converted.

We previously had a credit agreement with Silicon Valley Bank (the "Credit Facility"), which provided a revolving credit financing of up to $40.0 million, including a $5.0 million sub-limit for letters of credit. On April 4, 2017, in connection with the Convertible Notes, we utilized $39.2 million of the net proceeds from the offering to repay all amounts outstanding under the Credit Facility and thereafter terminated the facility.

From time to time, we may explore additional financing sources to develop or enhance our solutions, fund expansion, respond to competitive pressures, acquire or to invest in complementary products, businesses or technologies, or to lower our cost of capital, which could include equity, equity-linked, and debt financing. There can be no assurance that any additional financing will be available to us on acceptable terms, if at all. If we raise additional funds through the issuance of equity or convertible debt or other equity-linked securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock.

Uses of funds

We have increased our operating and capital expenditures in connection with the growth in our operations and the increase in our personnel, and we anticipate that we will continue to increase such expenditures in the future. Our future capital requirements may vary materially from those now planned and will depend on many factors, including:

- potential future acquisition opportunities;
- potential share repurchases under our share repurchase plan;
- the levels of advertising and promotion required to acquire and retain customers;
- expansion of our data center infrastructure necessary to support our growth;
- growth of our operations in the U.S. and worldwide;
- our development and introduction of new solutions; and
- the expansion of our sales, customer support, research and development, and marketing organizations.

Future capital expenditures will focus on acquiring additional data storage and hosting capacity and general corporate infrastructure. We are not currently party to any purchase contracts related to future capital expenditures, other than short-term purchase orders.

Cash flows

The following table provides a summary and description of our net cash inflows (outflow) for 2017, 2016, and 2015.

	Years Ended December 31,		
	2017	2016	2015
	(in thousands)		
Net cash provided by operating activities	$31,330	$13,165	$13,197
Net cash (used in) provided by investing activities	(91,655)	(16,275)	8,323
Net cash provided by (used in) financing activities	127,622	(1,404)	(3,417)

38

Table of Contents

Operating activities

Our cash flows from operating activities are significantly influenced by the amount of our net loss, growth in sales and customer growth, changes in working capital accounts, the timing of prepayments and payments to vendors, add-backs of non-cash expense items such as depreciation and amortization, and stock-based compensation expense. In the year ended December 31, 2017, cash provided by operating activities was $31.3 million, which was driven by an increase in deferred revenue of $6.1 million, change in working capital items totaling $6.2 million and a net adjustment for non-cash charges of $23.5 million, primarily comprised of $21.7 million of depreciation and amortization, $12.7 million of stock-based compensation expense, $4.4 million of interest expense related to the non-cash interest expense related to the amortization of debt discount, $1.4 million of impairment charges, partially offset by a gain on disposal of equipment of $0.9 million, benefit for deferred income taxes of $15.3 million and other non-cash items of $0.5 million. These cash inflows were partially offset by our net loss of $4.0 million and a decrease in other assets and liabilities of $0.5 million.

For the year ended December 31, 2016, cash provided by operating activities was $13.2 million, which was driven by an increase in adjustments for non-cash charges of $25.6 million, primarily comprised of $15.9 million of depreciation and amortization, $8.9 million of stock-based compensation expense and other add-backs of $0.8 million, and an increase in deferred revenue of $2.4 million. The cash inflows were partially offset by our net loss of $4.1 million, a $0.6 million decrease in other assets and liabilities, and by changes in working capital items totaling $10.1 million, due to the timing of payments and customer receipts.

For the year ended December 31, 2015, cash provided by operating activities was $13.2 million, which was primarily driven by a $7.5 million increase in deferred revenue associated with an increase in sales. Net cash inflows from operating activities included other changes in working capital of $3.1 million, due to the timing of payments and customer receipts, increase in other assets and long-term liabilities of $0.7 million and non-cash charges of $23.5 million, including $13.6 million of depreciation and amortization, $10.2 million of stock-based compensation, offset by $0.2 million related to a gain on disposal of equipment and $0.1 million in other non-cash items. These cash inflows were partially offset by our net loss of $21.6 million.

Investing activities

For the year ended December 31, 2017, cash used in investing activities was $91.7 million, which was primarily driven by our payment of $69.8 million in connection with the acquisitions of DoubleTake and Datacastle, capital expenditures of $17.4 million, a purchase of derivatives of $5.0 million and a payment for intangible assets of $1.3 million, partially offset by proceeds from maturities of derivatives of $0.5 million, proceeds from sale of property and equipment and businesses of $1.3 million.

For the year ended December 31, 2016, cash used by investing activities was $16.3 million, consisting primarily of $11.6 million in cash that was paid for the EVault acquisition and $6.6 million for purchases of property and equipment. These uses of cash were partially offset by net proceeds from the purchase and sale of marketable securities and derivatives of $1.9 million.

For the year ended December 31, 2015, cash provided by investing activities was $8.3 million, which was primarily driven by net proceeds from maturities of marketable securities and derivatives of $18.4 million, decrease in restricted cash of $0.7 million and proceeds from the sale of property and equipment of $0.3 million, offset by the use of cash for capital expenditures of $9.7 million and $1.3 million for 2015 acquisitions.

Financing activities

Cash provided by financing activities for the year ended December 31, 2017 was $127.6 million, which was primarily driven by $177.8 million proceeds from long-term borrowings, net of debt issuance costs, $5.0 million proceeds from the exercise of stock options and $1.0 million proceeds from issuance of treasury stock under employee stock purchase plan, partially offset by $39.2 million payments on long-term borrowings, $15.0 million of repurchases of common stock and $2.0 million payments of withholding taxes in connection with restricted stock vesting.

Cash used in financing activities for the year ended December 31, 2016 was $1.4 million, consisting of $4.5 million in cash used to repurchase common stock, $0.5 million payments of withholding taxes in connection with restricted stock vesting, offset by $3.6 million in proceeds received from the exercise of stock options.

Cash used in financing activities for the year ended December 31, 2015 was $3.4 million, consisting primarily of $5.3 million of cash used to repurchase common stock, $0.3 million payments of withholding taxes in connection with restricted stock vesting, offset by $2.3 million from the proceeds from the exercise of stock options.

Table of Contents

Contractual obligations

The following table summarizes our contractual obligations at December 31, 2017 (in thousands):

	Payment Due by Period (1)				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(in thousands)				
Office lease obligations	$25,720	$4,323	$7,375	$7,151	$6,871
Data center lease obligations (2)	10,476	3,483	4,105	2,824	64
Convertible notes principal	143,750	—	—	143,750	—
Convertible notes interest	16,173	3,594	7,188	5,391	—
Hosted software obligations	2,937	2,022	91915	—	—
Consulting obligations	528	528	—	—	—
Other purchase commitments	2,095	1,675	420	—	—
Total	$201,679	$15,625	$20,003	$159,116	$6,935

(1) See Note 11—Income Taxes to the consolidated financial statements included in this Annual Report for information related to our uncertain tax positions. The future payments related to uncertain tax positions have not been presented in the table above due to the uncertainty of the amounts and timing of cash settlement with the taxing authorities.

(2) Certain amounts in the table above relating to colocation leases for the Company's servers include usage based charges in addition to base rent.

The commitments under our office lease obligations shown above consist primarily of lease payments for our Boston, Massachusetts corporate headquarters, and our administrative offices in Salt Lake City, Utah and Indianapolis, Indiana.

Commitments under our data center lease obligations included above consist primarily of Ashburn, Virginia; Chandler, Arizona; and Phoenix, Arizona data centers. Additional commitments within this line consist of data center colocation agreements in place with Iron Mountain and DataBank.

Additionally, we have non-cancellable commitments to vendors primarily consisting of hosted software obligations, consulting obligations, and other purchase commitments, which consist of contractual commitments to various vendors primarily for advertising, marketing, and broadband services.

Off-balance sheet arrangements

As of December 31, 2017, we did not have any off-balance sheet arrangements.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of our financial statements and related disclosures requires us to make estimates, assumptions, and judgments that affect the reported amount of assets, liabilities, revenue, costs and expenses, and related disclosures. We base our estimates and assumptions on historical experience and other factors that we believe to be reasonable under the circumstances, but all such estimates and assumptions are inherently uncertain and unpredictable. We evaluate our estimates and assumptions on an ongoing basis. Actual results may differ from those estimates and assumptions, and it is possible that other professionals, applying their own judgment to the same facts and circumstances, could develop and support alternative estimates and assumptions that would result in material changes to our operating results and financial condition.

The critical accounting policies requiring estimates, assumptions, and judgments that we believe have the most significant impact on our consolidated financial statements are described below. Refer to Note 2—Summary of Significant Accounting Policies to our consolidated financial statements included in this Annual Report for additional information related to our accounting policies and our consideration of these critical accounting areas.

Table of Contents

Revenue recognition

We derive revenue from Software-as-a-Service ("SaaS") arrangements and multiple element arrangements. We recognize revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable and (iv) collectability is probable. Our revenue recognition policies for these revenue streams are discussed below.

We derive the majority of our revenue from data protection solutions sold as subscriptions. These services are standalone independent service solutions, which are generally contracted for a one- to three-year term. Subscription arrangements include access to use our services via the internet. We recognize revenue in accordance with Accounting Standards Codification (“ASC”) 605-10, Overall Revenue Recognition. Subscription revenue is recognized ratably on a daily basis upon activation of service over the subscription period, when persuasive evidence of an arrangement with a customer exists, the subscription period has been activated, the price is fixed or determinable, and collection is reasonably assured. Amounts received prior to satisfying the above revenue recognition criteria are recorded as deferred revenue in the accompanying consolidated balance sheets.

We enter into multiple element arrangements, which may include a combination of our software and non-software related products and services, including subscription services, software licenses, hardware, professional services and post-contract customer support ("PCS"). In such arrangements, we follow the multiple element guidance in accordance with ASC 605-25, Revenue Recognition - Multiple-Element Arrangements. We allocate revenue to each element based on the relative selling price method to the overall arrangement consideration. The selling price for a deliverable is based on vendor-specific objective evidence ("VSOE"), if available, Third Party Evidence ("TPE"), if VSOE is not available, or Best Estimate of Selling Price ("BESP"), if neither VSOE nor TPE are available. Typically, we use BESP for these arrangements.

