

AKAMAI TECHNOLOGIES INC

Form 10-K

February 29, 2012

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File number 0-27275

Akamai Technologies, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

04-3432319

(State or Other Jurisdiction of

(I.R.S. Employer

Incorporation or Organization)

Identification No.)

8 Cambridge Center, Cambridge, MA

02142

(Address of Principal 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 Exchange on Which Registered

Common Stock, \$.01 par value

NASDAQ Global Select Market

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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, or a smaller reporting company (as defined in Exchange Act Rule 12b-2)

Large accelerated filer

Accelerated Filer

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

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Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately \$5,724.6 million based on the last reported sale price of the Common Stock on the Nasdaq Global Select Market on June 30, 2011.

The number of shares outstanding of the registrant's Common Stock, par value \$0.01 per share, as of February 22, 2012: 177,800,850 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 2012 Annual Meeting of Stockholders to be held on May 16, 2012 are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this annual report on Form 10-K.

Table of Contents

AKAMAI TECHNOLOGIES, INC.  
 ANNUAL REPORT ON FORM 10-K  
 For the Fiscal Year Ended December 31, 2011  
 TABLE OF CONTENTS

PART I

|          |                                  |           |
|----------|----------------------------------|-----------|
| Item 1.  | <u>Business</u>                  | <u>2</u>  |
| Item 1A. | <u>Risk Factors</u>              | <u>8</u>  |
| Item 1B. | <u>Unresolved Staff Comments</u> | <u>16</u> |
| Item 2.  | <u>Properties</u>                | <u>16</u> |
| Item 3.  | <u>Legal Proceedings</u>         | <u>16</u> |
| Item 4.  | <u>Mine Safety Disclosures</u>   | <u>17</u> |

PART II

|          |   |           |
|----------|---|-----------|
| Item 5.  | <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | <u>17</u> |
| Item 6.  | <u>Selected Consolidated Financial Data</u>   | <u>18</u> |
| Item 7.  | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>                        | <u>20</u> |
| Item 7A. | <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | <u>35</u> |
| Item 8.  | <u>Financial Statements and Supplementary Data</u>  | <u>36</u> |
| Item 9.  | <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>                         | <u>67</u> |
| Item 9A. | <u>Controls and Procedures</u>  | <u>67</u> |
| Item 9B. | <u>Other Information</u>  | <u>68</u> |

PART III

|          |   |           |
|----------|---|-----------|
| Item 10. | <u>Directors and Executive Officers and Corporate Governance</u>                                      | <u>69</u> |
| Item 11. | <u>Executive Compensation</u>   | <u>69</u> |
| Item 12. | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | <u>69</u> |
| Item 13. | <u>Certain Relationships and Related Transactions, and Director Independence</u>                      | <u>69</u> |
| Item 14. | <u>Principal Accountant Fees and Services</u>   | <u>70</u> |

PART IV

|          |   |           |
|----------|---|-----------|
| Item 15. | <u>Exhibits and Financial Statement Schedules</u> | <u>71</u> |
|----------|---|-----------|

|  |                   |           |
|--|-------------------|-----------|
|  | <u>Signatures</u> | <u>72</u> |
|--|-------------------|-----------|

Table of Contents

PART I

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 forward-looking statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management based on information currently available to them. Use of words such as “believes,” “continues,” “expects,” “anticipates,” “intends,” “plans,” “estimates,” “forecasts,” “should,” “may,” “could,” similar expressions indicates a forward-looking statement. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions. Important factors that could cause actual results to differ materially from the forward-looking statements include, but are not limited to, those set forth under the heading “Risk Factors.” We disclaim any obligation to update any forward-looking statements as a result of new information, future events or otherwise.

