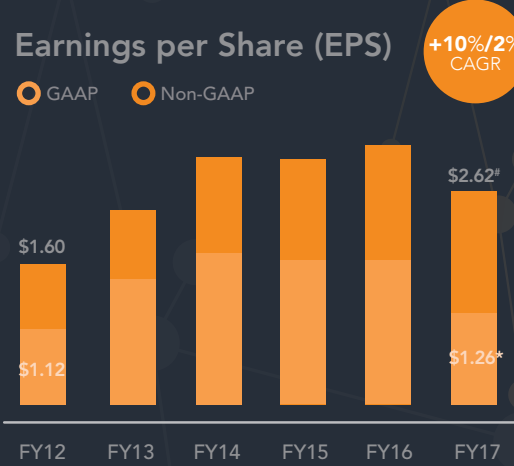
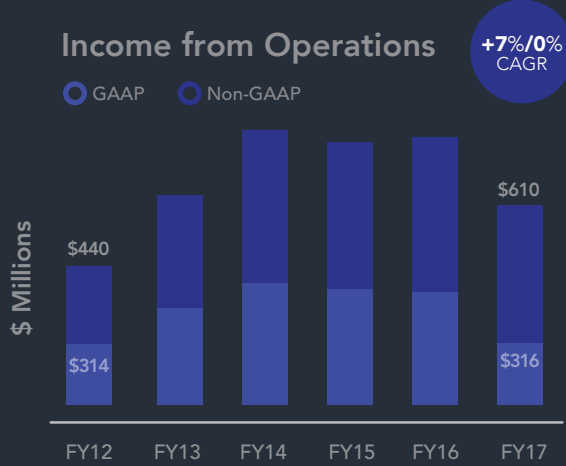
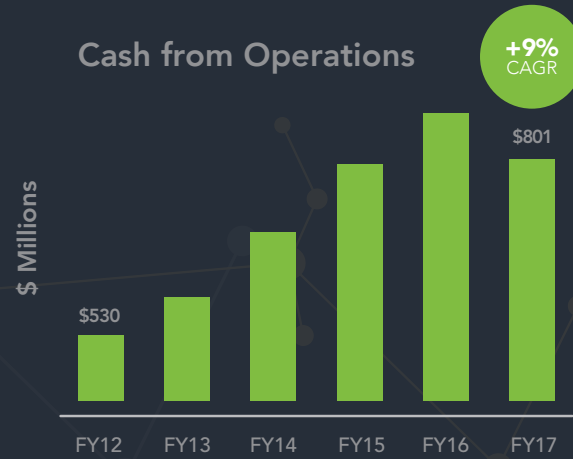
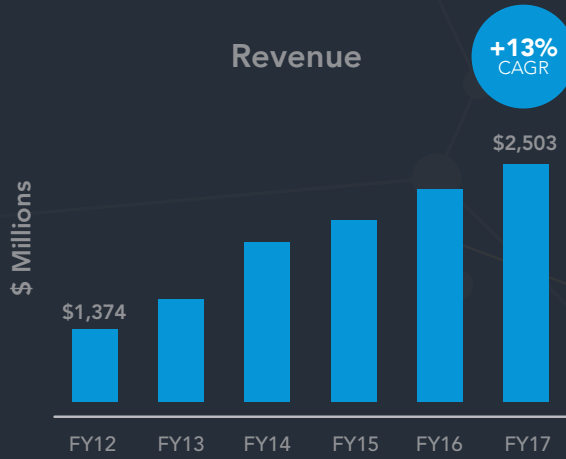