For our software arrangements, which often contain multiple revenue elements, such as software licenses, professional services and post-contract customer support ("PCS"), we recognize and defer revenue using the residual method in accordance with ASC 985-605, Software. Revenue is allocated to each element, excluding the software license, based on VSOE. VSOE is limited to the price charged when the element is sold separately or, for an element not yet being sold separately, the price established by management having the relevant authority. We do not have VSOE for our software licenses since they are seldom sold separately. Accordingly, revenue is allocated to the software license using the residual value method. Under the residual value method, revenue equal to VSOE of each undelivered element is initially deferred and any remaining arrangement fee is then allocated to the software license.

Hardware revenues are generally recognized upon delivery or upon installation, if required. Professional services are generally provided on a time and materials basis and revenue from professional services, including installation services, is recognized as services are performed, or upon installation if required.

We exclude any taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction (i.e., sales, use and value added) from its revenue and costs. Reimbursement received for shipping costs is recorded as revenue.

Deferred product costs represent deferred cost of revenue for product shipments to customers prior to satisfaction of our revenue recognition criteria. Such costs are classified as prepaid expense and other current assets if the related deferred revenue is initially classified as current. Deferred product costs are recorded in other assets if the related deferred revenue is initially classified as long-term, and remain a component of noncurrent assets until such costs are recognized in the consolidated statement of operations. In certain cases, these costs are recognized ratably over the customer contract term.

Business Combinations

In accordance with ASC 805, Business Combinations ("ASC 805"), we recognize the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. Determining these fair values requires management to make significant estimates and assumptions, especially with respect to intangible assets.

We recognize identifiable assets acquired and liabilities assumed at their acquisition date fair value. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair value of the assets acquired and the liabilities assumed and represents the expected future economic benefits arising from other assets acquired that are not individually identified and separately recognized. While we use our best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill to the extent that we identify adjustments to the preliminary purchase price allocation. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations.

Table of Contents

Goodwill and acquired intangible assets

We record goodwill when consideration paid in a business acquisition exceeds the value of the net assets acquired. Our estimates of fair value are based upon assumptions believed to be reasonable at that time, but that are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events or circumstances may occur, which may affect the accuracy or validity of such assumptions, estimates or actual results.

Goodwill is not amortized, but rather is tested for impairment annually or more frequently at the reporting unit level if facts and circumstances warrant a review. We have determined that there is a single reporting unit for the purpose of conducting this goodwill impairment assessment. We estimate the fair value of the reporting unit (based on our market capitalization) and compare this amount to the carrying value of the reporting unit (as reflected by our total stockholders' equity). If we determine that the carrying value of the reporting unit exceeds its fair value, an impairment charge would be required. Our annual goodwill impairment test is performed at November 30 of each year. To date, we have not identified any impairment to goodwill.

Intangible assets acquired in a business combination are recorded at their estimated fair values at the date of acquisition. We amortize acquired intangible assets over their estimated useful lives based on the pattern of consumption of the economic benefits or, if that pattern cannot be readily determined, on a straight-line basis. We review our intangible assets with definite lives for impairment when events or changes in circumstances indicate that the related carrying amount of any of these assets may not be recoverable. The details of our intangible asset impairment assessment are included in Note 4 - Fair Value of Financial Instruments.

Income taxes

We provide for income taxes under the liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates in effect when the differences are expected to reverse. In certain jurisdictions, deferred tax assets are reduced by a valuation allowance to reflect the uncertainty associated with their ultimate realization. We account for uncertain tax positions recognized in our consolidated financial statements by prescribing a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Due to a history of losses, we have provided a full valuation allowance against our deferred tax assets in the U.S. and in certain foreign jurisdictions that are in a deferred tax asset position for which we are uncertain as to their ultimate realization. This is more fully described in Note 11 - Income Taxes to our consolidated financial statements, included in the Annual Report. The ability to utilize these deferred tax assets may be restricted or eliminated by changes in our ownership, changes in legislation, and other rules affecting the ability to offset future taxable income with losses or other tax attributes from prior periods. Future determinations on the need for a valuation allowance on our net deferred tax assets will be made on an annual basis.

Stock-based compensation

We recognize stock-based compensation as an expense in the financial statements using the estimated grant-date fair value over the individual award's requisite service period, which equals the vesting periods in all cases but for certain market-based awards. We use the straight-line amortization method for recognizing stock-based compensation expense. We estimate the fair value of stock options on the date of grant using the Black-Scholes option-pricing model and the fair value of stock options and awards with market-based vesting conditions on the date of grant using a Monte Carlo simulation. These models require the use of highly subjective estimates and assumptions, including expected stock price volatility, expected term of an award, risk-free interest rate, and expected dividend yield. The grant date fair value of restricted stock units granted is based on the fair value of the underlying common stock on the date of grant.

Recent Accounting Pronouncements

For information on recent accounting pronouncements, refer to Note 2 - Summary of Significant Accounting Policies - Recently Issued Accounting Pronouncements in the notes to the consolidated financial statements included in this Annual Report.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks in the ordinary course of our business. The most significant market risk we face is foreign currency exchange risk and to a lesser degree, interest rate fluctuation risk.

Foreign Currency Exchange Risk

We are exposed to foreign currency exchange rate risk inherent in our revenues, expenses, sales commitments, anticipated sales, anticipated purchases, and assets and liabilities denominated in currencies other than the U.S. dollar, primarily the Euro. In addition, we are exposed to foreign currency exchange rate risk, in connection with assets and liabilities of our wholly owned subsidiaries, that are denominated in currencies other than the local and/or functional currency of the entity. These transactions and balances are subject to foreign currency exchange gains and losses when remeasured into local currencies and/or translated into U.S. dollars. Assets and liabilities of our foreign entities are translated into U.S. dollars at exchange rates in effect at the balance sheet date, and income and expense items are translated at average rates for the applicable period. Fluctuations in foreign currency exchange rates may cause us to recognize transaction and/or translation gains and losses in our statements of operations, as well as our statements of other comprehensive loss.

We routinely enter into short-term foreign currency forward contracts to offset foreign exchange gains and losses generated by the remeasurement of certain intercompany loans denominated in non-functional currencies. These contracts are not designated as cash flow or fair value hedges and have historically been for periods of less than one year. Changes in the fair value of these derivatives, as well as remeasurement gains and losses on the underlying intercompany assets and liabilities, are recognized in our consolidated statements of operations within "other income (expense), net". At December 31, 2017 and 2016, we had outstanding contracts with a total notional value of $47.8 million and $37.7 million, respectively.

We have performed a sensitivity analysis as of December 31, 2017, using a modeling technique that measures hypothetical gains and losses for a one-year period, from a 10% movement in foreign currency exchange rates relative to the U.S. dollar and applicable functional currencies of our subsidiaries that hold assets and/or liabilities in non-functional currencies. The analysis covers all of our foreign currency balances offset by any forward contracts used to offset the underlying exposures. The foreign currency exchange rates we used were based on market rates in effect on December 31, 2017. We estimate that a hypothetical 10% adverse change in foreign currency exchange rates, based upon our market risk as it existed as of December 31, 2017 and 2016 would result in an increased loss from operations of $1.2 million and $1.2 million, respectively, in our consolidated statements of operations.

While we have implemented strategies to mitigate certain risks associated with fluctuations in foreign currency exchange rates, we cannot ensure that we will not recognize gains or losses from international transactions, as this risk is part of transacting business in an international environment. Our policy does not allow speculation in derivative instruments for profit or execution of derivative instrument contracts for which there are no underlying exposures. We do not use financial instruments for trading purposes and are not party to any leveraged derivatives. Not every exposure is or can be hedged and, where hedges are put in place based on expected foreign exchange exposure, they are based on forecasts for which actual results may differ from the original estimate. Failure to successfully hedge or anticipate currency risks properly could affect our consolidated operating results.

As we increase our operations in international markets, our exposure to potentially volatile movements in foreign currency exchange rates increases. The economic impact to us of foreign currency exchange rate movements is linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if significant, could cause us to adjust our foreign currency risk strategies.

Interest Rate Risk

We are exposed to interest rate risk as a result of our cash and cash equivalents. Our cash equivalents consist of cash and money market funds. The money market funds are invested solely in U.S. agency and treasury securities. As of December 31, 2017, the carrying amount of our cash equivalents reasonably approximates fair value and have a constant $1 net asset value ("NAV") with daily liquidity. The primary objective of our investment policy is to preserve principal, while maximizing income and minimizing risk. Accordingly, due to the nature of our cash equivalents, they are relatively insensitive to interest rate changes. We have conducted a rate sensitivity analysis of our interest rate fluctuation, and have determined that the risk of a 10% increase or decrease in interest rates would not have a material

effect on the fair market value of our portfolio.
In April 2017, we issued $143.8 million aggregate principal amount of Convertible Notes, which accrue interest at 2.5% per year. The Convertible Notes have a fixed annual interest rate of 2.5%, and, therefore, we do not have interest rate exposure on the Convertible Notes.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
Carbonite, Inc.
Index to Consolidated Financial Statements

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Carbonite, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Carbonite, Inc. and subsidiaries (the "Company") as of December 31, 2017, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for the year ended December 31, 2017 and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 12, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP
Boston, Massachusetts
March 12, 2018

We have served as the Company's auditor since 2017.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
Carbonite, Inc.