Item 1. Business

Overview

Akamai provides content delivery and cloud infrastructure services for accelerating and improving the delivery of content and applications over the Internet; ranging from live and on-demand streaming video capabilities to conventional content on websites, to tools that help people transact business and reach out to new and existing customers. We believe that our solutions offer unmatched reliability, sophistication and security. At the same time, we help customers save money by enabling them to reduce expenses associated with internal infrastructure build-outs. In short, our solutions are designed to help our customers efficiently offer websites that improve visitor experiences and increase the effectiveness of their Internet-focused operations.

We were incorporated in Delaware in 1998 and have our corporate headquarters at 8 Cambridge Center, Cambridge, Massachusetts. We have been offering content delivery services and streaming media services since 1999. In subsequent years, we introduced private content delivery networks, Internet-based delivery of applications such as store/dealer locators and user registration, large-scale software distribution capabilities, intelligent real-time ad targeting solutions, content targeting technology and enhanced security features.

Our Internet website address is [www.akamai.com](http://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.

Making the Cloud Work for our Customers

The Internet plays a crucial role in the way companies, government agencies and other entities conduct business and reach the public. Enterprises want to offer a dynamic, consistent, secure experience for millions of end users and to take advantage of the potential cost savings of utilizing the cloud, a term commonly used to refer to utilizing the Web server facilities of a third party provider on the Internet. The Internet, however, is a complex system of networks that was not originally created to accommodate the volume or sophistication of today’s communication demands or the dramatic expansion in the number and types of devices individuals use to access it.

The ad hoc Internet architecture presents potential problems for its widespread usage today, such as:

- inefficient or non-functioning peering points, or points of connection, between Internet service providers, or ISPs;
- traffic congestion at data centers;
- Internet traffic exceeding the capacity of routing equipment;
- absence of a coordinated security system to protect against a vast network of hackers, bots and other malefactors that seeks to steal assets and disrupt the functioning of the Web; and
- “last mile” issues -- Internet bandwidth constraints between an end user and the Internet access provider.

These potential problems intersect with the features of what we call the hyperconnected world, including:

- increasingly dynamic and personalized websites;
-

growth in the transmission of rich content, including HD video, due to the increasingly widespread use of broadband connectivity to the Internet for videos, music and games;  
• rapid expansion in the use of mobile devices leveraging different technologies and delivery systems; and

2

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## Table of Contents

the demand of millions of consumers worldwide to be able to access content on multiple devices. The resulting individual experience can be a disappointing one. This is a central challenge facing all Internet-focused enterprises.

Achieving an enterprise's goals in the face of this challenge is made more difficult by internal technology issues. Driven by competition, globalization and cost-containment strategies, companies need an agile Internet-facing infrastructure that cost-effectively meets real-time strategic and business objectives. The dramatic increase in Internet usage places extensive demands on infrastructure; however, expanding internal systems to meet routine demand can be cost-prohibitive. Keeping pace with new developments can also be a difficult challenge. Special marketing or promotional initiatives or unanticipated one-time events such as important unanticipated news, may draw millions of additional visitors to a company's website over a brief period of time. Putting in place incremental internal infrastructure to deal with such spikes is likely not practicable.

Akamai has developed solutions to assist enterprises in meeting their goals in spite of the challenges at the intersection of the Internet and the hyperconnected world. Our services are designed to help companies, government agencies and other enterprises increase revenues and reduce costs by improving the performance, reliability and security of their Internet-facing operations. We particularly seek to make using the cloud a viable approach for customers by addressing the following market needs:

**Superior Performance.** Commercial enterprises invest in websites to attract customers, transact business and provide information about themselves. Through a combination of people, processes and technology, we help our customers improve the scalability and predictability of their websites without the need for them to make the significant investment required to develop their own Internet-related infrastructure. Instead, we have tens of thousands of servers deployed in more than 1,000 networks around the world so that content can be delivered from Akamai servers located closer to website visitors — from what we call the “edge” of the Internet. We are thus able to reduce the impact of traffic congestion, bandwidth constraints and capacity limitations for our customers. At the same time, our customers have access to control features to enable them to provide content to end users that is current and customized for visitors accessing the site from different parts of the world.