◦ Annual Report 2017

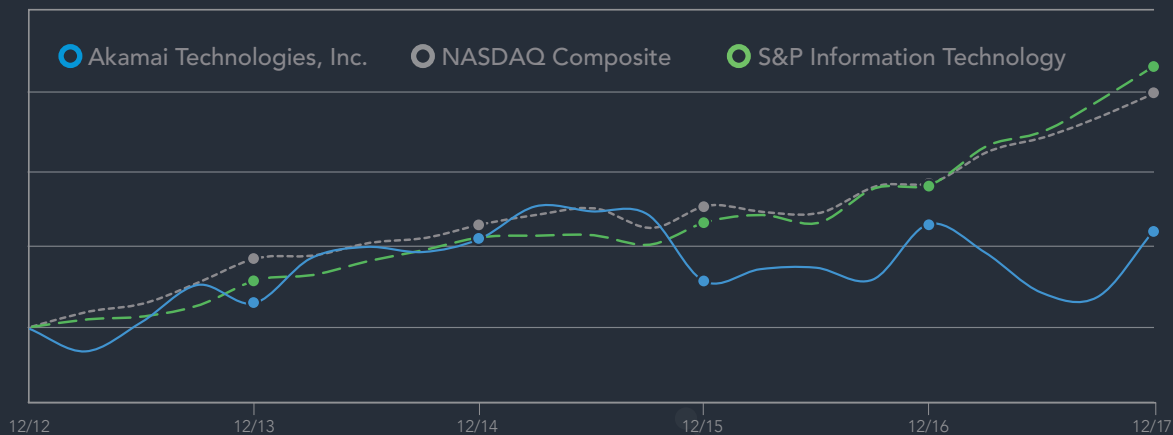
Financial Highlights



* 2017 GAAP EPS included a \$52M restructuring charge and a \$26M net charge associated with US tax reform.

2017 Non-GAAP EPS includes a short-term margin headwind from acquisitions of SOASTA and Nominum.

Stock Performance



*\$100 invested on 12/31/12 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2017

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

(State or other jurisdiction of
incorporation or organization)

04-3432319

(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 No

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

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

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

Indicate by check mark 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

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

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately \$8,322.4 million based on the last reported sale price of the Common Stock on the NASDAQ Global Select Market on June 30, 2017.

The number of shares outstanding of the registrant's Common Stock, par value \$0.01 per share, as of February 22, 2018: 170,031,585 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 2018 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.

AKAMAI TECHNOLOGIES, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

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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,” “continues,” “goal,” “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

Akamai provides cloud services for delivering, optimizing and securing content and business applications over the Internet. As a global leader in content delivery network, or CDN, services, our goal is to make the Internet faster, more reliable and more secure for customers and users around the world. For many enterprises, engaging customers through high-quality digital experiences has become mission critical. We believe that is why thousands of organizations rely on Akamai and our cloud delivery platform to make it easier for them to provide the best and most secure digital experiences to their customers.

Our Strategy – Addressing the Needs of our Customers in the Internet Age

The Internet plays a crucial role in the way companies, government agencies and other enterprises conduct business and reach the public, and the world around us is rapidly evolving. The emergent network known as the Internet of Things (IoT) is connecting billions of devices that transmit volumes of data from offices, hospitals, manufacturing plants, power grids, roads, schools and homes every second. At the same time, security threats are growing more sinister and advanced. Enterprise applications are moving from behind the firewall to the cloud at the same time that employees increasingly need remote access from a variety of devices - making cybersecurity more complex to achieve than yesterday’s perimeter defense. 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 with advertisements, videos, graphics and other third-party content, causing speed and reliability to suffer. More and more, government agencies want citizens to pay their taxes, submit applications and request information online. Smart enterprises want to take advantage of these trends safely, profitably and intelligently.

What our customers want to do:

- Provide consumers with superior online experiences when they access websites and applications from all types of devices from anywhere in the world
- Handle transactions securely and protect sensitive information
- Affordably present vibrant and engaging streaming content at large scale, including high definition, or HD, video, music and games
- Leverage the growth in the use of mobile devices to reach more consumers and provide dynamic experiences
- Scale and secure the enterprise network
- Receive and act on data about usage of their websites and applications to improve performance and business value

What makes it difficult to achieve those goals:

- Doing it yourself – building out data centers, coping with the technology changes, and dealing with sudden traffic spikes – is difficult and expensive
- Lack of a coordinated security system to protect against hackers, bots and other bad actors who want to steal assets and disrupt the functioning of the web can leave enterprises exposed
- Mobile networks tend to be slower and less reliable than the fixed line Internet and present other challenges
- Traffic congestion at data centers and between networks typically cannot be avoided without a CDN
- User experiences are difficult to monitor and understand given myriad devices and locations
- “Last mile” issues – such as bandwidth constraints between consumers and their Internet access provider – are challenging to solve

How Akamai helps:

Our strategy is to bridge the gap between our customers' digital goals and the inherent challenges of the native Internet by providing technology that optimizes and secures the delivery of online content and applications. We deliver a wide spectrum of content, from video and software downloads to dynamic and personalized data for many of the world's most important enterprises. We offer online solutions for delivery, acceleration, and security services to the owners of major 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 the Internet faster, more reliable and more secure.

At the core of this mission is the Akamai Intelligent Platform, a globally-distributed computing platform, that comprises more than 200,000 servers deployed in more than 1,700 networks and 130 countries around the world, tied together with sophisticated software and algorithms. Our software also resides on over 100 million end-user devices, as part of our work on client-assisted delivery for large media files. The platform is 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 delivery to them
- Provide our customers with business and technical insights into their online operations
- Understand different types of traffic visiting websites so that customers can deal with them as desired

We believe that our unique technology leveraging a virtual Internet on top of the native Internet, our ability to efficiently manage a platform with millions of components, our high-quality intellectual property portfolio, our strong relationships with hundreds of leading telecommunications carriers and thousands of major brands on the web, and our relentless and personalized attention to customer and partner needs create significant value for stockholders and provide a meaningful edge over the many competitors that desire to acquire a share of our business.

