AKAMAI TECHNOLOGIES INC
Form 10-K
February 28, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 0-27275
Akamai Technologies, Inc.
(Exact name of registrant as specified in its charter)

Delaware	04-3432319
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

150 Broadway
Cambridge, Massachusetts 02142
(Address of principle executive offices) (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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AKAMAI TECHNOLOGIES, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

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Forward-Looking Statements

This annual report on Form 10-K contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management as of the date hereof based on information currently available to our management. Use of words such as “believes,” “expects,” “anticipates,” “intends,” “plans,” “estimates,” “should,” “forecasts,” “if,” “continu “likely” or similar expressions indicates a forward-looking statement. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions. Actual results may differ materially from the forward-looking statements we make. See “Risk Factors” elsewhere in this annual report on Form 10-K for a discussion of certain risks associated with our business. We disclaim any obligation to update any forward-looking statements as a result of new information, future events or otherwise.

PART I

Item 1. Business

Overview

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

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

Our Strategy

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

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

At the same time, there are challenges and risks that have the potential to disrupt progress in every industry, compromise online experiences, and, in the most extreme cases, destroy value that took decades to build. Security threats are growing more sinister and advanced. Enterprise applications are moving from behind the firewall to the cloud while employees increasingly demand remote access from a variety of devices – which we believe makes securing access harder to achieve with just traditional perimeter defenses. More consumers are "cutting the cord" and consuming entertainment over the Internet rather than through traditional cable, and they are increasingly using mobile devices to view content and shop. Web pages are also vastly more complex than ever before with advertisements, videos, graphics and other third-party content, causing speed and reliability to suffer.

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

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

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

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

Our Solutions

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

Cloud Security Solutions

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

- Web Application Protector – Web Application Protector is designed to safeguard web assets from web application and distributed denial of service, or DDoS, attacks, while improving performance. This offering provides easy-to-implement application security for organizations that do not have robust security teams or expertise.

- Kona Site Defender – Kona Site Defender is a cloud security solution that defends against network and application layer DDoS attacks, web application attacks and direct-to-origin attacks. This offering provides customizable protection for enterprises that want more control over their application security.

- Bot Manager – Bot Manager provides organizations with a flexible framework to better manage the wide array of bots, both helpful and malicious, accessing their websites. It offers the ability to identify bots, categorize different bots based on business or IT impact, and apply different management policies to mitigate that impact.

- Fast DNS – The Domain Name System, or DNS, translates human-readable domain names into numerical IP addresses to enable individuals who type in a website name to reach the desired location on the Internet. Our Fast DNS offering is a DNS resolution solution that is designed to quickly and dependably direct individuals to our customers' websites. Crucially, we have architected this service to protect against DNS-based DDoS attacks.

- Prolexic Routed – Prolexic Routed is a DDoS scrubbing solution that is designed to protect web- and IP-based applications, entire data centers and supporting network infrastructure from DDoS attacks. It provides cloud-based security against high-bandwidth, sustained DDoS attacks as well as potentially those that target specific applications and services.

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

Enterprise Security Solutions

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

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

•Enterprise Application Access – Enterprise Application Access enables adaptive access to applications behind the firewall, based on identity and a multitude of dynamic security signals, without providing users access to our customer’s broader corporate network.

•Enterprise Threat Protector – Enterprise Threat Protector is designed to enable enterprise security teams to proactively and easily identify, block and mitigate targeted attacks such as malware, ransomware, phishing and data exfiltration that exploit DNS.

Web and Mobile Performance Solutions

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

•Ion – Ion is a suite of intelligent performance optimization tools and controls designed to improve user experiences on the web and iOS and Android devices. This solution continuously monitors the end-user experience to adapt in real-time to changes in content, user behavior and connectivity.

•Dynamic Site Accelerator – Dynamic Site Accelerator is designed to improve reliability, increase the offload of traffic from origin servers and enhance network performance while handling the specific requirements of dynamically-generated content without a costly hardware buildout. Using real-time network optimizations and advanced caching techniques, this solution is designed to accelerate and secure interactive websites; helping customers to scale to meet sudden traffic surges arising from flash sales or other events.

•Image Manager – To help our customers cope with the multitude and variety of devices used by their users and the complexity of preparing images for delivery over the web, Image Manager automatically optimizes online images to attain the best combination of size, quality and file format suited for each image and device and automates the creation and delivery of tailored derivative image assets.

•CloudTest – CloudTest helps customers prepare for business-critical traffic events or changes to their Internet-facing environment by empowering them to conduct large-scale load testing safely. The solution allows customers to conduct additional analysis of their websites in a pre-production environment. Testing capabilities include web and mobile applications with real-time analytics and customizable dashboards that allow for root cause analysis while tests are in process.

•mPulse – mPulse is a real user monitoring offering that provides real-time website performance data to help customers improve their digital experiences. Using advance algorithms and data visualization tools, mPulse generates insights that enable enterprises to identify and address performance issues based on their impact on customer engagement, conversions, revenue and other key business metrics.