**Scalability.** With the proliferation of HD video and other types of rich content and the emergence of the Internet as a crucial sales channel, enterprises of all types must be able to handle rapidly increasing numbers of requests for bandwidth-intensive digital media assets. Websites must also be able to process millions of transactions, particularly during busy holiday seasons. In all of these instances, it can be difficult and expensive to manage such peaks and valleys. With more than 100,000 servers managed by our proprietary software technology, our network is designed with the robustness and flexibility to handle increasing volume as well as planned and unplanned traffic peaks, without additional hardware investment and configuration on the part of our customers. We are, therefore, able to provide an on-demand solution to address our customers' capacity needs, helping them avoid expensive investment in a centralized infrastructure.

**Security.** Internet-based security threats, such as viruses, worms, information theft and other intrusions, can impact every measure of performance, including information security, speed, reliability and customer confidence. Security is a key component of our technology platform; we deploy flexible, intelligent cloud-based defense capabilities to help organizations guard their perimeter and bolster security without sacrificing performance. On top of the tools we implement, the distributed nature of our network allows us to leverage our tens of thousands of servers across a global footprint to route traffic around security issues. As discussed below, we also offer specific security-focused solutions to address the discrete concerns of our different customers.

**Functionality.** Websites have become increasingly dynamic, complex and sophisticated. To meet these challenges, we have added solutions through both internal investment and acquisitions. These solutions include services designed to help our customers accelerate dynamic content and applications, more effectively manage their online media assets, adapt content for access through mobile devices and improve the quality of online advertising initiatives.

### Our Core Solutions

We offer application and cloud performance services, solutions for digital media and software distribution and storage, website optimization services, network operator solutions, online advertising-related services and other specialized Internet-based offerings.

### Application and Cloud Performance Solutions

Akamai's Application and Cloud Performance Solutions are designed to improve the operation of highly-dynamic applications used by enterprises to connect with their employees, suppliers and customers. Traditionally, this market has been addressed primarily by hardware and software products. We believe our managed-service approach offers a more cost-effective and comprehensive solution in this area without requiring customers to make significant infrastructure investments. In addition to reducing infrastructure costs, our Application and Cloud Performance Solutions are intended for customers that want to offer effective and reliable portal applications and other Web-based systems for communicating with their customers, employees and business partners. Our Application and Cloud Performance Solutions include the following:

Web Application Accelerator

3

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## Table of Contents

Our Web Application Accelerator service is designed to improve the performance of Web-based applications through a combination of routing and connection optimization, dynamic caching and compression of content. This service is appropriate for companies involved in technology, business services, travel and leisure, manufacturing and other industries where there is a focus on Internet-based communication with remote customers, suppliers and franchisees. Enterprise customers use the Web Application Accelerator service to run applications such as online airline reservations systems, training tools, customer relationship management and human resources applications. With this service, application providers can enjoy faster and more reliable performance without having to undertake a significant internal infrastructure build-out.

### IP Application Accelerator

With a growing global workforce accessing Internet Protocol-, or IP-, based applications online and from mobile devices, enterprises that rely on such applications find speed and reliability to be crucial. Examples of IP-based applications include voice-over-IP calling, email hosting services and sales order processing tools. Akamai's IP Application Accelerator solution is designed to optimize the performance, availability and real-time sensitivity associated with IP-enabled applications delivered over Internet-related protocols such as SSL, IPSec, UDP and FTP.

### Video and Software Solutions

The Internet provides end users with access to new and varied types of media. Akamai's video and software solutions are designed to enable enterprises to execute their large file management and distribution strategies by improving the end-user experience, boosting reliability and scalability and reducing the cost of Internet-related infrastructure. Within our video and software solutions, customers can choose from the following:

#### Akamai Media Delivery

As the demand for Internet access to music, movies, games, streaming news, sporting events and social networking communities grows, there are many challenges to profitably offering media assets online, particularly with respect to user-generated content and HD video. By relying on our technology and solutions, customers can bypass internal constraints such as traditional server and bandwidth limitations to better handle peak traffic conditions and provide their site visitors with access to larger file sizes. Customers of our media delivery offerings can also take advantage of complementary features such as digital rights management protections, storage, media management tools and reporting functionalities.