Our Solutions

Performance and Security Solutions

Web and Mobile Performance Solutions

The ultimate goal of our web and mobile performance business 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 situational performance solution that consists of an integrated suite of web delivery, acceleration and optimization technologies that make real-time optimization decisions based on the requirements of the device, network location and browser. Ion is designed to simplify increasingly complex web delivery and enable a faster website experience that is highly available, secure and scalable to meet peak capacity demands.
- **Dynamic Site Accelerator** – Dynamic Site Accelerator is designed to help customers experience globally-consistent and faster website performance, handling the specific requirements of dynamically-generated content. Our platform continuously pulls and caches fresh site content onto Akamai servers, automatically directs content requests to an optimal server, and routes the request via the most reliable path to data centers to retrieve and deliver dynamic interactive content.
- **Image Manager** – To help our customers cope with the multitude of devices used by their consumers and varying connection quality, Image Manager automatically optimizes online images for the best combination of size, quality, and file format suited for each image and device and offloads the artistic transformation of derivative assets to the cloud.
- **CloudTest** – Leveraging technology we acquired through our acquisition of Soasta, Inc., or Soasta, in 2017, CloudTest empowers customers to conduct load testing and other analysis of their websites in a pre-production environment.

Testing capabilities include web and mobile applications, APIs and databases. In addition, real-time analytics and customizable dashboards allow for root cause analysis while tests are in process.

- mPulse – mPulse, originally developed by Soasta, provides real-time website performance data to provide insight about end-user experiences on a website. It is designed to enable customers to understand the impact of user-perceived performance on transaction volume, revenue, conversions and other key business metrics.
- Global Traffic Management – Global Traffic Management is designed to ensure responsiveness to end-user requests by leveraging our global load balancing technology. Unlike traditional hardware-based solutions that reside within the data center, our Global Traffic Management service is a fault-tolerant solution that makes intelligent routing decisions based on real-time data center performance health and global Internet conditions to help ensure user requests are routed to the most appropriate data center for that user at that moment.

Cloud Security Solutions

Our Cloud Security Solutions, boosted by technology we acquired through our purchase of Nominum, Inc., or Nominum, in 2017 are designed to defend websites, applications and data centers against a multitude of cyber attacks. 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 does not require hardware installation and offers both customized and pre-configured rule groupings to distinguish between legitimate and malicious traffic.
- Kona Site Defender – Kona Site Defender is a cloud computing security solution that defends against network and application layer DDoS attacks, web application attacks and direct-to-origin attacks. By leveraging our distributed network and proprietary technology, Akamai can absorb traffic targeted at the application layer, deflect DDoS traffic targeted at the network layer, such as SYN Floods or UDP Floods, and authenticate valid traffic at the network edge.
- Bot Manager Premier – As websites attract users, they also place business information where it can be easily accessed by other entities – often using automated tools known as “bots.” Our Bot Manager offering provides organizations with a flexible framework to better manage the wide array of bots accessing their website every day. It offers the ability to identify bots as they first arrive, categorize different types of bots, and apply the most appropriate management policy for each category.
- 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. Importantly, we have architected this service to protect against DNS-based DDoS attacks.
- Prolexic Routed – Prolexic Routed is designed to protect web- and IP-based applications in data centers from the threat of DDoS attacks by preventing attacks before they reach the data center. It provides protection against high-bandwidth, sustained web attacks as well as potentially crippling DDoS attacks that target specific applications and services.
- Client Reputation – Client Reputation provides an additional layer of protection against DDoS and web application attacks by allowing customers to automatically block requests from IP addresses. Client Reputation leverages advanced algorithms to compute a risk score based on prior behavior as observed over the Akamai network. The algorithms use both legitimate and attack traffic to profile the behavior of attacks, clients and applications. Based on this information, Akamai assigns risk scores to each IP address and allows customers to choose which actions they wish to have Kona Site Defender perform on an IP address with specific risk scores.

Enterprise Security Solutions

Our Enterprise Security Solutions are designed to help customers boost productivity by facilitating third-party access to applications, accelerating those applications, reducing bandwidth costs and extending the Internet and public clouds into private wide area networks, or WANs. Our key Enterprise Solutions include:

- Enterprise Application Access – Using technology gained through our acquisition of Soha Systems, Inc., this offering enables remote access to applications behind the firewall without providing users access to the entire network and without external hardware or software.
- Enterprise Threat Protector – Enterprise Threat Protector is designed to enable enterprise security teams to proactively identify, block, and mitigate targeted threats such as malware, ransomware, phishing, and data exfiltration that exploit DNS.