We have audited the accompanying consolidated balance sheet of Carbonite, Inc. as of December 31, 2016, and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Carbonite, Inc. at December 31, 2016, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 16, 2017,
except for the effects of the adoption of ASU 2016-09 as discussed in Note 2, as to which the date is March 12, 2018

Table of Contents

Carbonite, Inc.
Consolidated Balance Sheets

	December 31, 2017	2016
	(In thousands, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 128,231	$ 59,152
Trade accounts receivable, less allowances of $994 and $1,587	22,219	16,639
Prepaid expenses and other current assets	6,823	7,325
Restricted cash	—	135
Total current assets	157,273	83,251
Property and equipment, net	28,790	23,872
Other assets	804	157
Acquired intangible assets, net	44,994	13,751
Goodwill	80,958	23,728
Total assets	$ 312,819	$ 144,759
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 10,842	$ 5,819
Accrued expenses	21,675	19,768
Current portion of deferred revenue	100,241	86,311
Total current liabilities	132,758	111,898
Long-term debt	111,819	—
Deferred revenue, net of current portion	24,273	21,280
Other long-term liabilities	5,704	5,747
Total liabilities	274,554	138,925
Commitments and contingencies (Note 12)		
Stockholders’ equity:		
Preferred stock, $0.01 par value; 6,000,000 shares authorized; no shares issued	—	—
Common stock, $0.01 par value; 45,000,000 shares authorized; 30,130,856 shares issued and 28,182,094 shares outstanding at December 31, 2017; 28,545,089 shares issued and 27,394,024 shares outstanding at December 31, 2016	301	285
Additional paid-in capital	233,343	177,931
Accumulated deficit	(169,344)	(165,042)
Treasury stock, at cost (1,948,762 and 1,151,065 shares as of December 31, 2017 and 2016, respectively)	(26,616)	(10,657)
Accumulated other comprehensive income	581	3,317
Total stockholders’ equity	38,265	5,834
Total liabilities and stockholders’ equity	$ 312,819	$ 144,759

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

Table of Contents

Carbonite, Inc.
Consolidated Statements of Operations

	Years Ended December 31,		
	2017	2016	2015
	(In thousands, except share and per share data)		
Revenue	$239,462	$206,986	$136,616
Cost of revenue	70,067	60,937	38,784
Gross profit	169,395	146,049	97,832
Operating expenses:			
Research and development	46,160	33,298	28,085
General and administrative	43,331	41,332	37,265
Sales and marketing	90,922	73,347	53,671
Restructuring charges	1,047	856	469
Total operating expenses	181,460	148,833	119,490
Loss from operations	(12,065)	(2,784)	(21,658)
Interest (expense) income, net	(6,866)	(122)	40
Other income (expense), net	1,252	190	105
Loss before income taxes	(17,679)	(2,716)	(21,513)
(Benefit) provision for income taxes	(13,677)	1,383	102
Net loss	$(4,002)	$(4,099)	$(21,615)
Basic and diluted net loss per share attributable to common stockholders	$(0.14)	$(0.15)	$(0.80)
Weighted-average number of common shares used in computing basic and diluted net loss per share	27,779,098	27,028,636	27,187,910

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

48

Table of Contents

Carbonite, Inc.
Consolidated Statements of Comprehensive Loss

	Years Ended December 31,		
	2017	2016	2015
	(In thousands)		
Net loss	$(4,002)	$(4,099)	$(21,615)
Other comprehensive (loss) income:			
Net unrealized gain on marketable securities	—	—	7
Foreign currency translation adjustments	(2,736)	1,277	1,337
Total other comprehensive (loss) income	(2,736)	1,277	1,344
Total comprehensive loss	$(6,738)	$(2,822)	$(20,271)

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

Table of Contents

Carbonite, Inc.
Consolidated Statements of Stockholders' Equity

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Number of Shares	Amount					
in thousands, except share data							
Balance at December 31, 2014	27,207,723	$ 272	$ 152,920	$ (139,328)	$ (22)	$ 696	$ 14,538
Stock options exercised and vesting of restricted stock units	549,076	6	2,232				2,238
Stock-based compensation expense			10,216				10,216
Tax benefits relating to share-based payments			23				23
Acquisition of treasury stock					(5,671)		(5,671)
Other comprehensive income						1,344	1,344
Net loss				(21,615)			(21,615)
Balance at December 31, 2015	27,756,799	$ 278	$ 165,391	$ (160,943)	$ (5,693)	$ 2,040	$ 1,073
Stock options exercised and vesting of restricted stock units	788,290	7	3,553				3,560
Stock-based compensation expense			8,983				8,983
Tax benefits relating to share-based payments			4				4
Acquisition of treasury stock					(4,964)		(4,964)
Other comprehensive income						1,277	1,277
Net loss				(4,099)			(4,099)
Balance at December 31, 2016	28,545,089	$ 285	$ 177,931	$ (165,042)	$ (10,657)	$ 3,317	$ 5,834
Stock options exercised and vesting of restricted stock units	1,253,441	13	4,974				4,987
Shares issued related to business combinations	332,326	3	5,730				5,733
Stock-based compensation expense			12,841		119		12,960
Issuance of treasury stock in connection with employee stock purchase plan			116		936		1,052
Acquisition of treasury stock					(17,014)		(17,014)
Allocation of equity component related to Convertible Notes			31,451				31,451
Adjustment resulting from the adoption of ASU 2016-09			300	(300)			—
Other comprehensive loss						(2,736)	(2,736)
Net loss				(4,002)			(4,002)
Balance at December 31, 2017	30,130,856	$ 301	$ 233,343	$ (169,344)	$ (26,616)	$ 581	$ 38,265

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

Table of Contents

Carbonite, Inc.
Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2017	2016	2015
	(In thousands)		
Operating activities			
Net loss	$(4,002)	$(4,099)	$(21,615)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	21,731	15,869	13,634
(Gain) loss on disposal of equipment	(907)	748	(192)
Accretion of discount on marketable securities	—	—	(9)
Intangible asset impairment charges	352	—	—
Impairment of capitalized software	1,048	—	—
Stock-based compensation expense	12,742	8,900	10,216
Benefit for deferred income taxes	(15,392)	(15)	(24)
Non-cash interest expense related to amortization of debt discount	4,434	—	—
Other non-cash items, net	(533)	68	(77)
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	1,786	(13,412)	(1,406)
Prepaid expenses and other current assets	389	(1,547)	1,019
Other assets	(580)	17	2,029
Accounts payable	5,035	(3,345)	2,864
Accrued expenses	(995)	8,183	595
Other long-term liabilities	53	(586)	(1,348)
Deferred revenue	6,169	2,384	7,511
Net cash provided by operating activities	31,330	13,165	13,197
Investing activities			
Purchases of property and equipment	(17,351)	(6,582)	(9,730)
Proceeds from sale of property and equipment and businesses	1,250	13	286
Proceeds from maturities of marketable securities and derivatives	534	3,395	19,149
Purchases of derivatives	(5,040)	(1,476)	(750)
Decrease in restricted cash	—	—	693
Payment for intangibles	(1,250)	—	—
Payment for acquisitions, net of cash acquired	(69,798)	(11,625)	(1,325)
Net cash (used in) provided by investing activities	(91,655)	(16,275)	8,323
Financing activities			
Proceeds from exercise of stock options	4,987	3,560	2,254
Proceeds from issuance of treasury stock under employee stock purchase plan	1,052	—	—
Payments of withholding taxes in connection with restricted stock unit vesting	(2,050)	(483)	(331)
Proceeds from long-term borrowing, net of debt issuance costs	177,797	—	—
Payments on long-term borrowings	(39,200)	—	—
Repurchase of common stock	(14,964)	(4,481)	(5,340)
Net cash provided by (used in) financing activities	127,622	(1,404)	(3,417)
Effect of currency exchange rate changes on cash	1,782	(270)	(251)
Net increase (decrease) in cash and cash equivalents	69,079	(4,784)	17,852
Cash and cash equivalents, beginning of period	59,152	63,936	46,084
Cash and cash equivalents, end of period	$128,231	$59,152	$63,936

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

Table of Contents

Carbonite, Inc.
Consolidated Statements of Cash Flows (continued)

Supplemental disclosure of cash flow information			
Cash paid for income taxes	$820	$1,160	$1,760
Cash paid for interest	$1,767	$—	$—
Supplemental disclosure of non-cash investing and financing activities			
Capitalization of stock-based compensation	$218	$83	$—
Purchases of property and equipment included in accounts payable and accrued expenses	$(641)	$894	$(1,805)
Issuance of common stock for acquisition	$5,733	$—	$—

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

Table of Contents

Carbonite, Inc.
Notes to Consolidated Financial Statements
1. Nature of Business
The Company was incorporated in the State of Delaware on February 10, 2005 and provides backup, disaster recovery, high availability and workload migration technology (the "Carbonite Data Protection Platform"). The Carbonite Data Protection Platform supports businesses in locations around the world with secure and scalable global cloud infrastructure.
The Company views its operations and manages its business as one operating segment.
2. Summary of Significant Accounting Policies
Principles of Consolidation
The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions between the Company and its subsidiaries have been eliminated in consolidation.
During 2016, the Company recorded an adjustment for payments owed to foreign tax authorities inclusive of any interest and penalties that were not accrued for in prior fiscal years. This adjustment was recorded as an increase to accrued liabilities for approximately $1.2 million with a corresponding expense recorded in general and administrative expenses in the condensed consolidated statements of operations. Of this $1.2 million adjustment, approximately $0.2 million related to the year ended December 31, 2015 and $1.0 million related to prior years. The Company concluded the effect of these adjustments were not material to its consolidated financial statements for the current period or any of the prior periods.
Use of Estimates
The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Although the Company regularly assesses these estimates, actual results could differ materially from these estimates. Changes in estimates are recorded in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances. Actual results may differ from management's estimates if past experience or other assumptions do not turn out to be substantially accurate, even if such assumptions are reasonable when made.
Translation of Foreign Currencies
The functional currency of the Company's foreign subsidiaries is generally the local currency in which they operate. The Company translates foreign subsidiaries' assets and liabilities at the exchange rates in effect at period-end and revenues and expenses at the average exchange rates in effect during the period. Gains and losses from foreign currency translation are recorded as a component of other comprehensive loss.
Foreign currency transaction gains and losses are included in other income (expense), net in the consolidated statements of operations, net of losses and gains from any related derivative financial instruments. Transaction gains (losses) were $5.1 million, $(0.8) million and $(3.5) million during the years ended December 31, 2017, 2016, and 2015, respectively.
Concentration of Credit Risk
Financial instruments that potentially subject the Company to credit risk primarily consist of cash and cash equivalents, derivatives, and accounts receivable. The Company maintains its cash and cash equivalents and derivatives with high-quality financial institutions and, consequently, the Company believes that such funds are subject to minimal credit risk. Cash equivalents consist of investment grade debt securities or money market funds investing in such securities.
The Company regularly reviews its accounts receivable related to customers billed on traditional credit terms and provides an allowance for expected credit losses. Due to these factors, no additional credit risk beyond amounts provided for collection losses is believed by management to be probable in the Company's accounts receivable. As of December 31, 2017, no customer represented 10% or more of the Company's accounts receivable balance, compared

to one customer as of December 31, 2016. At both December 31, 2017 and December 31, 2016, no customer represented 10% or more of the Company’s revenue for all periods presented.