Media Delivery Solutions

In recent years, online and mobile gaming, as well as online streaming of movies, television and live events, have come to represent a significant percentage of traffic on the Internet. Providing solutions to optimize delivery of media content is an important part of our current and future strategy. Our Media Delivery Solutions are designed to enable enterprises to execute their digital media distribution strategies, not only by providing solutions to address their volume and global reach requirements but also by improving the end-user experience, boosting reliability and reducing the cost of Internet-related infrastructure. Our offerings include:

•Adaptive Media Delivery – We provide delivery solutions for video and music streaming that are designed to cope with variable connection speeds and different devices and to reach disparate locations around the world.

•Download Media Delivery – Our download delivery offering provides accelerated distribution for large file downloads, including games, progressive media (video and audio) files, documents and other file-based content.

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•Media Services Live – This service helps simplify the preparation of live-streamed television, enabling our customers to reliably deliver high-quality live content to online audiences across multiple types of devices and platforms.

•Media Analytics – We offer a comprehensive suite of analytics tools to monitor online video viewing, while measuring audience engagement, and quality of service performance. These solutions are designed to provide actionable and relevant metrics to help businesses understand their entire media workflow from ingest to device.

•NetStorage – NetStorage is a globally-distributed cloud storage solution for our customers' content that offers automatic geographically-dispersed replication that is architected for resiliency, high availability and real time performance optimization.

Carrier Solutions

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

•Aura Managed CDN – Aura Managed CDN is a scalable, turnkey CDN solution designed to provide network operators with CDN capabilities through an infrastructure that is maintained by Akamai. With it, an operator can leverage the same CDN techniques used by Akamai, but on servers that are dedicated to the network operator's services. Operators can deliver multi-screen video services and large objects, plus offer commercial CDN services, relying on Akamai CDN experts and technology for content provisioning, delivery and reporting.

•DNS Infrastructure – We offer intelligent recursive DNS platforms built for effective management of DNS traffic in licensed, managed and cloud-based solutions. To improve subscriber experience, our DNS Infrastructure solutions manage subscriber preferences and enable security and personalization services that are designed for network operators.

•Security and Personalization Services – Used in conjunction with our DNS Infrastructure offerings, Akamai's Secure Consumer product is a cybersecurity solution designed to protect a carrier's consumer subscribers and IoT devices from phishing, viruses, ransomware and malware. The solution includes parental controls that allow subscribers to tailor Internet access for each family member from a simple web page. Our Secure Business product is a solution designed to let carriers easily deploy cyberthreat protection to prevent ransomware, phishing, botnets and zero-day malware attacks to their small- and medium-sized business customers.

Services and Support Solutions

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

Our Technology and Network

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

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

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

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

Customers

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

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

Sales, Service and Marketing

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

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

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

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Competition

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

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

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

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

Proprietary Rights and Licensing

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

Employees

As of December 31, 2018, we had 7,519 full-time and part-time employees. Our future success will depend in part on our ability to attract, retain and motivate highly qualified technical, managerial and other personnel for whom competition is intense. Our employees are not represented by any collective bargaining unit. We believe our relations with our employees are good, and we have been acknowledged in respected publications as an excellent place to work.

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Additional Information

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

Item 1A. Risk Factors

The following are important factors that could cause our actual operating results to differ materially from those indicated or suggested by forward-looking statements made in this annual report on Form 10-K or presented elsewhere by management from time to time.

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

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

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

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

Our ability to maintain or improve our profitability is contingent on our ability to increase our revenue and limit our expenses. We base our decisions about expense levels and investments on estimates of our future revenue and future anticipated rate of growth; however, many of our expenses are fixed cost in nature for some minimum amount of time so it may not be possible to reduce costs in a timely manner or without incurring fees to exit certain obligations early. As a result, leveraging the Akamai Intelligent Edge Platform by increasing the amount of traffic we deliver is key to profitable revenue growth. Numerous factors can impact traffic growth including:

- the pace of introduction of over-the-top (often referred to as OTT) video delivery initiatives by our customers;
- the popularity of our customers' streaming offerings as compared to those offered by companies that do not use our solutions;
- the pace at which our customers' enterprise applications move from behind the firewall to the cloud;
- media and other customers utilizing their own data centers and implementing delivery approaches that limit or eliminate reliance on third party providers like us; and
- macro-economic market and industry pressures.

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

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If we are unable to compete effectively, our business will be adversely affected.

We compete in markets that are intensely competitive and rapidly changing. Our current and potential competitors vary by size, product and service offerings, and geographic region and range from start-ups that offer solutions competing with a discrete part of our business to large technology or telecommunications companies that offer, or may be planning to introduce, products and services that are broadly competitive with what we do. The primary competitive factors in our market are: differentiation of technology, global presence, customer service, technical expertise, security, ease-of-use, breadth of services offered, price, and financial strength. Our competitors include some of our current partners and customers.

Many of our current and potential competitors have substantially greater financial, technical and marketing resources, larger customer bases, broader product portfolios, longer operating histories, greater brand recognition and more established relationships in the industry than we do. As a result, some of these competitors may be able to:

- develop superior products or services, gain greater market acceptance for their products and services, enter new markets more easily, and expand their service offerings more efficiently or more rapidly;
- combine their products that are competitive with ours with other solutions they offer in a way that makes our offerings less appealing to current and potential customers;
- adapt to new or emerging technologies and changes in customer requirements more quickly;
- take advantage of acquisition, investment and other opportunities more readily;
- adopt more aggressive pricing policies and allocate greater resources to the promotion, marketing, and sales of their products and services; and
- dedicate greater resources to the research and development of their products and services.