Media and Network Operator Solutions

Network Operator Solutions

With the growth in consumer adoption of Internet video and other media and web usage, carriers around the world have experienced significant traffic increases, resulting in congestion across networks from aggregation, to backbone, and to interconnection. In addition, security and personalized services are critical for carriers to protect and grow their revenue and subscriber base. Our Network Operator offerings are designed to help carriers operate a cost-efficient network that capitalizes on traffic growth and new subscriber services by reducing the complexity of building a CDN and interconnecting access providers. We also help network operators provide subscriber security and personalization services; these solutions were enhanced by our acquisition of Nominum in 2017. Our network operator offerings include:

- Aura Licensed CDN – Aura Licensed CDN is a suite of solutions designed to empower network operators to build and run a highly-scalable media content delivery network that efficiently delivers its own content, as well as content from Akamai customers and other targeted services, all utilizing a common HTTP caching infrastructure. The Aura Licensed CDN federates with the Akamai Intelligent Platform, providing global delivery of operator content with a single business agreement. The solution also includes HyperCache, a common HTTP caching layer in the network that supports traffic offload and delivery of content, and Request Router, a DNS-based content request router that directs user requests to an optimal available CDN node.
- 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 the 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.

Media Delivery Solutions

In recent years, streaming of movies, television and live events has come to represent a significant percentage of traffic on the Internet. Providing solutions to handle that media 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 for 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 Delivery – We provide adaptive delivery solutions for streaming video content that are designed to cope with variable connection speeds, different devices and disparate locations around the world.
- Download Delivery – Our download delivery offerings provide accelerated distribution for large file downloads, including games, progressive media (video and audio) files, documents and other file-based content.

- Infinite Media Acceleration – These media delivery acceleration solutions are designed with the goal of bringing broadcast quality TV experiences to broadband.
- Media Services – These services help simplify the preparation of online media with integrated transcoding, digital rights management and content packaging designed to enable our customers to quickly and easily deliver live and on-demand content to multiple types of devices and platforms.
- Media Analytics – We offer a comprehensive suite of analytics tools to monitor online video viewer experiences and the effectiveness of web software downloads, 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 through four complementary modules: Quality of Service Monitor, Viewer Diagnostics, Audience Analytics and Download Analytics.
- 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.

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

The Akamai Intelligent 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.

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 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.

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, 2017, we had 2,227 research and development employees. Our research and development expenses were \$222.4 million, \$167.6 million and \$148.6 million for the years ended December 31, 2017, 2016 and 2015, respectively. These amounts are net of capitalized costs related to the development of internal-use software used to deliver our services and operate our network. For the years ended December 31, 2017, 2016 and 2015, we capitalized \$149.3 million, \$124.6 million and

\$105.7 million, respectively, of payroll, payroll-related and external consulting costs related to the development of internal-use software. Additionally, for the years ended December 31, 2017, 2016 and 2015, we capitalized \$26.8 million, \$21.4 million and \$16.7 million, respectively, of stock-based compensation attributable to our research and development personnel.

Industry Segment and Geographic Information

We operate in one industry segment: providing cloud services for delivering, optimizing and securing content and business applications over the Internet. Our revenue derived from operations outside the U.S. was \$855.0 million, \$720.0 million and \$593.0 million, for each of the years ended December 31, 2017, 2016 and 2015, respectively. This represented 34% of our total revenue for the year ended December 31, 2017, 31% of our total revenue for the year ended December 31, 2016 and 27% of our total revenue for the year ended December 31, 2015. No single country outside of the U.S. accounted for 10% or more of our revenue in any such year. See Note 19 to our consolidated financial statements included elsewhere in this annual report on Form 10-K for revenue attributable to the U.S. for the periods presented and for a description of the basis on which we attribute revenue to individual countries.

Our long-lived assets include servers, which are deployed into networks worldwide, in addition to other property and equipment used to support our operations. We had net property and equipment, excluding internal use software, located in the U.S. of \$311.7 million, \$297.8 million and \$298.9 million, for each of the years ended December 31, 2017, 2016 and 2015, respectively. We had net property and equipment, excluding internal use software, located outside of the U.S. of \$249.8 million, \$231.8 million and \$227.8 million, for each of the years ended December 31, 2017, 2016 and 2015, respectively.