We have also introduced a revolutionary approach to video streaming, the Akamai HD Network, which is a cloud-based technology platform for live and on-demand streaming that is designed to enable our customers to offer live and on-demand HD video online to viewers in one format regardless of whether site visitors are using Adobe Flash technology, Microsoft Silverlight or an iPhone or other mobile device. We believe that our approach provides unique advantages that improve the quality and reliability of HD streaming while offering crucial flexibility for our customers. Additional key features of the HD Network include:

- "In the network" packaging and segmenting, which enable content publishers to offer files in different formats within one set of video workflows;
- Adaptive bit rate streaming to adjust the bit rate of a video stream to ensure the optimum playback quality; and
- DVR for live streaming.

Our Akamai Media Delivery solution is primarily used by companies in the following industries: entertainment, including television, radio, sports, music and media, gaming, social networking and Internet search/portal access. The solution can accommodate the many different business models used by our customers including pay-per-view, subscription, advertising and syndication.

#### Electronic Software Delivery

Due to the expanding prevalence of broadband access, distribution of computer software has moved primarily to the Internet where traffic conditions and high loads can dramatically diminish software download speed and reliability. Furthermore, surges in traffic from product launches or periodic distributions of anti-virus security updates can overwhelm traditional centralized software delivery infrastructure, adversely affecting website performance and causing users to be unable to download software. Our Electronic Software Delivery solution handles the distribution of software for our customers. Our network is designed to withstand large surges in traffic related to software launches and other distributions with a goal of improved customer experiences, increased use of electronic delivery and



successful online product launches. We also offer a number of tools to enhance the effectiveness of this distribution model including electronic download receipts, storage, a download manager to provide end users with control over the handling of files received and reporting. This solution is appropriate for software companies of all types including consumer, enterprise, anti-virus and gaming software companies.

Website Optimization

Akamai's website optimization services — particularly our core Dynamic Site Accelerator offering — offer solutions for

4

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## Table of Contents

accelerating business-to-consumer websites that integrate rich, collaborative content and applications into their online architecture. Leveraging our worldwide network of servers and sophisticated mapping and routing technologies, we provide whole-site and object delivery for our customers' websites. As a result, our customers have access to a more efficient way to implement and maintain a global Internet presence. While site owners maintain a source copy of their content and applications, Dynamic Site Accelerator provides global delivery, load balancing and storage of content and applications, enabling businesses to focus valuable resources on strategic matters, rather than on technical infrastructure issues.

Our Dynamic Site Solutions include advanced site delivery service features such as:

• **Secure Content Distribution** — distribution of content over the Internet using SSL transport, a protocol to secure transmission of content over the Internet.

• **Site Failover** — delivery of default content in the event that the primary, or source, version of the website of a customer becomes unavailable.

• **Content Targeting** — a feature that enables content providers to deliver localized content, customized store-fronts, targeted advertising and adaptive marketing to their customers.

• **Cache Optimization** — features designed to enhance the cacheability of content including expiration dates and other parameters for the handling of stored content.

• **Capacity On-Demand** — offers dynamic load-balancing decisions that are based on real-time analysis of an end user's location, Internet conditions, server and data center infrastructure capacity and overall demand.

Akamai's website optimization solutions are appropriate for any enterprise that has a website, particularly retail companies dependent on their commerce-related websites and enterprises that rely on the Internet for to promote their brands through research, discussion and other interactive tools for their current and potential customers.

### Other Key Offerings

#### Security and Protection Solutions

We offer a variety of services that address the Internet security needs of our customers including the following:

• **Edge Tokenization** — an electronic payment security service that enables credit card data to be converted to a token prior to Web transactions landing on a merchant's infrastructure. By alleviating the requirement for retailers to route customer credit card data on their own infrastructure, the service is designed to help reduce information theft and compliance risk while lowering Payment Card Industry Data Security Standard compliance costs.