Smaller and more nimble competitors may be able to:

- attract customers by offering less sophisticated versions of products and services than we provide at lower prices than those we charge;
- develop new business models that are disruptive to us; and
- respond more quickly than we can to new or emerging technologies, changes in customer requirements and market and industry developments, resulting in superior offerings.

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

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

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

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

It is important to our revenue growth and profitability that we enter into new business areas that present significant value-generating investment opportunities. We must do so in a rapidly-changing technology environment where it can be difficult to anticipate the needs of potential customers, where competitors may develop products and services that are, or may be viewed as, better than ours and where it can be costly to acquire other companies. The process of developing new solutions is complex and uncertain; we must commit significant resources to developing new services or features without knowing whether our investments will result in solutions the market will accept, and we may choose to invest in business areas for which a viable market for our products does not ultimately develop. This could cause our expenses to grow more rapidly than our revenue. There is often a lengthy period between commencing development initiatives and bringing new or improved solutions to market. During this time, technology preferences, customer demand and the market for our solutions, or those introduced by our competitors, may move in directions that we had not anticipated when we decided to pursue such initiatives. Furthermore, we may not successfully execute our technology initiatives because of errors in planning, timing or execution, technical or operational hurdles that we fail to overcome in a timely fashion, or a lack of appropriate resources.

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Failure to invest in areas that can potentially provide a positive return or to adequately develop, on a cost-effective basis, innovative new or enhanced solutions that are attractive to customers and profitable to us and an inability to keep pace with rapid technological and market changes could have a material effect on our business, results of operations, financial condition and cash flows.

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

In the regular course of business, we transmit and store our customers' information, data and encryption keys as well as our own; customer information and data may, in turn, include individual data of and about their end-users. Maintaining the security and availability of our solutions, network and internal IT systems and the security of information we hold is a critical issue for us and our customers. Internet-based attacks on our customers and our own network are frequent and take a variety of forms, including DDoS attacks, infrastructure attacks, botnets, malicious file uploads, cross-site scripting, credential abuse, ransomware, bugs, viruses, worms and malicious software programs. Malicious actors can attempt to fraudulently induce employees or suppliers to disclose sensitive information through illegal electronic spamming, phishing or other tactics. In addition, unauthorized parties may attempt to gain physical access to our facilities in order to infiltrate our information systems.

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

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

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

Acquisitions and other strategic transactions we complete could result in operating difficulties, dilution, diversion of management attention and other harmful consequences that may adversely impact our business and results of operations.

We expect to continue to pursue acquisitions and other types of strategic relationships that involve technology sharing or close cooperation with other companies. Acquisitions and other complex transactions are accompanied by a number of risks, including the following:

- difficulty integrating the technologies, operations and personnel of acquired businesses;
- potential disruption of our ongoing business;
- potential distraction of management;
- diversion of business resources from core operations;
- expenses related to the transactions;
- failure to realize synergies or other expected benefits;
- increased accounting charges such as impairment of goodwill or intangible assets, amortization of intangible assets acquired and a reduction in the useful lives of intangible assets acquired; and
- potential unknown liabilities associated with acquired businesses.

Any inability to integrate completed acquisitions or combinations in an efficient and timely manner could have an adverse impact on our results of operations. If we use a significant portion of our available cash to pay for acquisitions that are not

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successful, it could harm our balance sheet and limit our flexibility to pursue other opportunities without having enjoyed the intended benefits of the acquisition. As we complete acquisitions, we may encounter difficulty in incorporating acquired technologies into our offerings while maintaining the quality standards that are consistent with our brand and reputation. If we are not successful in completing acquisitions or other strategic transactions that we may pursue in the future, we may incur substantial expenses and devote significant management time and resources without a successful result. Future acquisitions could require use of substantial portions of our available cash or result in dilutive issuances of securities. Technology sharing or other strategic relationships we enter into may give rise to disputes over intellectual property ownership, operational responsibilities and other significant matters. Such disputes may be expensive and time-consuming to resolve.

The information technology industry and the markets in which we compete are constantly evolving, which makes our future business strategies, practices and results difficult to predict.

The information technology industry and the markets in which we compete have grown significantly over the life of our company and continue to evolve rapidly in response to new technological advances, changing business models and other factors. We and the other companies that compete in this industry and these markets experience continually shifting business relationships, commercial focuses and business priorities, all of which occur in reaction to industry and market forces and the emergence of new opportunities. These shifts have led or could lead to:

- our customers or partners becoming our competitors;
- our network suppliers becoming partners with us or, conversely, no longer seeking to work with us;
- our working more closely with hardware providers;
- large technology companies that previously did not appear to show interest in the markets we seek to address entering into those markets as our competitors; and
- needing to expand into new lines of business or to change or abandon existing strategies.

The Internet itself is constantly evolving. There could develop an inflection point above which global usage of the Internet increases to a level that causes our current approaches to the delivery of content and applications to no longer be sustainable at current levels of profitability or at all.

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

Our failure to effectively manage our operations as our business evolves could harm us.