Customers

As of December 31, 2017, our customers included many of the world's leading corporations, including Airbnb, Alibaba, Apple, Autodesk, Bristol Myers Squibb, Cathay Pacific, The Coca-Cola Company, Crate & Barrel, eBay, Electronic Arts, FedEx, Fidelity Investments, Ford Motor Company, FOX, General Electric, Home Depot, HubSpot, IKEA, JetBlue, Marriott, NBCUniversal, Norwegian Cruise Line, Panasonic, Panera Bread, PayPal, Qantas, Qualcomm, Rabobank, Rakuten, Salesforce.com, Siemens, Sony Interactive Entertainment, Spotify, Ticketmaster, Toshiba, Turner Broadcasting, Ubisoft and Viacom. We also actively sell to government agencies. As of December 31, 2017, our public sector customers included the Federal Aviation Administration, the U.S. Census Bureau, the U.S. Department of Defense, the U.S. Postal Service, the U.S. Department of Labor 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, 2017, 2016 and 2015. Six of our customers that are large Internet platform companies: Amazon, Apple, Facebook, Google, Microsoft and Netflix, or our Internet Platform Customers, in aggregate, accounted for 8%, 11% and 17% of our total revenue during the years ended December 31, 2017, 2016 and 2015, respectively. Less than 10% of our total revenue in each of the years ended December 31, 2017, 2016 and 2015 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 2018.

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 services 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, 2017, we had 3,594 employees in this organization.

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.

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:

- the performance and reliability 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;
- 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 provider of externally-managed services like Akamai.

We believe that we compete favorably with other companies in our industry through the global scale of the Akamai Intelligent 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, 2017, we owned, or had exclusive rights to, more than 330 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 2018 and 2036. We do not believe that the expiration of any particular patent in the near future would be material 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, 2017, we had 7,650 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.

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.

If we do not continue to innovate, make sound investments that bring positive returns, and develop profitable products and solutions that are attractive to existing and potential customers, our operating results may suffer.

We have been in business for nearly two decades and consider ourselves pioneers in the development of content and application delivery and security solutions. As the information technology industry evolves, however, it may become increasingly difficult for us to maintain a technological advantage in business areas where we have historically placed our focus. In particular, our traditional offerings, particularly our media and website delivery services, could face more intense competition as competitors or even current or former customers seek to replicate them such that we must lower the prices we charge, reducing the profitability of such offerings, or risk losing such business.

It is, therefore, also important to our revenue growth and profitability that we enter into new business areas that present significant value-generating investment opportunities. This requires investing in business areas that can potentially provide positive returns and developing or acquiring innovative, high-margin solutions, including in areas such as enterprise security and digital performance management. 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.

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 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.

Slower traffic growth on our network and numerous other factors could cause our revenue growth rate to slow and profitability to decline.

During the past twenty years, we have diversified our business from a media-dominated CDN by becoming a leading supplier of web and security products and services for a broad range of customers in myriad industries. Nevertheless, increasing traffic on our network remains key to our revenue growth and profitability. 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 services;
- 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.

We base our decisions about expense levels and investments on estimates of our future revenue and future anticipated rate of growth. In addition, 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 the payment of fees to exit certain obligations early. If we experience slower traffic growth on our network than we expect or than we have experienced in recent years, our revenue growth rate will slow, and we may not be able to maintain our current level of profitability in 2018 or on a quarterly or annual basis thereafter.

Our profitability may also decline in future periods as a result of a number of other factors unrelated to traffic growth, including:

- inability to increase sales of our core services and advanced features;
- pricing pressure on our solutions;
- failure of our new products and services, including our enterprise security and digital performance management solutions, to achieve sufficient market acceptance given our investment to develop them;
- increased headcount expenses;
- changes in our customers' business models that we do not fully anticipate or that we fail to address adequately; and
- increased reliance by customers on our secure socket layer, or SSL, network which is more expensive to maintain and operate.

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: excellence of technology, global presence, customer service, technical expertise, security, ease-of-use, breadth of services offered, price and financial strength. 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, 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 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 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 services, 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 external providers like 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.

We may be unable to replace lost revenue due to customer cancellations, renewals at lower rates or other less favorable terms.

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, selling more high-margin services, features and functionalities to existing customers and increasing traffic usage by all customers. Some customers may elect not to renew and others may renew at lower prices, lower committed traffic levels, or for shorter contract lengths. Historically, a significant percentage of our renewals, particularly with larger customers, has led to unit price declines as competition has increased and the market for certain parts of our business has matured. Our renewal rates may decline as a result of a number of factors, including competitive pressures, customer dissatisfaction with our services, customers' inability to continue their operations and spending levels, the impact of multi-vendor policies, customers implementing or increasing their use of in-house technology solutions and general economic conditions. In addition, 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 commitment would make it easier for customers to stop doing business with us, which would negatively impact revenue.