• **Web Application Firewall** — a solution designed to detect and mitigate potential attacks in http and SSL traffic as it passes through our network, before they reach the customer's origin data centers.

• **DDoS Readiness** — Distributed denial of service (DDoS) attacks are one of the most common methods used to attack an enterprise's website. We offer customers a DDoS readiness solution that includes reviewing a website for DDoS readiness, providing a detailed assessment including recommendations and developing customer-specific DDoS incident response procedures for use during a DDoS attack.

#### Network Operator Solutions

For networks that need to improve the efficiency of their operations, we are able to leverage the expertise of our technology, networks and support personnel to provide custom solutions to both commercial and government customers. These solutions include replicating our core technologies to facilitate content delivery behind the firewall, combining our technology with that of other providers to create unique solutions for specific customers and supporting mission-critical applications that rely on the Internet and intranets.

#### Mobile Device Solutions

We offer our website customers a mobile content adaptation solution. The majority of websites are not configured for optimal viewing when accessed by a mobile device. For mobile end users, sites can be difficult to navigate and often lack the robust functionality that people have come to expect when accessing the same site on a personal computer. As a result, many companies either support an entirely separate infrastructure for their mobile sites or inadvertently alienate customers by presenting sub-optimal mobile Web experiences. Akamai's solution combines mobile content transformation technology with our website optimization techniques to help enterprises effectively reach their customers, partners and employees on mobile devices in addition to personal computers.

#### Advertising Decision Solutions (ADS)

Our ADS offering is designed to enable more effective online advertising by helping advertisers reach their target audiences.

5

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## Table of Contents

Our solutions are intended to address some of the fundamental challenges in the advertising industry today — enabling advertisers, agencies, publishers and networks to buy and sell advertising in an effective, scalable, easy-to-use way. At the same time, our platform is architected so that none of the user data tracked by us consists of personally identifiable information; therefore, customers can maintain the integrity of their data and privacy policies.

### Site Intelligence Offerings

Akamai's offerings in this area include our network data feeds and our website analytics offering, which provide customers with real time data about the performance of their content and applications over the Internet and Akamai's network. In addition, our business performance management services help customers better understand their Web operations with tools that measure all aspects of an application's performance. For example, a customer could use website data feeds from Akamai's customer portal to assist in managing its online distribution costs and budget.

### Our Technology and Network

Our expansive network infrastructure and sophisticated technology are the foundation of our services. We believe Akamai has deployed the world's largest globally-distributed computing platform, with more than 100,000 servers located in over 1,000 networks around the world. Applying our proprietary technology, we deliver our customers' content and computing applications across a system of widely distributed networks of servers in the cloud; the content and applications are then processed at the most efficient places within the network. Servers are deployed in networks ranging from large, backbone network providers to medium and small ISPs, to cable modem and satellite providers to universities and other networks. By deploying servers within a wide variety of networks, we are better able to manage and control routing and delivery quality to geographically diverse users. We also have more than 1,000 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.

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, regardless of global or local traffic conditions. Dedicated professionals staff our Network Operations Control Centers on a 24 hour a day, seven day a week basis 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. Customers are also able to control the extent of their use of Akamai services 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.

### Business Segments and Geographic Information

We operate in one industry segment: providing services for accelerating and improving delivery of content and applications over the Internet. For the years ended December 31, 2011, 2010 and 2009, 29%, 28% and 28%, respectively, of our total revenues was derived from our operations outside the United States. Revenues from Europe represented 18%, 17% and 18% of total revenues, respectively. No single country outside of the United States accounted for 10% or more of our revenues in any such year. For more segment and geographic information, including total long-lived assets for each of the last two fiscal years, see our consolidated financial statements included elsewhere in this annual report on Form 10-K, including Note 19 thereto.