Our future operating results will depend on our ability to manage our operations. As a result of the diversification of our business, personnel growth, increased usage of alternative working arrangements, acquisitions and international expansion in recent years, many of our employees are now based outside of our Cambridge, Massachusetts headquarters; however, most key management decisions are made by a relatively small group of individuals based primarily at our headquarters. If we are unable to appropriately increase management depth, enhance succession planning and decentralize our decision-making at a pace commensurate with our actual or desired growth rates, we may not be able to achieve our financial or operational goals. It is also important to our continued success that we hire qualified personnel, properly train them and manage out poorly-performing personnel, all while maintaining our corporate culture and spirit of innovation. If we are not successful in these efforts, our growth and operations could be adversely affected.

As our business evolves, we must also expand and adapt our IT and operational infrastructure. Our business relies on our data systems, traffic measurement systems, billing systems, ordering processes and other operational and financial reporting and control systems. All of these systems have become increasingly complex due to the diversification and complexity of our business, acquisitions of new businesses with different systems and increased regulation over controls and procedures. As a result, these systems could generate errors that impact traffic measurement or invoicing. We will need to continue to upgrade and improve our data systems, traffic measurement systems, billing systems, ordering processes and other operational and financial systems, procedures and controls. These upgrades and improvements may be difficult and costly. If we are unable to adapt our systems and organization in a timely, efficient and cost-effective manner to accommodate changing circumstances, our business may be adversely affected.

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

Over the past several years, we have implemented internal restructurings and reorganizations designed to reduce the size and cost of our operations, improve operational efficiencies, enhance our ability to pursue market opportunities and accelerate our technology development initiatives. We may take similar steps in the future as we seek to realize operating synergies,

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optimize our operations to achieve our target operating model and profitability objectives, respond to market forces, or better reflect changes in the strategic direction of our business. Disruptions in operations may occur as a result of taking these actions. Taking these actions may also result in significant expense for us, including with respect to workforce reductions, as well as decreased productivity due to employee distraction, and unanticipated employee turnover. Substantial expense or business disruptions resulting from restructuring and reorganization activities could adversely affect our operating results.

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

Our future success depends upon the services of our executive officers and other key technology, sales, marketing and support personnel who have critical industry experience and relationships. There is significant competition for talented individuals in the regions in which our primary offices are located, which affects both our ability to retain key employees and hire new ones. In making employment decisions, particularly in our industry, job candidates and current personnel often consider the value of stock-based compensation. In recent years, we have increasingly linked compensation levels to corporate performance metrics. Declines in the price of our stock or failure to achieve annual revenue and profitability metrics could adversely affect our ability to attract or retain key employees.

None of our officers or key employees is bound by an employment agreement for any specific term. Members of our senior management team have left Akamai over the years for a variety of reasons, and we cannot be certain that there will not be additional departures, which, if they occur, may be disruptive to our operations and detrimental to our future outlook. The loss of the services of any of our key employees or our inability to attract and retain new talent could hinder or delay the implementation of our business model and the development and introduction of, and negatively impact our ability to sell, our solutions.

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

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

- quarterly variations in operating results;
- announcements by our customers related to their businesses that could be viewed as impacting their usage of our solutions;
- market speculation about whether we are a takeover target or considering a strategic transaction;
- activism by any single large stockholder or combination of stockholders;
- changes in financial estimates and recommendations by securities analysts;
- failure to meet the expectations of securities analysts;
- purchases or sales of our stock by our officers and directors;
- macro-economic factors;
- repurchases of shares of our common stock;
- successful cyber-attacks affecting our network or systems;
- performance by other companies in our industry; and
- geopolitical conditions such as acts of terrorism or military conflicts.

Furthermore, our revenue, particularly that portion attributable to usage of our solutions beyond customer commitments, can be difficult to forecast, and, as a result, our quarterly operating results can fluctuate substantially. This concern is particularly acute with respect to our media and commerce customers for which holiday sales are a key but unpredictable driver of usage of our solutions. In the future, our customer contracting models may change to move away from a committed revenue structure to a "pay-as-you-go" approach. The absence of a minimum revenue commitment would make it easier for customers to stop doing business with us, which would create additional challenges with our forecasting processes. Because a significant portion of our cost structure is largely fixed in the short-term, revenue shortfalls tend to have a disproportionately negative impact on our profitability. If we announce revenue or profitability results that do not meet or exceed our guidance or make changes in our guidance with respect to future operating results, our stock price may decrease significantly as a result.

Any of these events, as well as other circumstances discussed in these Risk Factors, may cause the price of our common stock to fall. In addition, the stock market in general, and the market prices of stock of publicly-traded technology companies in particular, have experienced significant volatility that often has been unrelated to the operating performance of affected companies. These broad stock market fluctuations may adversely affect the market price of our common stock, regardless of our operating performance.

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

Our solutions are highly complex and are designed to be deployed in and across numerous large and complex networks that we do not control. From time to time, we have needed to correct errors and defects in the software that underlies our platform that have given rise to service incidents or otherwise impacted our operations. We have also experienced customer dissatisfaction with the quality of some of our media delivery and other services, which has led to loss of business and could lead to loss of customers in the future. While we have robust quality control processes in place, there may be additional errors and defects in our software that may adversely affect our operations. We may not have in place adequate quality assurance procedures to ensure that we detect errors in our software in a timely manner, and we may have insufficient resources to efficiently address multiple service incidents happening simultaneously or in rapid succession. If we are unable to efficiently and cost-effectively fix errors or other problems that may be identified and improve the quality of our solutions or systems, or if there are unidentified errors that allow persons to improperly access our services or systems, we could experience loss of revenue and market share, damage to our reputation, increased expenses, delayed payments and be exposed to legal actions by our customers.