Table of Contents

Revenue Recognition

The Company derives revenue from Software-as-a-Service ("SaaS") arrangements and multiple element arrangements. The Company recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable and (iv) collectability is probable. The Company's revenue recognition policies for these revenue streams are discussed below.

The Company derives the majority of its revenue from data protection solutions sold as subscriptions. These services are standalone independent service solutions, which are generally contracted for a one- to three-year term. Subscription arrangements include access to use the Company’s services via the internet. The Company recognizes revenue in accordance with Accounting Standards Codification (“ASC”) 605-10, Overall Revenue Recognition. Subscription revenue is recognized ratably on a daily basis upon activation of service over the subscription period, when persuasive evidence of an arrangement with a customer exists, the subscription period has been activated, the price is fixed or determinable, and collection is reasonably assured. Amounts received prior to satisfying the above revenue recognition criteria are recorded as deferred revenue in the accompanying consolidated balance sheets.

The Company enters into multiple element arrangements, which may include a combination of software and non-software related products and services, including subscription services, software licenses, hardware, professional services and post-contract customer support ("PCS"). In such arrangements, the Company follows the multiple element guidance in accordance with ASC 605-25, Revenue Recognition - Multiple-Element Arrangements. The Company allocates revenue to each element based on the relative selling price method to the overall arrangement consideration. The selling price for a deliverable is based on vendor-specific objective evidence ("VSOE"), if available, Third Party Evidence ("TPE"), if VSOE is not available, or Best Estimate of Selling Price ("BESP"), if neither VSOE nor TPE are available. Typically, the Company uses BESP for these arrangements.

For its software arrangements, which often contain multiple revenue elements, such as software licenses, professional services and PCS, the Company recognizes and defers revenue using the residual method in accordance with ASC 985-605, Software. Revenue is allocated to each element, excluding the software license, based on VSOE. VSOE is limited to the price charged when the element is sold separately or, for an element not yet being sold separately, the price established by management having the relevant authority. The Company does not have VSOE for its software licenses since they are seldom sold separately. Accordingly, revenue is allocated to the software license using the residual value method. Under the residual value method, revenue equal to VSOE of each undelivered element is initially deferred and any remaining arrangement fee is then allocated to the software license.

Hardware revenues are generally recognized upon delivery or upon installation, if required. Professional services are generally provided on a time and materials basis and revenue from professional services, including installation services, is recognized as services are performed, or upon installation if required.

The Company excludes any taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction (i.e., sales, use and value added) from its revenue and costs. Reimbursement received for shipping costs is recorded as revenue.

Deferred product costs represent deferred cost of revenue for product shipments to customers prior to satisfaction of the Company's revenue recognition criteria. Such costs are classified as prepaid expense and other current assets if the related deferred revenue is initially classified as current. Deferred product costs are recorded in other assets if the related deferred revenue is initially classified as long-term, and remain a component of noncurrent assets until such costs are recognized in the consolidated statement of operations. In certain cases these costs are recognized ratably over the customer contract term.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original purchase maturity of 90 days or less to be the equivalent of cash for the purpose of balance sheet and statement of cash flows presentation.

Property and Equipment

Property and equipment are stated at cost. Expenditures for repairs and maintenance are charged to expense as incurred. Upon retirement or sale, the cost of the assets disposed of and the related accumulated depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in the consolidated statement of operations.

Table of Contents

Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the assets, which are as follows:

Asset Classification	Estimated Useful Life
Computer equipment	2 - 4 years
Appliances	3 years
Purchased software	3 years
Internal-use software	2 - 7 years
Furniture and fixtures	5 years
Leasehold improvements	Shorter of useful life or remaining life of lease

Impairment of Long-Lived Assets

The Company reviews property and equipment and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the recoverability of these assets is considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds their estimated fair value. The details of the Company's impairment assessment are included in Note 4 - Fair Value of Financial Instruments.

Business Combinations

In accordance with ASC 805, Business Combinations ("ASC 805"), the Company recognizes tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. Determining these fair values requires management to make significant estimates and assumptions, especially with respect to intangible assets.

The Company recognizes identifiable assets acquired and liabilities assumed at their acquisition date fair value. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair value of the assets acquired and the liabilities assumed and represents the expected future economic benefits arising from other assets acquired that are not individually identified and separately recognized. While the Company uses its best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, its estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill to the extent that it identifies adjustments to the preliminary purchase price allocation. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations.

Goodwill and Acquired Intangible Assets

The Company records goodwill when consideration paid in a business acquisition exceeds the value of the net assets acquired. The Company's estimates of fair value are based upon assumptions believed to be reasonable at that time but that are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events or circumstances may occur, which may affect the accuracy or validity of such assumptions, estimates or actual results.

Goodwill is not amortized, but rather is tested for impairment annually or more frequently at the reporting unit level if facts and circumstances warrant a review. The Company has determined that there is a single reporting unit for the purpose of conducting this goodwill impairment assessment. The Company estimates the fair value of the reporting unit (based on the Company's market capitalization) and compares this amount to the carrying value of the reporting unit (as reflected by the Company's total stockholders' equity). If the Company determines that the carrying value of the reporting unit exceeds its fair value, an impairment charge would be required. The Company's annual goodwill impairment test is performed at November 30th of each year. To date, the Company has not identified any impairment to goodwill.

Intangible assets acquired in a business combination are recorded at their estimated fair values at the date of acquisition. The Company amortizes acquired intangible assets over their estimated useful lives based on the pattern of consumption of the economic benefits or, if that pattern cannot be readily determined, on a straight-line basis. The Company reviews its intangible assets with definite lives for impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable. The details of the Company's intangible asset impairment assessment are included in Note 4 - Fair Value of Financial Instruments.

Table of Contents

Software Development Costs

The Company accounts for its software and website development costs in accordance with the guidance in ASC 350-40, Internal-Use Software and ASC 350-50, Website Development Costs. The costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the application is substantially complete and ready for its intended use, at which point such costs are amortized over the estimated useful life of the software. As of December 31, 2017 and December 31, 2016, the Company had capitalized $6.8 million and $2.4 million of costs associated with internal-use software, respectively. For the years ended December 31, 2017, 2016, and 2015, the Company recorded $0.5 million, $0.4 million, and $0.3 million of amortization expense related to capitalized internal-use software, respectively.

Purchased software costs that qualify for capitalization are accounted for in accordance with ASC 985, Software, Subtopic 20, Costs of Software to Be Sold, Leased, or Marketed ("ASC 985"). Purchased software represents software licenses purchased from third parties. Development costs for software to be sold externally incurred subsequent to the establishment of technological feasibility or if it meets the future alternative use criteria, but prior to the general release of the product, are capitalized and, upon general release, are amortized on a straight-line basis over the estimated useful life of the software. The asset associated with purchased software is included in acquired intangible assets, net in the consolidated balance sheets.

Advertising Expenses

The Company expenses advertising costs as incurred. During the years ended December 31, 2017, 2016, and 2015, the Company incurred approximately $16.4 million, $17.8 million, and $15.0 million of advertising expense, respectively, which is included in sales and marketing expense in the accompanying statements of operations.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount. The allowance for doubtful accounts reflects the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company specifically analyzes historical bad debts, the aging of the accounts receivable, creditworthiness, and current economic trends to evaluate the allowance for doubtful accounts. Past due balances are reviewed individually for collectability. Account balances are charged against the allowance for doubtful accounts after all means of collection have been exhausted, and the potential for recovery is considered remote. The allowance for doubtful accounts is recorded as a reduction in accounts receivable. The Company also maintains an allowance for sales returns and credits to customers for which the Company has the ability to estimate based upon historical experience. The allowance for sales returns and credits is recorded as a reduction in revenue.

The following is a rollforward of the Company's accounts receivable reserve and allowance (in thousands):

	Balance Beginning of Period	Charged to Statement of Operations	Deductions (1)	Balance End of Period
Year ended December 31, 2017	$ 1,587	$ (444)	$ (149)	$ 994
Year ended December 31, 2016	$ 139	$ 1,462	$ (14)	$ 1,587
Year ended December 31, 2015	$ 156	$ (17)	$ —	$ 139

(1) Deductions include actual accounts written-off, net of recoveries and credits issued.

Income Taxes

The Company provides for income taxes under the liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates in effect when the differences are expected to reverse. In certain jurisdictions, deferred tax assets are reduced by a valuation allowance to reflect the uncertainty associated with their ultimate realization. The Company accounts for uncertain tax positions recognized in the consolidated financial statements by prescribing a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Due to a history of losses, the Company has provided a full valuation allowance against its deferred tax assets in the U.S. and in certain foreign jurisdictions that are in a deferred tax asset position for which the Company is uncertain as to their ultimate realization. This is more fully described in Note 11- Income Taxes. The ability to utilize these deferred tax assets may be restricted or eliminated by changes in the Company's ownership, changes in legislation, and other rules affecting the ability to offset future taxable income with losses or other tax attributes from prior periods. Future determinations on the need for a valuation allowance on the Company's net deferred tax assets will be made on an annual basis.