Our long-lived assets primarily consist of servers, which are deployed into networks worldwide. As of December 31, 2011, we had approximately \$194.0 million and \$99.0 million of property and equipment, net of accumulated depreciation, located in the United States and foreign locations, respectively. As of December 31, 2010, we had approximately \$174.9 million and \$81.0 million of property and equipment, net of accumulated depreciation, located in the United States and foreign locations, respectively.

### Customers

Our customer base primarily consists of enterprises. As of December 31, 2011, our customers included many of the world's leading corporations, including Adobe, Apple, Audi, Best Buy, EMC, Hitachi, Home Depot, L'Oreal, Microsoft, MTV Networks, the National Football League, Philips, Qantas, SAP Standard Chartered Bank and Victoria's Secret. We also actively sell to government agencies. As of December 31, 2011, our public sector customers included the Federal Emergency Management Agency, the U.S. Air Force, the U.S. Census Bureau, the

U.S. Department of Defense, the U.S. Food and Drug Administration and the U.S. Department of Labor. No customer accounted for 10% or more of total revenues for any of the years ended December 31, 2011, 2010 or 2009. Less than 10% of our total revenues in each of the years ended December 31, 2011, 2010 and 2009 were 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 revenues in 2012.

**Sales, Service and Marketing**

Our sales and service professionals are located in more than 25 offices in the United States, Europe and Asia. We market and sell our services and solutions globally through our direct sales and services organization and through more than 100 active channel partners including EDS (an HP company), IBM Corporation, Verizon and Telefonica Group. In addition to entering into agreements

## Table of Contents

with resellers, we have several other types of sales- and marketing-focused alliances with entities such as system integrators, application service providers, sales agents and referral partners. By aligning with these companies, we believe we are better able to market our services and encourage increased adoption of our technology throughout the industry.

Our sales and service organization includes employees in direct and channel sales, professional services, account management and technical consulting. As of December 31, 2011, we had approximately 1,100 employees in our sales and support organization, including 170 direct sales representatives whose performance is measured on the achievement of quota objectives.

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, on-going customer communication programs, training and sales support. As of December 31, 2011, we had 145 employees in our global marketing organization, which is a component of our sales and support organization.

### Research and Development

Our research and development personnel are continuously undertaking efforts to enhance and improve our existing services, strengthen our network and create new services in response to our customers' needs and market demand. As of December 31, 2011, we had 584 research and development employees. Our research and development expenses were \$52.3 million, \$54.8 million and \$43.7 million for the years ended December 31, 2011, 2010 and 2009, respectively. In addition, for the years ended December 31, 2011, 2010 and 2009, we capitalized \$39.0 million, \$31.1 million and \$25.8 million, respectively, of external consulting and payroll and payroll-related costs related to the development of internal-use software used by us to deliver our services and operate our network. Additionally, during the years ended December 31, 2011, 2010 and 2009, we capitalized \$7.1 million, \$7.6 million and \$6.2 million, respectively, of stock-based compensation attributable to our research and development personnel.

### Competition

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

- performance of our services;
- 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;
- ease of implementation and use of service;
- customer support; and
- price.

We compete primarily with companies offering products and services that address Internet performance problems, including companies that provide Internet content delivery and hosting services, streaming content delivery services and equipment-based solutions to 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, potential customers may decide to purchase or develop their own hardware, software or other technology solutions rather than rely on a provider of externally-managed services like Akamai.

With respect to our ADS offerings, we compete with a range of other companies that provide targeted advertising solutions. At the same time, some of the companies that offer competitive solutions have entered into strategic agreements with us that we believe are mutually beneficial. We compete on the basis of our technology, the availability of our data co-operative, our predictive analytics capabilities, the ability to leverage existing business relationships and price.

We believe that we compete favorably with other companies in our industry, as well as alternative approaches to content and application delivery over the Internet, on the basis of the quality of our offerings, our customer service

and value.