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

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

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

We have operations in numerous foreign countries and may continue to expand our operations internationally. As a result, we are increasingly subject to risks associated with international business activities that may increase our costs, make our operations less efficient and require significant management attention. These risks include:

- regulations related to security requirements, data localization or restricting content that could pose risks to our intellectual property, increase the cost of doing business in a country or create other disadvantages to our business;
- interpretations of laws or regulations that would subject us to regulatory supervision or, in the alternative, require us to exit a country, which could lead to loss of significant revenues and have a negative impact on the quality of our solutions;
- uncertainty regarding liability for content or services;
- adjusting to different employee/employer relationships and different regulations governing such relationships;
- corporate and personal liability for alleged or actual violations of laws and regulations;
- difficulty in staffing, developing and managing foreign operations as a result of distance, language and cultural differences;
- currency exchange rate fluctuations and limitations on the repatriation and investment of funds;
- difficulties in transferring funds from, or converting currencies in, certain countries;

- reliance on channel partners over which we have limited control or influence on a day-to-day basis; and
- potentially adverse tax consequences.

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

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In addition, compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business. These numerous, rapidly-changing and sometimes conflicting laws and regulations include, among others:

- internal control and disclosure rules;
- data protection, privacy and filtering regulations and requirements;
- anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act, the UK Bribery Act and local laws prohibiting corrupt payments to governmental officials; and
- antitrust and competition regulations.

We entered into a Non-Prosecution Agreement with the U.S. Securities and Exchange Commission, or the Commission, in June 2016 in connection with the previously-disclosed investigation relating to sales practices in a country outside the U.S. In the event we violate the terms of this Non-Prosecution Agreement, we could be subject to additional investigation or enforcement by the Commission or the Department of Justice. Although we have implemented policies and procedures designed to ensure compliance with the Non-Prosecution Agreement and relevant laws and regulations, there can be no assurance that our employees, contractors or agents will not violate our policies or applicable laws. Any such violations could result in fines and penalties, criminal sanctions against us or our employees and prohibitions on the conduct of our business and on our ability to offer our solutions in one or more countries. They could also materially affect our brand or reputation, our global operations, any international expansion efforts, our ability to attract and retain employees, our business overall, and our financial results.

Government regulation is evolving, and unfavorable changes could harm our business.

Laws and regulations that apply to communications and commerce over the Internet are becoming more prevalent. In particular, domestic and foreign government attempts to regulate the operation of the Internet could negatively impact our business. It is unclear whether potential changes to regulations previously adopted by the U.S. Federal Communications Commission that govern certain aspects of the operation of the Internet (such as content blocking and throttling and paid prioritization) will be adopted and, if adopted, how they would apply to content delivery network providers like us. It is also uncertain how future regulatory and legislative initiatives or changes will impact our business.

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

Privacy laws are rapidly proliferating, changing and evolving globally. Governments, privacy advocates and class action attorneys are increasingly scrutinizing how companies collect, process, use, store, share and transmit personal data. New laws, such as the European Union General Data Protection Regulation, or GDPR, and the California Consumer Privacy Act of 2018, and industry self-regulatory codes have been enacted and more are being considered that may affect our ability to reach current and prospective customers, to understand how our solultions are being used, and to respond to customer requests allowed under the laws, and how we use data generated from our network. Any perception that our business practices, our data collection activities or how our splutions operate represent an invasion of privacy, whether or not consistent with current regulations and industry practices, may subject us to public criticism (or boycotts), class action lawsuits, reputational harm, or claims by regulators, industry groups or other third parties, all of which could disrupt our business and expose us to liability. Compliance with GDPR and other laws may be administratively difficult and expensive.

We also have a publicly-available privacy policy concerning our collection, use and disclosure of customer and user data. Any failure, or perceived failure, by us to comply with our posted privacy policy could result in damage to our reputation or proceedings or actions against us, which could potentially have an adverse effect on our business.

We may need to defend against patent or copyright infringement claims, which would cause us to incur substantial costs or limit our ability to use certain technologies in the future.

As we expand our business and develop new technologies, products and services, we may become increasingly subject to intellectual property infringement and other claims, including those that may arise under international laws. In many cases, we have agreed to indemnify our customers and channel and strategic partners if our solutions infringe or misappropriate specified intellectual property rights; therefore, we could become involved in litigation or claims brought against customers or channel or strategic partners if our solutions or technology are the subject of such allegations. Any litigation or claims, whether or not valid, brought against us or pursuant to which we indemnify our customers or channel or strategic partners could result in substantial costs and diversion of resources and require us to do one or more of the following:

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- cease selling, incorporating or using features, functionalities, products or services that incorporate the challenged intellectual property;
- pay substantial damages and incur significant litigation expenses;
- obtain a license from the holder of the infringed intellectual property right, which license may not be available on reasonable terms or at all; or
- redesign products or services.

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

Our business will be adversely affected if we are unable to protect our intellectual property rights from unauthorized use or infringement by third parties.