Table of Contents

Segment Information

Operating segments are defined as components of an enterprise for which separate financial information is regularly evaluated by the chief operating decision maker (“CODM”), which is the Company’s chief executive officer, in deciding how to allocate resources and assess performance. The Company’s CODM evaluates the Company’s financial information and resources and assess the performance of these resources on a consolidated basis. The Company views its operations and manages its business in one operating segment. Since the Company operates in one operating segment, all required financial segment information can be found in the consolidated financial statements.

Stock-Based Compensation

The Company recognizes stock-based compensation as an expense in the financial statements using the estimated grant-date fair value over the individual award's requisite service period, which equals the vesting periods in all cases but for certain market-based awards. The Company uses the straight-line amortization method for recognizing stock-based compensation expense. The Company estimates the fair value of stock options on the date of grant using the Black-Scholes option-pricing model and the fair value of stock options and awards with market-based vesting conditions on the date of grant using a Monte Carlo simulation. These models require the use of highly subjective estimates and assumptions, including expected stock price volatility, expected term of an award, risk-free interest rate, and expected dividend yield. The grant date fair value of restricted stock units granted is based on the fair value of the underlying common stock on the date of grant.

Costs Associated with Exit Activities

The determination of when the Company accrues for employee involuntary termination benefits depends on whether the termination benefits are provided under an ongoing benefit arrangement or under a one-time benefit arrangement. The Company accounts for employee termination benefits that represent a one-time benefit in accordance with ASC 420, Exit or Disposal Cost Obligations ("ASC 420"). The Company accounts for ongoing benefit arrangements in accordance with ASC 712, Compensation-Nonretirement Postemployment Benefits. Other costs associated with exit activities include contract termination costs, including costs related to leased facilities to be abandoned or subleased, expensed in accordance with ASC 420.

Recently Adopted Accounting Standards

In March 2016, the FASB issued Accounting Standards Updated ("ASU") 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). The amendments in this ASU involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. On January 1, 2017, the Company adopted ASU 2016-09. In connection with the adoption of this standard, the Company changed its accounting policy to record actual forfeitures as they occur, rather than estimating forfeitures by applying a forfeiture rate. As this policy change was applied prospectively, prior periods have not been adjusted. As a result of adoption in 2017, the Company recorded an immaterial impact to retained earnings and additional paid in capital. The Company retrospectively adjusted the classification of excess tax benefits on the statement of cash flow from financing to operating; the effect was immaterial.

In January 2017, the FASB issued ASU No. 2017-01, Clarifying the Definition of a Business (“ASU 2017-01”). The amendments in this ASU clarify the requirements for a set of activities to be considered a business and narrows the definition of an output. ASU 2017-01 is effective for fiscal years, and interim periods within, beginning after December 15, 2017. Early adoption is permitted. A reporting entity must apply the amendments in ASU 2017-01 using a prospective approach. For the year ended December 31, 2017, the Company adopted this standard and the adoption did not have a material impact on the consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting ("ASU 2017-09"). The amendments in ASU 2017-09 clarify that modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the changes in terms or conditions. As early adoption was permitted, the Company adopted this standard in 2017, which did not have a material impact on the consolidated financial statements.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which updated guidance and disclosure requirements for recognizing revenue. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The revenue standard is based on the principle that revenue should be recognized to depict the transfer of promised goods or

57

Table of Contents

services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March 2016, the FASB issued an amendment to the standard, ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued an additional amendment to the standard, ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing ("ASU 2016-10"), which clarifies the guidance on identifying performance obligations and the implementation guidance on licensing. The collective guidance will be effective for the Company on January 1, 2018. The guidance may be applied retrospectively to each prior period presented (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial adoption (modified retrospective). The Company will adopt ASU 2014-09 in the first quarter of 2018.

The Company will apply the modified retrospective transition method, which will result in an adjustment to retained earnings for the cumulative effect of applying the standard to all contracts not completed as of the adoption date. The Company does not expect revenue recognition to be significantly impacted on the majority of its offerings. The Company expects changes in accounting related to term licenses and software contracts with a minimum monthly commitment which will have the effect of accelerating revenue recognition.

Additionally, the Company has also assessed the impact of capitalizing incremental costs associated with obtaining customer contracts, which are primarily comprised of commission and incentive payments. Currently, these costs are expensed in the period they are incurred. Under the updated guidance, a majority of these costs will be recognized as an asset on the Company's consolidated balance sheets and recognized over the appropriate amortization period.

The Company currently expects the impact to retained earnings of adoption to be between $12.0 million and $15.0 million. While the majority of the impact will result from capitalization of incremental costs associated with obtaining customer contracts, the Company expects an increase in assets and decrease in liabilities with respect to revenue in the range of $4.5 million and $5.5 million. The Company does not foresee any material impact on its consolidated statements of cash flow. The Company is finalizing the impact of the standard on its consolidated financial statements and disclosures, and changes to its systems, processes, and internal controls. The Company's preliminary assessments are subject to change.

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize the assets and liabilities on their balance sheet for the rights and obligations created by most leases and continue to recognize expenses on their income statements over the lease term. It will also require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. The guidance is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the effect of the standard on its consolidated financial statements, and expects that upon adoption a significant lease obligation and right to use asset will be recognized. Refer to Note 12 - Commitments and Contingencies for additional information related to the Company's lease obligations.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16"). The purpose of ASU 2016-16 is to simplify the income tax accounting of an intra-entity transfer of an asset other than inventory and to record its effect when the transfer occurs. The guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods and early adoption is permitted. The Company is currently evaluating the effect of the standard on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"). ASU 2016-18 requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. The guidance is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those fiscal years. The Company does not expect any material impact from adoption of this guidance on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment. The standard eliminates the second step in the goodwill impairment test which requires an entity to determine the implied fair value of the reporting unit's goodwill. The standard is effective for annual and interim goodwill impairment tests conducted in fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the effect of the standard on its consolidated financial statements.

3. Net Loss Per Share

Basic net loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period. For the periods in which the Company reports net income, diluted net income per share is

Table of Contents

calculated by dividing net income by the sum of the weighted average number of common shares and potentially dilutive securities outstanding during the period using the treasury stock method. For the periods in which the Company reports a net loss, the dilutive effect of the Company's outstanding common stock equivalents are not included in the calculation of diluted loss per share as they would be anti-dilutive. Accordingly, basis and diluted net loss per share for those periods are identical.

The following table sets forth the computation of basic and diluted net loss per share:

	Years Ended December 31,		
	2017	2016	2015
	(In thousands, except share and per share data)		
Numerator:			
Net loss	$(4,002)	$(4,099)	$(21,615)
Denominator:			
Weighted average common shares outstanding, basic	27,779	27,029	27,188
Effect of potential dilutive common shares	—	—	—
Weighted average shares outstanding, diluted	27,779	27,029	27,188
Basic and diluted net loss per share	$(0.14)	$(0.15)	$(0.80)

The following options to purchase common shares and restricted stock units/awards have been excluded from the computation of diluted net loss per share because they had an anti-dilutive impact, or because they related to share-based awards that were contingently issuable, for which the applicable vesting conditions had not been satisfied (in thousands):

	Years Ended December 31,		
	2017	2016	2015
Options to purchase common shares (1)	1,148	1,585	3,226
Restricted stock units/awards	1,696	1,853	1,101
Total	2,844	3,438	4,327

(1) Includes shares purchasable under the Company's employee stock purchase plan which were determined to be anti-dilutive.

The Company has outstanding convertible senior notes (the "Convertible Notes") issued in April 2017 that have the potential to dilute basic earnings per share in future periods which have been excluded from the calculation of diluted earnings per share. As the closing price of the Company's common stock on December 31, 2017 did not exceed the conversion price on the Convertible Notes of $25.84 and the Company has the ability and intent to settle the notes in cash, there was no impact on diluted earnings per share during the year ended December 31, 2017.

4. Fair Value of Financial Instruments

Derivative Instruments

Non-designated Foreign Currency Contracts

The Company uses foreign currency forward contracts as part of our strategy to manage exposure related to Euro denominated intercompany monetary assets and liabilities. The Company has not designated these forward contracts as hedging instruments pursuant to ASC 815, Derivatives and Hedging. Accordingly, the Company recorded the fair value of these contracts at the end of each reporting period in the consolidated balance sheets, with changes in the fair value recorded in earnings as other income (expense), net in the consolidated statements of operations. Cash flows from the settlement of these non-designated foreign currency contracts are reported in cash flows from investing activities. These currency forward contracts are entered into for periods consistent with currency transaction exposures, generally less than one year. At December 31, 2017 and 2016, we had outstanding contracts with a total notional value of $47.8 million and $37.7 million, respectively.

Table of Contents

The following table provides a quantitative summary of the fair value of derivative instruments not designated as hedging instruments as of December 31, 2017 and 2016 (in thousands):

Description	Balance Sheet Classification	Fair Value December 31, 2017	December 31, 2016
		(in thousands)	
Derivative Assets:			
Non-Designated Hedging Instruments			
Foreign currency contracts	Prepaid expenses and other current assets	$ —	$ 380
Total Derivative Assets		$ —	$ 380
Derivative Liabilities:			
Non-Designated Hedging Instruments			
Foreign currency contracts	Accrued expenses	$ 439	$ —
Total Derivative Liabilities		$ 439	$ —

The following tables summarize the (losses) gains related to derivative instruments not designated as hedging instruments for the year ended December 31, 2017, 2016 and 2015 (in thousands):

	Location in Statement of Operations	Years Ended December 31, 2017	2016	2015
Foreign currency contracts	Other income (expense), net	$(5,324)	$1,700	$3,404

Other Fair Value Measurements

The Company applies the guidance in ASC 820, Fair Value Measurements and Disclosures, ("ASC 820"), which provides that fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar assets and liabilities or market corroborated inputs.