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

Our business is dependent on providing our customers with fast, efficient and reliable distribution of applications and content over the Internet. 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 customers. Maintaining the security and availability of our services, network and internal IT systems and the security of information we hold is a critical issue for us and our customers. 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.

In recent years, Internet-based attacks have increased in size, sophistication and complexity, increasing exposure for our customers and us. In addition, as we expand our emphasis on selling security-related solutions, we may become a more attractive target for attacks on our infrastructure intended to destabilize, overwhelm or shut down our platform. The costs to us to avoid or alleviate cyber or other security problems and vulnerabilities are significant. However, our efforts to address these problems may not be successful. Any significant breach of our security measures could:

- lead to the dissemination of proprietary information or sensitive, personal or confidential data about us, our employees or our customers – including personally identifiable information of individuals involved with our customers;
- threaten our ability to provide our customers with our services;
- generate negative publicity about us;
- result in litigation and increased legal liability or fines; or
- lead to governmental inquiry or oversight.

The occurrence of any of these events could harm our business or damage our brand and reputation, lead to customer credits, loss of customers, higher expenses, and possibly impede our present and future success in retaining and attracting new customers. A successful assault on our infrastructure would be damaging to our reputation and could adversely affect our financial condition.

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 the risk 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 impact our systems.

We may have 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 could result in a reduction in, or disruption of, service to our customers and ultimately a loss of those customers.

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 operations and personnel of acquired companies;
- 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 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 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. We also need to continue to manage successfully the transition from the IPv4 protocol to IPv6.

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 operating results can be impacted by the actions and business life cycles of a small number of large customers.

Historically, our operating results have been subject to fluctuations due to our dependence on several large customers, particularly media companies, for a significant portion of our revenues. The amount of traffic we deliver on behalf of those customers can vary significantly based on decisions they make about their businesses, including whether to start or delay new business initiatives, build out their own networks to handle delivery, or implement or maintain multiple vendor strategies. These approaches can change rapidly and unpredictably. While we believe that we will be less reliant on individual customers in the future, we are likely to continue to face some uncertainty in forecasting our revenues as they relate to these customers from quarter to quarter or over longer periods. We could also experience inconsistent revenue growth patterns and earnings as a result of the behavior of these customers.

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, 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, optimize our operations to achieve our target operating model and profitability objectives, 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 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 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 services.

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

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

- quarterly variations in operating results;
- 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 against 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 services beyond customer commitments, can be difficult to forecast, and, as a result, our quarterly operating results can fluctuate substantially. This concern is particularly acute with respect to our media and commerce customers for which holiday sales are a key but unpredictable driver of usage of our services. 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 such companies. These broad stock market fluctuations may adversely affect the market price of our common stock, regardless of our operating performance.

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, 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.

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 a number of 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 have a negative impact on the quality of our services or our results of operations;
- uncertainty regarding liability for content or services;
- adjusting to different employee/employer relationships and different regulations governing such relationships;
- corporate and personal liability for alleged or actual violations of laws and regulations;
- difficulty in staffing, developing and managing foreign operations as a result of distance, language and cultural differences;
- 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.

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

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

Our services are highly complex and are designed to be deployed in and across numerous large and complex networks that we do not control. From time to time, we have needed to correct errors and defects in the software that underlies our services and platform 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 the 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 cope with 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 services 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 legal actions by our customers.

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, including the European Union General Data Protection Regulation, or GDPR, are rapidly 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 and industry self-regulatory codes have been enacted and more are being considered that, like the GDPR, may affect our ability to reach current and prospective customers, to understand how our products and services 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, data collection activities or how our services 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 increased liability. Compliance with GDPR may be administratively difficult and expensive.

Over the past several years, the regulatory landscape governing the transfer of covered personal data from Europe to the United States has seen sweeping changes. Currently, we have in place U.S.-European Union and U.S. Swiss Privacy Shield Frameworks to legally transfer covered personal data from Europe to the United States, but their legitimacy may continue to be subject to challenge and review. Any changing or new requirements or rulings by the European Commission or EU member jurisdictions may impact our services or subject us to sanctions, including fines and a prohibition on data transfers, by EU data protection regulators. Furthermore, any continued or new judicial challenges or reviews may result in new, modified or inconsistent standards or requirements for the transfer of personal data, which could result in increased regulation, cost of compliance and limitations on data transfer for us and our customers. These developments could harm our business, financial condition and results of operations.

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

- 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 services 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 service 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 services, 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 services 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.