We rely on a combination of patent, copyright, trademark and trade secret laws and contractual restrictions on disclosure to protect our intellectual property rights. These legal protections afford only limited protection. We have previously brought lawsuits against entities that we believed were infringing our intellectual property rights but have not always prevailed. Such lawsuits can be expensive and require a significant amount of attention from our management and technical personnel, and the outcomes are unpredictable. Monitoring unauthorized use of our solutions is difficult, and we cannot be certain that the steps we have taken or will take will prevent unauthorized use of our technology. Furthermore, we cannot be certain that any pending or future patent applications will be granted, that any future patent will not be challenged, invalidated or circumvented, or that rights granted under any patent that may be issued will provide competitive advantages to us. If we are unable to protect our proprietary rights from unauthorized use, the value of our intellectual property assets may be reduced. Although we have licensed from other parties proprietary technology covered by patents, we cannot be certain that any such patents will not be challenged, invalidated or circumvented. Such licenses may also be non-exclusive, meaning our competition may also be able to access such technology.

We rely on certain “open-source” software the use of which could result in our having to distribute our proprietary software, including our source code, to third parties on unfavorable terms, which could materially affect our business.

Certain of our offerings use software that is subject to open-source licenses. Open-source code is software that is freely accessible, usable and modifiable; however, certain open-source code is governed by license agreements, the terms of which could require users of such software to make any derivative works of the software available to others on unfavorable terms or at no cost. Because we use open-source code, we may be required to take remedial action in order to protect our proprietary software. Such action could include replacing certain source code used in our software, discontinuing certain of our products or taking other actions that could be expensive and divert resources away from our development efforts. In addition, the terms relating to disclosure of derivative works in many open-source licenses are unclear. If a court interprets one or more such open-source licenses in a manner that is unfavorable to us, we could be required to make certain of our key software available at no cost. Furthermore, open-source software may have security flaws and other deficiencies that could make our solutions less reliable and damage our business.

We may be unsuccessful at developing and maintaining strategic relationships with third parties that expand our distribution channels and increase revenue, which could significantly limit our long-term growth.

Achieving future success will likely require us to maintain and increase the number and depth of our relationships with resellers, systems integrators, product makers and other strategic partners and to leverage those relationships to expand our distribution channels and increase revenue. If we become reliant on a small number of large partners, any termination of our relationship with one of them could have an adverse impact on our financial condition. The need to develop such relationships can be particularly acute in areas outside of the U.S. We have not always been successful at developing these relationships due to the complexity of our solutions, our historical reliance on an internal sales force, and other factors. Recruiting and retaining qualified channel partners and training them in the use of our technology and solutions and ensuring that they are compliant with our ethical expectations requires significant time and resources. In order to develop and expand our distribution channel, we must continue to expand and improve our portfolio of solutions as well as the systems, processes and procedures that support our channels. Those systems, processes and procedures may become increasingly complex and difficult to manage. The time and expense required for the sales and marketing organizations of our channel partners to become familiar with our offerings, including our new services developments, may make it more difficult to introduce those products to enterprises. Our failure to maintain and increase the number and quality of relationships with channel partners, and any inability to successfully execute on the partnerships we initiate, could significantly impede our revenue growth prospects in the short and long term.

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

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

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

Our future income taxes could be adversely affected by earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, or changes in tax laws, regulations, or accounting principles, as well as certain discrete items such as equity-related compensation. We have recorded certain tax reserves to address potential exposures involving our income tax and sales and use tax positions. These potential tax liabilities result from the varying application of statutes, rules, regulations and interpretations by different jurisdictions. We are currently subject to tax audits in various jurisdictions including the Commonwealth of Massachusetts. In the second quarter of 2018, we filed an appeal with the Massachusetts Appellate Tax Board contesting adverse audit findings relating to our eligibility to claim certain tax benefits and exemptions. If the outcome of this appeal and other audits are adverse to us, our reserves may not be adequate to cover our total actual liability, and we would need to take a financial charge. Although we believe our estimates, our reserves and the positions we have taken in all jurisdictions are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, our stockholders could lose confidence in our financial reporting, which could harm our business and the trading price of our common stock.

We have complied with Section 404 of the Sarbanes-Oxley Act of 2002 by assessing, strengthening and testing our system of internal controls. Even though we concluded our internal control over financial reporting and disclosure controls and procedures were effective as of the end of the period covered by this report, we need to continue to maintain our processes and systems and adapt them to changes as our business evolves and we rearrange management responsibilities and reorganize our business. This continuous process of maintaining and adapting our internal controls and complying with Section 404 is expensive and time-consuming and requires significant management attention. We cannot be certain that our internal control measures will continue to provide adequate control over our financial processes and reporting and ensure compliance with Section 404. Furthermore, as our business changes, including by expanding our operations in different markets, increasing reliance on channel partners and completing acquisitions, our internal controls may become more complex and we will be required to expend significantly more resources to ensure our internal controls remain effective. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we or our independent registered public accounting firm identify material weaknesses, the disclosure of that fact, even if quickly remediated, could reduce the market's confidence in our financial statements and harm our stock price.