Level 3: Unobservable inputs are used when little or no market data is available, which requires the Company to develop its own assumptions about how market participants would value the assets or liabilities. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

Table of Contents

The Company’s assets and liabilities that are measured at fair value on a recurring basis, by level, within the fair value hierarchy are summarized as follows (in thousands):

	December 31, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash equivalents—money market funds	$96,295	$ —	$ —	$96,295	$20,728	$ —	$ —	$20,728
Foreign currency exchange contracts	—	—	—	—	—	380	—	380
Total	$96,295	$ —	$ —	$96,295	$20,728	$ 380	$ —	$21,108
Liabilities:								
Foreign currency exchange contracts	—	439	—	439	—	—	—	—
Total	$—	$ 439	$ —	$439	$—	$ —	$ —	$—

The Company’s investments in money market funds are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. Our foreign currency exchange contracts are classified as Level 2 within the fair value hierarchy as they are valued using professional pricing sources for identical or comparable instruments, rather than direct observations of quoted prices in active markets. No assets or liabilities are classified as Level 3 within the fair value hierarchy.

The Company estimates the fair value of its Convertible Notes using quoted market prices in an inactive market on the last trading day of the reporting period and has been classified as Level 2 within the fair value hierarchy. The principal amount, carrying value of the Convertible Notes (the carrying value excludes the equity component of the Convertible Notes classified in equity) and related estimated fair value of the Company's Convertible Notes reported in the consolidated balance sheet as of December 31, 2017 are as follows (in thousands):

	December 31, 2017		
	Principal	Carrying Value	Fair Value
Convertible Notes	$143,750	$111,819	$174,548

The carrying amounts for cash and cash equivalents, accounts receivable, and accounts payable and accrued expenses approximate fair value because of their short maturities.

Non-Recurring Fair Value Measures

Certain non-financial assets, such as goodwill, intangible assets and property and equipment, are measured at fair value on a non-recurring basis and are adjusted to fair value only if an impairment charge is recognized. Such fair value measures are considered to be within the Level 3 valuation hierarchy due to the subjective nature of the unobservable inputs used.

During the year ended December 31, 2017, the Company recorded impairment charges totaling $1.0 million related to capitalized software projects that were discontinued. The Company abandoned specific projects as competing technology was acquired that accelerated its time to market. This impairment assessment utilized company-specific assumptions. The Company recorded the impairment charge in the research and development caption in the consolidated statements of operations. Additionally, during the year ended December 31, 2017, the Company recorded impairment charges totaling $0.4 million related to intangible assets whose carrying values were assessed to be unrecoverable. Of the total impairment charges, $0.2 million was recorded in the cost of revenue caption in the consolidated statements of operations related to an impairment of developed technology intangible asset, and $0.2 million was recorded in the sales and marketing caption in the consolidated statements of operations related to an impairment of customer relationship intangible asset.

5. Acquisitions

Acquisition-Related Expenses

In the twelve months ended December 31, 2017, 2016 and 2015 acquisition-related expenses were $3.9 million, $4.5 million, $5.6 million, respectively. Acquisition-related expenses have been included primarily in general and administrative expenses in the consolidated statements of operations. The Company's current year acquisition costs relate to the acquisitions of Datacastle Corporation ("Datacastle") and DoubleTake Software, Inc. ("DoubleTake") and the prior year acquisition costs primarily relate to the acquisition of certain assets of EVault, Inc. ("EVault").

61

Table of Contents

2017 Acquisitions

Datacastle

On August 14, 2017, the Company entered into an asset purchase agreement with Datacastle to purchase all the assets associated with Datacastle's cloud data backup, caching and analytics software and services for data protection purposes, including Datacastle Red, Datacastle Analytics and Datacastle QuickCache products, for a purchase price of $9.6 million in cash at closing. The acquisition of Datacastle has been accounted for as a business combination and, the Company has recorded the assets acquired and liabilities assumed at their respective fair values as of the acquisition date. Pro forma information has not been presented, as the operating results of Datacastle are not material.

The following tables summarize the final purchase price allocation (in thousands):

Fair value of consideration transferred:	
Cash	$9,600
Fair value of total acquisition consideration	$9,600

Fair value of assets acquired and liabilities assumed:	
Accounts receivable	$298
Prepaid expenses and other current assets	90
Intangible assets	3,440
Goodwill	6,267
Total assets acquired	10,095
Accrued liabilities	(175)
Deferred revenue	(320)
Net assets acquired	$9,600

The Company engaged a third-party valuation firm to assist in the valuation of intangible assets and deferred revenue. The fair values of the remaining Datacastle assets and liabilities noted above approximate their carrying values at August 14, 2017. In connection with the acquisition of Datacastle, goodwill was recognized as the excess purchase price over the fair value of net asset acquired. The goodwill recorded in connection with this transaction is primarily related to the ability to leverage existing sales and marketing capacity and customer base with respect to the acquired product, as well as revenue and cash flow projections associated with future technologies. Goodwill from the acquisition of Datacastle is included within the Company’s one reporting unit and will be included in the annual review for impairment. The goodwill is fully deductible for tax purposes.

The significant intangible assets identified in the purchase price allocation include developed technology and customer relationships, which are amortized over their respective useful lives on a straight line basis which approximates the underlying cash flows. To value the developed technology asset, the Company utilized the income approach, specifically a discounted cash-flow method known as the excess earnings method. The Company utilized the distributor earnings approach to derive the fair value of the customer relationships. The following table presents the fair values and useful lives of the identifiable intangible assets acquired and risk-adjusted discount rates used in the valuation:

	Amount	Weighted Average Useful Life	Risk-Adjusted Discount Rates used in Valuation
	(in thousands)	(in years)	
Developed technology	$ 2,550	7	11.0%
Customer relationships	890	10	13.0%
Total identifiable intangible assets	$ 3,440		

DoubleTake

On January 31, 2017, the Company completed the acquisition of all the outstanding capital stock of DoubleTake for a purchase price of $65.9 million, which was comprised of $59.7 million in cash paid at closing, net of cash acquired, 332,326

62

Table of Contents

shares of our common stock with a fair value of $5.7 million and the working capital payment of $0.5 million. The working capital settlement was paid in June 2017. DoubleTake develops, sells, and supports affordable software that allows IT organizations of all sizes to move, manage, protect, and recover workloads across any distance and any combination of physical and virtual server environments. DoubleTake's products and services are marketed and sold worldwide through their direct sales force and a network of business partners and distributors. In connection with the acquisition of DoubleTake, the Company negotiated a transition services agreement ("TSA") to cover certain consulting, technology and accounting services for up to nine months post close. The Company incurred $1.2 million under the TSA. The acquisition of DoubleTake has been accounted for as a business combination and the Company has recorded the assets acquired and liabilities assumed at their respective fair values as of the acquisition date.
The following tables summarize the final purchase price allocation (in thousands):

Fair value of consideration transferred:	
Cash, net of cash acquired	$59,740
Fair value of equity instruments	5,733
Working capital payment	458
Fair value of total consideration	$65,931

Fair value of assets acquired and liabilities assumed:	
Accounts receivable	$6,058
Prepaid and other current assets	158
Property and equipment	428
Other long-term assets	42
Intangible assets	36,700
Goodwill	49,473
Total assets acquired	92,859
Accounts payable	(636)
Accrued liabilities	(2,156)
Deferred revenues	(9,100)
Deferred tax liability	(14,918)
Other non-current liabilities	(118)
Net assets acquired	$65,931

The Company engaged a third-party valuation firm to assist in the valuation of intangible assets consisting of developed technology, customer relationships, and the Double-Take trade name as well as in the valuation of deferred revenue. The fair values of the remaining DoubleTake assets and liabilities noted above approximate their carrying values at January 31, 2017.
In connection with the acquisition of DoubleTake, goodwill of $49.5 million was recognized for the excess purchase price over the fair value of the net assets acquired. The Company believes the goodwill recorded in connection with this transaction is primarily related to the investment value of the future enhancements of our product offering and solutions offering. Goodwill from the acquisition of DoubleTake is included within the Company's one reporting unit and will be included in the annual review for impairment. Goodwill is not deductible for tax purposes as this acquisition was a stock purchase.
The significant intangible assets identified in the purchase price allocation discussed above include developed technology, trade names and customer relationships, which are amortized over their estimated useful lives based on the pattern of consumption of the economic benefits or, if that pattern cannot be readily determined, on a straight-line basis. Developed technology consists of products that have reached technological feasibility and trade names represent acquired company and product names. To value the developed technology asset, the Company utilized the income approach, specifically a discounted cash-flow method known as the multi-period excess earnings method. The trade name intangible was valued using a relief from royalty method, which considers both the market approach and the income approach. Customer relationships represent the underlying relationships with certain customers to provide ongoing services for products sold. The Company utilized the replacement cost/lost profits methodology to derive the fair value of the customer relationships. The Company utilized accounting guidance related to intangible assets which

lists the pertinent factors to be considered when estimating the useful life of an intangible asset. These factors include, in part, a review of the expected use by the Company of the assets acquired,

Table of Contents

the expected useful life of another asset (or group of assets) related to the acquired assets and legal, regulatory or other contractual provisions that may limit the useful life of an acquired asset.

The following table presents the fair values and useful lives of the identifiable intangible assets acquired and risk-adjusted discount rates used in the valuation:

	Amount	Weighted Average Useful Life	Risk-Adjusted Discount Rates used in Valuation
	(in thousands)	(in years)	
Developed technology	$ 29,900	5	13.5%
Customer relationships	4,900	6	12.0%
Trade names	1,900	8	12.0%
Total identifiable intangible assets	$ 36,700		

The Company determined that disclosing the amount of DoubleTake related revenue and expenses included in the consolidated statements of operations is impracticable as certain operations were integrated into the operations of the Company. Furthermore, the Company operates as a one reportable segment and does not consider DoubleTake a separate reporting segment.