**Proprietary Rights and Licensing**

Our success and ability to compete are dependent on our ability to develop and maintain the proprietary aspects of our technology and operate 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. We currently have

7

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## Table of Contents

numerous issued United States and foreign-country patents covering our content and application delivery technology, and we have numerous additional patent applications pending. Our issued patents extend to various dates between approximately 2015 and 2020. 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 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, 2011, we had 2,380 full-time and part-time employees. Our future success will depend in part on our ability to attract, retain and motivate highly qualified technical and management 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.

### Item 1A. Risk Factors

The following are certain of the 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 face intense competition, the consequences of which could adversely affect our business.

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

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

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

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

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

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

Ultimately, increased competition of all types could result in price and revenue reductions, lower gross margins, loss of customers and loss of market share, each of which could materially and adversely affect our business, financial condition and results of operations.

If we are unable to continue to innovate and respond to emerging technological trends and customers' changing needs, our operating results may suffer.

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



Failure to increase our revenues and keep our expenses consistent with revenues could prevent us from maintaining profitability at recent levels or at all.

Our revenue growth rate may decline in future periods as a result of a number of factors including increasing competition, pricing pressure, the inevitable decline in growth rates as our revenues increase to higher levels and macroeconomic factors affecting certain aspects of our business. We also believe our gross margins may decrease because we have large fixed expenses

Table of Contents

and expect to continue to incur significant bandwidth, co-location and other expenses, including increased depreciation on network equipment purchased in recent years. As a result, we may not be able to continue to maintain our current level of profitability in 2012 or on a quarterly or annual basis thereafter.

There are numerous factors that could, alone or in combination with other factors, impede our ability to increase revenues and/or moderate expenses, including:

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

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

Our customers have no obligation to renew their agreements for our services after the expiration of their existing terms, which are typically 12 to 24 months. Some may elect not to renew and others may renew at lower prices, lower committed traffic levels or for shorter contract lengths. We cannot accurately predict renewal rates. Our renewal rates may decline or fluctuate as a result of a number of factors, including customer dissatisfaction with our service, customers' ability to continue their operations and spending levels and deteriorating general economic conditions. It is key to our profitability that we offset lost committed recurring revenue due to customer cancellations, terminations, price reductions or other less favorable terms by adding new customers and increasing the number of services, features and functionalities that our existing customers purchase. If we are unable to do so, our revenue will decline and our business will suffer.

We may be unable to develop robust strategic relationships with third parties; such failure could significantly limit our long-term growth.

Our future success will likely require us to maintain and increase the number and depth of our relationships with resellers, systems integrators and other strategic partners. The need to develop such relationship can be particularly acute in areas outside of the United States. We have not always been successful at developing these relationships due to the complexity of our services, our historical reliance on an internal sales force, a past lack of strategic focus on such arrangements and other factors. Recruiting and retaining qualified channel partners and training them in the use of our technology and services requires significant time and resources. In order to develop and expand our distribution channel, we must continue to expand and improve our processes and procedures that support our channel, including our investment in systems and training, and those processes and procedures may become increasingly complex and difficult to manage. The time and expense required for sales and marketing organizations of our channel partners to become familiar with our offerings, including our new services developments, may make it more difficult to introduce those products to enterprises. Our failure to maintain and increase the number of relationships with channel partners could significantly impede our revenue growth prospects in the short and long term.

Our failure to manage expected growth, diversification and changes to our business could harm us.

Our future operating results will depend on our ability to manage our operations. In the past, we have restructured aspects of our operations and made other adjustments to our organization in response to management changes, product changes, performance issues and other internal and external considerations, and we may take similar actions in the future. Such actions can result in lack of focus and reduced productivity.

As a result of the diversification of our business, personnel growth, acquisitions and international expansion in recent years, many of our employees are now based outside of our Cambridge, Massachusetts, headquarters. However, most management decisions are made by a relatively small group of individuals based primarily at our headquarters. If we are unable to appropriately increas