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

As of the date of this report, we had total par value of $1,150.0 million of convertible senior notes outstanding due in 2025. We also entered into a credit facility in May 2018 that provides for an initial $500.0 million in revolving loans; under specified circumstances, we would be able to borrow an additional $500.0 million thereunder. Our ability to repay any amounts we borrow under our credit facility, refinance the notes, make cash payments in connection with conversions of the notes or repurchase the notes in the event of a fundamental change (as defined in the applicable indenture governing the notes) will depend on market conditions and our future performance, which is subject to economic, financial, competitive and other factors beyond our control. We also may not use the cash we have raised through future borrowing under the credit facility or the issuance of the convertible senior notes in an optimally productive and profitable manner. If we are unable to remain profitable or if we use more cash than we generate in the future, our level of indebtedness at such time could adversely affect our operations by increasing our vulnerability to adverse changes in general economic and industry conditions and by limiting or prohibiting our ability to obtain additional financing for additional capital expenditures, acquisitions and general corporate and other purposes. In addition, if we are unable to make cash payments upon conversion of the notes, we would be required to issue significant amounts of our common stock, which would be dilutive to the stock of existing stockholders. If we do not have sufficient cash to repurchase the notes following a fundamental change, we would be in default under the terms of the notes, which could seriously harm our business. Although the terms of our credit facility include certain financial ratios that potentially limit our future indebtedness, the terms of the notes do not do so. If we incur significantly more debt, this could intensify the risks described above.

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

An increasing portion of our revenue is derived from international operations, growing to 38.0% of overall revenues in 2018 as compared to 34.2% in 2017. Revenue generated and expenses incurred by our international subsidiaries are often denominated in the currencies of the local countries. As a result, our consolidated U.S. dollar financial statements are subject to fluctuations due to changes in exchange rates as the financial results of our international subsidiaries are translated from local currencies into U.S. dollars. In addition, our financial results are subject to changes in exchange rates that impact the settlement of transactions in non-functional currencies. While we have implemented a foreign currency hedging program to mitigate transactional exposures, there is no guarantee that such program will be effective.

We may issue additional shares of our common stock or instruments convertible into shares of our common stock and thereby materially and adversely affect the market price of our common stock.

Our Board of Directors has the authority to issue additional shares of our common stock or other instruments convertible into, or exchangeable or exercisable for, shares of our common stock. If we issue additional shares of our common stock or instruments convertible into, or exchangeable or exercisable for, shares of our common stock, it may materially and adversely affect the market price of our common stock.

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

Responding to actions by activist stockholders could be distracting to our Board of Directors, our executives and our other employees. Such activities may also require us to incur significant legal and other advisor fees and public relations costs. Perceived uncertainty as to our future direction could affect customer and investor sentiment, resulting in longer sales cycles, employee retention and hiring challenges, and volatility in the price of our common stock.

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

We have customer contracts with the U.S. government, as well as foreign, state and local governments and their respective agencies. Such government entities often have the right to terminate these contracts at any time, without cause. There is increased pressure for governments and their agencies, both domestically and internationally, to reduce spending. Most of our government contracts are subject to legislative approval of appropriations to fund the expenditures under these contracts. These factors combine to potentially limit the revenue we derive from government contracts in the future. Additionally, government contracts generally have requirements that are more complex than those found in commercial enterprise agreements and therefore are more costly to comply with. Such contracts are also subject to audits and investigations that could result in civil and criminal penalties and administrative sanctions, including termination of contracts, refund of a portion of fees received, forfeiture of profits, suspension of payments, fines and suspensions or debarment from future government business.

Litigation may adversely impact our business.

From time to time, we are or may become involved in various legal proceedings relating to matters incidental to the ordinary course of our business, including patent, commercial, product liability, breach of contract, employment, class action, whistleblower and other litigation and claims, and governmental and other regulatory investigations and proceedings. In addition, under our charter, we could be required to indemnify and advance expenses to our directors and officers in connection with their involvement in certain actions, suits, investigations and other proceedings. Such matters can be time-consuming, divert management’s attention and resources and cause us to incur significant expenses.

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

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

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

General global market and economic conditions may have an adverse impact on our operating performance, results of operations and cash flows.

Our business has been and could continue to be affected by general global economic and market conditions. To the extent economic conditions impair our customers' ability to profitably monetize the content we deliver on their behalf, they may reduce or eliminate the traffic we deliver for them. Such reductions in traffic would lead to a reduction in our revenue. Additionally, in a down-cycle economic environment, we may experience the negative effects of increased competitive pricing pressure, customer loss, a deceleration in commerce over the Internet and corresponding decrease in traffic delivered over our network and failures by customers to pay amounts owed to us on a timely basis or at all. Suppliers on which we rely for servers, bandwidth, co-location and other solutions could also be negatively impacted by economic conditions that, in turn, could have a negative impact on our operations or expenses.

Global climate change and natural resource conservation regulations could adversely impact our business.

Our deployed network of servers consumes significant energy resources, including those generated by the burning of fossil fuels. In response to concerns about global climate change, governments may adopt new regulations affecting the use of fossil fuels or requiring the use of alternative fuel sources. While we have invested in projects to support renewable energy development, our customers, investors and other stakeholders may require us to take more steps to demonstrate that we are taking ecologically responsible measures in operating our business. The costs and any expenses we incur to make our network more energy efficient could make us less profitable in future periods. Failure to comply with applicable laws and regulations or other requirements imposed on us could lead to fines, lost revenue and damage to our reputation.

Because we currently do not intend to pay dividends, stockholders will benefit from an investment in our common stock only if it appreciates in value.