Pro Forma Financial Information (unaudited)

The following unaudited pro forma information presents the consolidated results of operations of the Company and DoubleTake for the year ended December 31, 2016 as if the acquisition of DoubleTake had been completed on January 1, 2016. These pro forma consolidated financial results have been prepared for comparative purposes only and include certain adjustments that reflect pro forma results of operations, such as increased amortization for the fair value of acquired intangible assets, fair value adjustment for deferred revenue, elimination of interest expense with a promissory note due to the parent company, and adjustments relating to the tax effect of combining the Carbonite and DoubleTake businesses.

The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings which may result from the consolidation of the operations of the Company and DoubleTake. Accordingly, these unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of the results of operations that actually would have been achieved had the acquisition occurred as of January 1, 2016, nor are they intended to represent or be indicative of future results of operations (in thousands, except per share data):

	Years Ended December 31,	
	2017	2016
Pro forma revenue	$242,743	$242,348
Pro forma net loss	$(4,037)	$(13,671)
Pro forma net loss per common share:		
Basic	$(0.15)	$(0.50)
Diluted	$(0.15)	$(0.50)

2016 Acquisition

EVault

On January 13, 2016, the Company completed the acquisition of the North American cloud-based business continuity and disaster recovery assets of EVault and the acquisition of the assets used in the European Union operations of EVault was completed on March 31, 2016. The Company acquired EVault to offer business continuity and disaster recovery solutions designed for SMBs and small enterprises, including EVault Cloud Backup and Recovery, EVault Backup and Recovery Appliance and EVault Cloud Resiliency Services DRaaS offering.

The acquisition of EVault has been accounted for as a business combination and, in accordance with ASC 805, the Company has recorded the assets acquired and liabilities assumed at their respective fair values as of the acquisition dates.

In connection with the acquisition of EVault, the Company negotiated a transition services agreement ("EVault TSA") that provides a credit to be used against future services provided under the terms of the agreement. The Company estimated the fair

64

Table of Contents

value of the EVault TSA credit to be $2.4 million and accounted for it as a reduction in consideration transferred in the purchase price allocation. The EVault TSA credit was recorded in prepaid expenses and other current assets on the consolidated balance sheet as of the acquisition date. The EVault TSA credit was fully expensed in 2016, and as such, there is no remaining balance of the EVault TSA credit on the consolidated balance sheet as of December 31, 2017.
The following tables summarize the final purchase price allocation (in thousands):

Fair value of consideration transferred:	
Cash	$14,000
Fair value of prepaid EVault TSA	(2,375)
Fair value of total acquisition consideration	$11,625

Fair value of assets acquired and liabilities assumed:	
Prepaid expenses	$1,330
Property and equipment	6,776
Intangible assets	9,150
Other long-term assets	564
Goodwill	989
Total assets acquired	18,809
Deferred revenue	(6,830)
Accrued liabilities	(354)
Net assets acquired	$11,625

The significant intangible assets identified in the purchase price allocation discussed above include developed technology, trade names and customer relationships, which are amortized over their respective useful lives on a straight-line basis. Developed technology consists of products that have reached technological feasibility and trade names represent acquired company and product names. To value the developed technology asset, the Company utilized the income approach, specifically a discounted cash-flow method known as the multi-period excess earnings method. The trade name intangible was valued using a relief from royalty method, which considers both the market approach and the income approach. Customer relationships represent the underlying relationships with certain customers to provide ongoing services for products sold. The Company utilized the replacement cost/lost profits methodology to derive the fair value of the customer relationships.
The following table presents the fair values and useful lives of the identifiable intangible assets acquired and risk-adjusted discount rates used in the valuation:

	Amount	Weighted Average Useful Life	Risk-Adjusted Discount Rates used in Valuation
	(in thousands)	(in years)	
Developed technology	$ 5,650	4	15%
Customer relationships	2,500	6	14%
Trade names	1,000	7	14%
Total identifiable intangible assets	$ 9,150		

Pro Forma Financial Information (unaudited)
The following unaudited pro forma information presents the condensed combined results of operations of the Company and EVault for the twelve months ended December 31, 2015 as if the acquisition of EVault had been completed on January 1, 2015. These pro forma condensed consolidated financial results have been prepared for comparative purposes only and include certain adjustments that reflect pro forma results of operations, such as increased amortization for the fair value of acquired intangible assets, fair value adjustments (step-downs) for property, plant and equipment and deferred revenue, reversal of revenues and costs directly attributable to assets and products not acquired, and adjustments relating to the tax effect of combining the Company and EVault businesses.

Table of Contents

The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings which may result from the consolidation of the operations of the Company and EVault. Accordingly, these unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of the results of operations that actually would have been achieved had the acquisition occurred as of January 1, 2015, nor are they intended to represent or be indicative of future results of operations (in thousands):

	Year Ended December 31, 2015
Revenue	$220,403
Net loss	$(102,376)
Basic and diluted net loss per share	$(3.77)
Weighted-average number of common shares used in computing basic and diluted net loss per share	27,187,910

The pro forma financial information shown above includes a nonrecurring adjustment of $3.3 million, to eliminate transaction costs directly attributable to the acquisition incurred by the Company for the year ended December 31, 2015, in arriving at the pro forma net loss shown above.

2015 Acquisitions

SMS Backup

On October 23, 2015, the Company acquired all intellectual property rights in connection with the SMS Backup & Restore and Call Log Backup and Restore applications ("SMS") for total consideration of approximately $0.3 million. The Company recorded identifiable intangible assets related to customer relationships of $0.3 million. As of the acquisition date, the customer relationships had weighted-average useful lives of 6.0 years. As of December 31, 2017, there was no remaining carrying value associated with this acquisition as the technology was sold.

Rebit, Inc.

On August 11, 2015, the Company acquired certain assets of Rebit, Inc. ("Rebit") for total consideration of approximately $1.3 million, which included an initial cash payment of $1.0 million and an estimated fair value of $0.3 million for additional consideration which was paid one year from the date of acquisition. The Company recorded goodwill in the amount of $0.6 million and identifiable intangible assets of $0.7 million. The goodwill is fully deductible for tax purposes. As of the acquisition date, developed technology and customer relationships had weighted-average useful lives of 6.0 years and 4.0 years, respectively. As of December 31, 2017, there was no remaining carrying value associated with this acquisition as the technology was sold.

The results of operations for the 2015 acquisitions have been included in the Company's operations since the date of acquisition and were not material for the periods presented. The acquisitions have been accounted for as a business combination and, in accordance with ASC 805, the Company has recorded the assets acquired and liabilities assumed at their respective fair values as of the acquisition date. The identifiable intangible assets were amortized over their estimated useful lives on a straight-line basis.

6. Goodwill and Acquired Intangible Assets

As of December 31, 2017 and 2016, the carrying amount of goodwill is $81.0 million and $23.7 million, respectively. The following is a rollforward of our goodwill balance (in thousands):

	December 31,	
	2017	2016
Balance at beginning of fiscal period	$23,728	$23,105
Goodwill acquired	55,740	989
Goodwill divested	(27)	—
Effect of foreign exchange rates	1,517	(366)
Balance at end of fiscal period	$80,958	$23,728

66

Table of Contents

Purchased intangible assets related to the Company's acquisitions and purchased software that form the basis of the Company's products consist of the following (in thousands):

		December 31, 2017			December 31, 2016		
	Weighted-Average Estimated Useful Life (in years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Technology-related	5.3	$46,833	$ 12,504	$34,329	$13,627	$ 5,016	$8,611
Customer relationships	6.7	11,295	3,361	7,934	6,056	2,170	3,886
Tradenames	7.5	3,677	946	2,731	1,710	456	1,254
Non-compete agreements	3.0	230	230	—	380	380	—
Total	5.6	$62,035	$ 17,041	$44,994	$21,773	$ 8,022	$13,751

The Company recorded amortization expense of $10.3 million, $3.9 million and $2.0 million for the years ended December 31, 2017, 2016 and 2015, respectively. Technology-related intangible assets consist of developed technology acquired and purchased software, which represents software licenses purchased from third parties. Amortization relating to technology-related intangible assets is recorded within cost of revenue, amortization of customer relationships is recorded within sales and marketing expenses, and amortization of tradenames and non-compete agreements is recorded within general and administrative expenses on the Company's consolidated statements of operations. Future estimated amortization expense of acquired intangibles is as follows (in thousands):

2018	$11,182
2019	11,228
2020	9,631
2021	8,431
2022	2,526
Thereafter	1,996
Total	$44,994

On October 3, 2017, the Company entered into a license and distribution agreement to be utilized in future product offerings. As consideration for granting the license, the Company agreed to pay $7.0 million in three separate milestone payments. The Company paid $1.25 million upon transfer of all licensed materials in October 2017. The other two payments of $1.25 million and $4.5 million are contingent upon the completion and acceptance of certain deliverables. Under ASC 985, these costs are capitalized as incurred and amortized over their estimated useful life on a straight-line basis. The Company capitalized $1.25 million of costs associated with purchased software as of December 31, 2017.

7. Property and Equipment

Property and equipment consists of the following (in thousands):

	December 31,	
	2017	2016
Computer equipment	$46,113	$61,518
Software	3,211	3,009
Furniture and fixtures	2,344	2,192
Leasehold improvements	11,163	9,907
Internal-use software	6,793	2,403
Appliances	1,131	349
Total property and equipment	70,755	79,378
Less accumulated depreciation and amortization	(41,965)	(55,506)
Property and equipment, net	$28,790	$23,872

Table of Contents

Depreciation and amortization expense was $11.5 million, $12.0 million, and $11.6 million for the years ended December 31, 2017, 2016, and 2015, respectively.

8. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31,	
	2017	2016
Accrued compensation	$9,892	$9,919
Accrued tax liabilities	2,280	2,267
Accrued consulting and professional fees	2,162	2,342
Accrued sales and marketing	1,124	896
Accrued facilities	1,002	1,033
Accrued interest	898	—
Accrued restructuring	688	—
Derivative liability	439	—
Accrued other expenses	3,190	3,311
Total accrued expenses	$21,675	$19,768

9. Stockholders' Equity

Share Repurchase Program

On May 11, 2015, the Company's Board of Directors authorized a $20.0 million share repurchase program, effective from May 15, 2015 through May 15, 2018. On March 22, 2017, the Company's Board of Directors authorized an increase to the share repurchase program to an aggregate amount of $30.0 million. Share repurchases are made from time-to-time in the open market, in privately negotiated transactions or otherwise, in accordance with applicable securities laws and regulations. The timing and amount of any share repurchases are determined by the Company's management based on an evaluation of market conditions, the trading price of the stock, and other factors.