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 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. In particular, we do not yet know the full effect that the U.S. Tax Cuts and Jobs Act of 2017 and subsequent related regulations will have on our business and tax exposure assessment. 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. If the outcome of such audit or other audits were to be adverse to us, our reserves may not be adequate to cover our total actual liability. Although we believe our estimates, our reserves and the positions we have taken 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 require significantly more resources to ensure our internal controls remain effective. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we or our independent registered public accounting firm identify material weaknesses, the disclosure of that fact, even if quickly remediated, could reduce the market's confidence in our financial statements and harm our stock price.

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

As of December 31, 2017, we had total par value of \$690.0 million of convertible senior notes outstanding due in 2019. Our ability to 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 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 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. In addition, the terms of the notes do not limit the amount of future indebtedness we may incur. 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. 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.

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, 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.

We are currently involved in litigation with one of our competitors, Limelight Networks, Inc., or Limelight, involving claims for patent infringement. Limelight has asserted that it is entitled to significant damages. While we challenge the basis of the underlying claims and amount of such assertions, if such action were to be decided against our favor and a court were to award Limelight significant damages, our business and financial condition would be adversely impacted.

Furthermore, because litigation is inherently unpredictable and may not be covered by insurance, there can be no assurance that the results of the Limelight litigation or any of these other matters will not have an adverse impact on our business, results of operations, financial condition or 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 services 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 so that only approximately one-third of our Board of Directors is up for re-election in any one year;
- our Board of Directors has the right to elect directors to fill a vacancy created by the expansion of the Board of Directors or the resignation, death or removal of a director;
- 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.

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 lease approximately 490,000 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. The lease is for approximately 480,000 square feet and is expected to commence at the termination of our existing corporate headquarter lease at 150 Broadway in Cambridge, Massachusetts. 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.

In November 2015, Limelight filed a complaint in the U.S. District Court for the Eastern District of Virginia against Akamai and XO Communications LLC, or XO, alleging patent infringement by the two companies. The complaint seeks to recover from Akamai and XO significant monetary damages based upon lost revenue due to infringing technology used by the companies. We have agreed to indemnify XO for damages it incurs in this matter. We have made counterclaims in the action against Limelight alleging that Limelight has infringed Akamai content delivery patents, and we are seeking monetary damages based upon lost revenue due to the infringing technology used by Limelight. A trial date on Limelight's patents has been set for April 2018. We currently believe that the outcome of this litigation will not have a material impact on our business.

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. The following table sets forth, for the periods indicated, the high and low sales price per share of our common stock on the NASDAQ Global Select Market:

	2017		2016	
	High	Low	High	Low
First quarter	\$ 71.64	\$ 59.50	\$ 57.05	\$ 39.43
Second quarter	\$ 62.58	\$ 46.81	\$ 57.50	\$ 48.88
Third quarter	\$ 53.45	\$ 44.65	\$ 58.47	\$ 47.80
Fourth quarter	\$ 68.03	\$ 48.72	\$ 71.04	\$ 52.63

As of February 22, 2018, there were 320 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 2017 (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, 2017 – October 31, 2017	773,304	\$ 50.69	773,304	\$ 348,673
November 1, 2017 – November 30, 2017	126,618	53.97	126,618	341,839
December 1, 2017 – December 31, 2017	144,838	58.90	144,838	333,309
Total	1,044,760	\$ 52.23	1,044,760	\$ 333,309

(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.

During the year ended December 31, 2017, we repurchased 6.9 million shares of our common stock for an aggregate of \$361.2 million.

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,	2017	2016	2015	2014	2013
Revenue	\$ 2,502,996	\$ 2,340,049	\$ 2,197,448	\$ 1,963,874	\$ 1,577,922
Total costs and operating expenses	2,186,777	1,880,455	1,731,298	1,474,355	1,163,954
Income from operations	316,219	459,594	466,150	489,519	413,968
Net income	218,321	316,132	321,406	333,948	293,487
Basic net income per share	1.27	1.81	1.80	1.87	1.65
Diluted net income per share	1.26	1.79	1.78	1.84	1.61
Cash, cash equivalents and marketable securities	1,279,528	1,616,329	1,524,235	1,628,284	1,246,922
Total assets	4,602,844	4,373,146	4,181,684	4,001,546	2,957,685
Convertible senior notes	662,913	640,087	624,288	604,851	—
Other long-term liabilities	165,304	134,101	110,319	117,349	65,088
Total stockholders’ equity	3,310,723	3,224,370	3,120,878	2,945,335	2,629,431

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 cloud services 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.