We currently intend to retain our future earnings, if any, for use in the operation of our business and do not expect to pay any cash dividends in the foreseeable future on our common stock. As a result, the success of an investment in our common stock will depend upon any future appreciation in its value. There is no guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

Provisions of our charter, by-laws and Delaware law may have anti-takeover effects that could prevent a change in control even if the change in control would be beneficial to our stockholders.

Provisions of our charter, by-laws and Delaware law could make it more difficult for a third party to control or acquire us, even if doing so would be beneficial to our stockholders. These provisions include:

- a classified board structure that is being phased out over time so that only approximately one-third of our Board of Directors is up for re-election this year and only approximately two-thirds of our Board of Directors will be up for re-election in 2020;
- our Board of Directors has the right to elect directors to fill a vacancy created by the expansion of the Board of Directors or the resignation, death or removal of a director;
- stockholders must provide advance notice to nominate individuals for election to the Board of Directors or to propose matters that can be acted upon at a stockholders' meeting; and
- our Board of Directors may issue, without stockholder approval, shares of undesignated preferred stock.

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Further, as a Delaware corporation, we are also subject to certain Delaware anti-takeover provisions. Under Delaware law, a corporation may not engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction. Our Board of Directors could rely on Delaware law to prevent or delay an acquisition of us.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

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

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

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

Issuer Purchases of Equity Securities

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

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

(1) Information is based on settlement dates of repurchase transactions.
(2) Consists of shares of our common stock, par value $0.01 per share.
(3) Includes commissions paid.
(4) In February 2016, the Board of Directors authorized a $1.0 billion share repurchase program effective from February 2016 through December 2018. In March 2018, the Board of Directors authorized a $416.7 million increase to the share repurchase program, such that the amount that is authorized and available for repurchase in 2018 is $750.0 million. Subsequently, effective November 2018, the Board of Directors authorized an additional $1.1 billion repurchase program through December 2021.

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

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Item 6. Selected Financial Data

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

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

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

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

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

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

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

Overview

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

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Revenue

For most of our solutions, our customers commit to contracts having terms of a year or longer, which allows us to have a consistent and predictable base level of revenue. In addition to a base level of revenue, we are also dependent on media customers where usage of our solutions is more variable. As a result, our revenue is impacted by the amount of media and software download traffic we serve on our network, the rate of adoption of gaming, social media and video platform offerings, the timing and variability of customer-specific one-time events and the impact of seasonal variations on our business. The ability to expand our product portfolio and to effectively manage the prices we charge for our solutions are also key factors impacting our revenue growth.

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

- Increased sales of our security solutions have made a significant contribution to revenue growth. We plan to continue to invest in this area with a focus on further enhancing our product portfolio and extending our go-to-market capabilities.

- We have increased committed recurring revenue from our solutions by increasing sales of incremental solutions to our existing customers and adding new customers; however, we have also experienced slower revenue growth in recent quarters particularly in our web performance solutions. We expect the trend of slower revenue growth to continue in 2019 as our commerce customers experience financial pressure, we face contract renewals with large media and other customers and we experience the absence of as many large media-driven events in 2019 as compared to 2018.

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

- We have experienced increases in the amount of traffic delivered for customers that use our solutions for video, gaming, social media and software downloads, contributing to an increase in our revenue. However, in recent years we have experienced moderation in traffic usage from, and revenue attributable to, large Internet platform companies such as Amazon, Apple, Facebook, Google, Microsoft and Netflix that rely on their internal infrastructure to deliver more of their media content. We refer to these companies as our Internet Platform Customers. We do not anticipate their usage of our solutions to decrease at the same rate in the future.

- We have experienced variations in certain types of revenue from quarter to quarter. In particular, we experience higher revenue in the fourth quarter of each year for some of our solutions as a result of holiday season activity. In addition, we experience quarterly variations in revenue attributable to, among other things, the nature and timing of software and gaming releases by our customers using our software download solutions; whether there are large live sporting or other events that increase the amount of media traffic on our network; and the frequency and timing of purchases of custom solutions.

Expenses

Our level of profitability is also impacted by our expenses, including direct costs to support our revenue such as bandwidth and co-location costs. We have observed the following trends related to our profitability in recent years:

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

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

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- Co-location costs are also a significant portion of our cost of revenue. By improving our internal-use software and managing our hardware deployments to enable us to use servers more efficiently, we have been able to manage the growth of co-location costs. We expect to continue to scale our network in the future and will need to continue to effectively manage our co-location costs to maintain current levels of profitability.

- Payroll and related compensation costs grew in 2018 due to headcount increases in 2017, particularly in our professional services and engineering teams to support our revenue growth and strategic initiatives. During the year ended December 31, 2017 we increased our headcount by approximately 1,100 employees, while headcount remained relatively flat during 2018. We expect to continue to hire employees, both domestically and internationally, in support of our strategic initiatives but do not expect overall headcount to increase significantly in 2019.

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

We retrospectively adopted the new accounting standard for revenue recognition on January 1, 2018; accordingly, prior period results have been revised for the adoption of the new standard. The changes to our revenue recognition approach under this new standard primarily impact the timing of recognizing revenue from a small number of licensed software customers. There is little impact to revenue from our core Web and Media solutions. As a result of the change, we also began capitalizing certain commission and incentive payments. The revisions as a result of adopting the new standard did not have a material impact on our annual revenue or results of operations, but did cause quarter-over-quarter fluctuations.

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

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Results of Operations

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

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

Revenue

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

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