The Company made the following repurchases under the program during years ended December 31, 2017 and December 31, 2016:

	December 31,	
	2017	2016
	(total cost, in thousands)	
Number of shares repurchased	767,400	574,118
Average repurchase price per share	$19.50	$7.81
Total cost	$14,964	$4,481

At December 31, 2017, approximately $5.2 million remained available under the Company's share repurchase program.

10. Stock-based Awards

The Company’s 2005 Stock Incentive Plan (the "2005 Plan") provided for granting of incentive stock options, non-qualified options, restricted stock, or other awards to the Company’s employees, officers, directors, and outside consultants up to an aggregate of 3,601,551 shares of the Company’s common stock. In conjunction with the effectiveness of the 2011 Equity Award Plan (the "2011 Plan"), the Company’s Board of Directors voted that no further stock options or other equity-based awards would be granted under the 2005 Plan.

The 2011 Plan provides for the issuance of stock options, restricted stock, restricted stock units, and other stock-based awards to the employees, officers, directors, and consultants of the Company or its subsidiaries. In connection with the approval of the 2011 Plan, the Company reserved 1,662,000 shares of common stock for issuance thereunder. On January 1st of each year, beginning on January 1, 2012, the number of shares reserved under the 2011 Plan increased or will increase by the lesser of 1,500,000 shares, 4.0% of the outstanding shares of common stock and common stock equivalents, or another amount determined by the Company’s Board of Directors. As of December 31, 2017, 2,202,005 shares of common stock were available for future grant under the 2011 Plan.

Table of Contents

Stock-based awards granted to employees generally vest over a three- or four-year period, and, in the case of stock options, expire ten years from the date of grant. Certain awards provide for accelerated vesting if there is a change of control, as defined in the 2005 or 2011 Plan, as applicable. The Company has generally granted stock options at exercise prices not less than the fair market value of its common stock on the date of grant.

Stock Options

The Company generally estimates the fair value of stock options on the date of grant using the Black-Scholes option-pricing model. This model requires the use of highly subjective estimates and assumptions, including expected stock price volatility, expected term of an award, risk-free interest rate, and expected dividend yield. The Company did not grant any stock options in the year ended December 31, 2017. The assumptions used to estimate the fair value of the stock options granted for the years ended December 31, 2016 and 2015 were as follows:

	Years Ended December 31,		
	2016		2015
Weighted-average exercise price	$8.95		$12.97
Weighted-average grant-date fair value	$4.03		$6.33
Black-Scholes Assumptions			
Risk-free interest rate	1.93	%	1.54% to 1.85%
Expected dividend yield	—		—
Expected volatility	44	%	48% to 51%
Expected term (in years)	6.1		5.5 to 6.1

Risk-Free Interest Rate

The Company bases the risk-free interest rate that it uses in the option valuation model on U.S. Treasury zero-coupon issues with remaining maturities similar to the expected term of the options.

Expected Dividend Yield

The Company has not paid, and does not anticipate paying, cash dividends on shares of common stock; therefore, the expected dividend yield is assumed to be zero in the option valuation model.

Expected Volatility

The Company estimates the expected volatility of its common stock at the date of grant based on the historical volatility of comparable public companies over the option's expected term as well as its own stock price volatility since the Company's IPO.

Expected Term

The expected term is estimated using the "simplified method." The simplified method is based on the average of the vesting tranches and the contractual life of each grant.

Table of Contents

The following table summarizes stock option activity under stock incentive plans for the year ended December 31, 2017:

	Number of Shares	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands) (1)
Outstanding at December 31, 2016	1,334,877	$ 11.32	6.85	$ 6,787
Granted	—	—		
Exercised	(452,954)	11.05		
Cancelled	(47,244)	11.45		
Outstanding at December 31, 2017	834,679	$ 11.45	5.99	$ 11,391
Exercisable as of December 31, 2017	696,382	$ 11.27	5.77	$ 9,631

(1) The aggregate intrinsic value is calculated as the positive difference between the exercise price of the underlying stock options and the market value of the Company's common stock on December 31, 2017 and December 31, 2016 as reported on the NASDAQ Stock Market.

The total intrinsic value of options exercised during the years ended December 31, 2017, 2016, and 2015 was approximately $4.2 million, $1.8 million, and $1.0 million, respectively. As of December 31, 2017, there was approximately $0.7 million of unrecognized stock-based compensation cost related to unvested stock options that is expected to be recognized over a weighted-average period of 1.07 years.

Restricted Stock Units

The Company recognizes non-cash compensation expense over the vesting term of restricted stock units. The fair value is measured based upon the number of units and the closing price of the Company's common stock underlying such units on the dates of grant. Upon vesting and settlement, each restricted stock unit entitles the holder to receive one share of common stock.

The following table summarizes all restricted stock unit activity for the year ended December 31, 2017:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock units as of December 31, 2016	1,369,996	$ 11.32
Restricted stock units granted	714,197	19.67
Restricted stock units vested	(456,687)	11.90
Restricted stock units cancelled	(209,245)	12.78
Unvested restricted stock units as of December 31, 2017	1,418,261	$ 15.12

As of December 31, 2017, there was approximately $16.3 million of unrecognized stock-based compensation cost related to unvested restricted stock units that is expected to be recognized over a weighted-average period of 2.31 years.

Restricted Stock Awards

The Company grants restricted stock awards to members of the Board of Directors annually. The fair value is measured based upon the number of units and the closing price of the Company's common stock underlying such units on the dates of grant. Awards to directors vest on the earlier of the first anniversary of the date of grant or the Company's Annual Meeting.

The following table summarizes restricted stock award activity for the year ended December 31, 2017:

	Number of Shares	Weighted Average Grant Date Fair Value

Unvested restricted stock awards as of December 31, 2016	114,622	$ 9.55
Restricted stock awards granted	50,988	21.00
Restricted stock awards vested (restriction lapsed)	(106,956)	9.52
Restricted stock awards forfeited	(375)	10.89
Unvested restricted stock awards as of December 31, 2017	58,279	$ 19.60

Table of Contents

As of December 31, 2017, there was approximately $0.5 million of unrecognized stock-based compensation cost related to unvested restricted stock units that is expected to be recognized over a weighted-average period of 0.66 years.

Equity Awards with Market-Based Vesting Conditions

During the years ended December 31, 2017, 2016, and 2015, the Company granted 168,884, 325,000 and 100,000 restricted stock units with market-based vesting conditions to certain key executives, respectively. These restricted stock units contain both market-based and service vesting conditions. The market-based vesting conditions are achieved if the closing price of the Company's common stock meets or exceeds a specified target price for 20 consecutive trading days. The awards are subject to additional service vesting which typically occurs in four equal quarterly installments over the one-year period beginning on the date the market-based vesting conditions are met. This vesting is subject to the recipient's continued service to the Company through the applicable vesting date.

The Company estimated the fair value and derived service period of the restricted stock units with market-based vesting conditions on the date of grant using a Monte-Carlo simulation. The model requires the use of subjective estimates and assumptions, including expected volatility, risk-free interest rate and dividend yield.

The grant-date stock price and assumptions used to estimate the derived service period and fair value of the equity awards with market-based vesting conditions were as follows:

	As of August 4, 2017	As February 10, 2017	As of February 1, 2016	As of June 3, 2015
Grant-date stock price	$21.15	$19.15	$8.95	$11.32
Assumptions				
Expected volatility	39 %	42 %	40 %	49 %
Risk-free interest rate	1.44 %	1.47 %	1.01 %	2.38 %
Expected dividend yield	— %	— %	— %	— %

The Company recognizes the stock-based compensation expense on equity awards with market-based vesting conditions in the consolidated statements of operations over the requisite service period. The achievement of certain market-based vesting conditions may result in the acceleration of recognizing stock-based compensation expense compared to the original valuation.

The following table summarizes equity awards with market-based vesting conditions activity for the year ended December 31, 2017:

	Options with Market-Based Vesting Conditions	Weighted Average Grant Date Fair Value	Restricted Stock Units with Market-Based Vesting Conditions	Weighted Average Grant Date Fair Value
Unvested market-based vesting awards as of December 31, 2016	125,000	$ 7.65	367,500	$ 6.00
Market-based vesting awards granted	—	—	168,884	13.84
Market-based vesting awards vested	(125,000)	7.65	(295,000)	5.23
Market-based vesting awards forfeited	—	—	(22,500)	4.34
Unvested market-based vesting awards as of December 31, 2017	—	$ —	218,884	$ 13.26

(1) In addition to the unvested market-based vesting options above, there were 250,000 and 125,000 vested market-based vesting options outstanding and exercisable as of December 31, 2017 and December 31, 2016, respectively. As of December 31, 2017, these options had an exercise price of $14.44, a remaining contractual term of 6.92 years, and an intrinsic value of $2.7 million.

As of December 31, 2017, there was approximately $1.1 million of unrecognized stock-based compensation cost related to unvested awards with market-based vesting conditions that are expected to be recognized over a weighted-average period of 0.68 years.

For the year ended December 31, 2017, the total fair value of restricted stock awards, restricted stock units, performance-based stock awards on the date vested was $17.8 million.

Table of Contents

Stock-based Compensation Expense

Stock-based compensation is reflected in the consolidated statements of operations as follows for the years ended December 31, 2017, 2016, and 2015 (in thousands):

	Years Ended December 31,		
	2017	2016	2015
Cost of revenues	$1,061	$807	$730
Research and development	1,969	868	1,171
General and administrative	7,827	6,161	7,226
Sales and marketing	1,885	1,064	1,089