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 services 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 social media and video platform capabilities, 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 services 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, and we expect to continue our focus on security solutions in the future.
- 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, from the second half of 2015 onward, our traffic growth rates have moderated, primarily due to the "do-it-yourself" efforts by some of our customers that are among the large Internet platform companies: Amazon, Apple, Facebook, Google, Microsoft and Netflix. We refer to these companies as our Internet Platform Customers. Some of these customers have elected to develop and rely on their internal infrastructure to deliver more of their media content themselves rather than use our services. As a result, we are likely to continue experiencing lower revenue from these customers. We have not, however, been experiencing a significant shift to internal infrastructure usage across the remainder of our media services customer base.
- We have increased committed recurring revenue from our solutions by increasing sales of incremental services to our existing customers and adding new customers. These increases helped to limit the impact of reductions in usage of our services and contract terminations by certain customers, as well as the effect of price decreases negotiated as part of contract renewals.
- The unit prices paid by some of our customers have declined, reflecting the impact of competition. Our revenue would have been higher absent these price declines.
- 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. We also experience lower revenue in the summer months, particularly in Europe, from both e-commerce and media customers because overall Internet use declines during that time. 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 services.

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:

- 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.
- 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.
- Due to the fixed nature of some of our co-location and bandwidth costs over a minimum time period, it may not be possible to quickly reduce those costs. If our revenue growth rate declines, our profitability could decrease.
- Restructuring costs were significant in the fourth quarter of 2017, as management committed to an action to restructure certain parts of the company. The restructuring actions are expected to facilitate cost efficiencies and savings in 2018.
- Payroll and related compensation costs have grown in the past several years as we have increased headcount to support our revenue growth and strategic initiatives. We increased our headcount by 1,161 employees during the year ended December 31, 2017, through hiring and from our acquisitions. During the year ended December 31, 2016, we increased our headcount by 406 employees. We expect to continue to hire employees, both domestically and internationally, in support of our strategic initiatives, but at a slower pace than experienced in 2017. We anticipate our headcount growth during 2018, if any, to be modest given the elimination of over 300 positions in the first quarter of 2018 as part of our restructuring actions. Payroll and related compensation costs are expected to increase in 2018 as a result of the hiring completed throughout 2017.

In recent years, we have used strategic acquisitions to complement and augment existing technological capabilities. During each of 2017, 2016 and 2015, we completed various acquisitions that, while immaterial to our financial results as a whole during those years, have contributed to increases in our revenue and level of expenses.

Results of Operations

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

	2017	2016	2015
Revenue	100.0%	100.0%	100.0%
Costs and operating expenses:			
Cost of revenue (exclusive of amortization of acquired intangible assets shown below)	35.0	34.6	33.0
Research and development	8.9	7.2	6.8
Sales and marketing	19.7	18.2	20.1
General and administrative	20.3	18.8	17.7
Amortization of acquired intangible assets	1.2	1.1	1.2
Restructuring charges	2.2	0.4	—
Total costs and operating expenses	87.3	80.3	78.8
Income from operations	12.7	19.7	21.2
Interest income	0.7	0.6	0.5
Interest expense	(0.8)	(0.8)	(0.8)
Other income (expense), net	—	0.2	(0.1)
Income before provision for income taxes	12.6	19.7	20.8
Provision for income taxes	3.9	6.1	6.2
Net income	8.7%	13.6%	14.6%

Revenue

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

	For the Years Ended December 31,				For the Years Ended December 31,			
	2017	2016	% Change	% Change at Constant Currency	2016	2015	% Change	% Change at Constant Currency
Revenue	\$2,502,996	\$2,340,049	7.0%	7.0%	\$2,340,049	\$2,197,448	6.5%	6.6%

The increase in our revenue from 2016 to 2017 was primarily the result of continued strong growth from our Cloud Security Solutions, which grew 32% year-over-year, and from new product introductions. Overall, however, the revenue growth rates for 2017 and 2016 have been negatively impacted by the "do-it-yourself" efforts of our Internet Platform Customers, some of which have developed internal infrastructure to deliver more of their media content themselves rather than rely on our media services. Revenue from these six customers in the aggregate declined from \$250.5 million in 2016 to \$202.9 million in 2017.

The increase in our revenue from 2015 to 2016 was driven by higher demand for our services across all of our solutions and geographies, with particularly strong growth from our Cloud Security Solutions. The impact of the revenue decline from our Internet Platform Customers was particularly acute in 2016, declining to \$250.5 million as compared to \$379.3 million in 2015.

We expect our revenue to increase in 2018 as compared to 2017 as a result of increased customer traffic delivered on our network, sales of incremental services to our existing customers and sales to new customers.

The following table quantifies the contribution to revenue during the periods presented from our divisions (in thousands). It is a customer-focused reporting view that reflects revenue we received from customers that are managed by the indicated division. For example, Media Division revenue represents all revenue received from customers that are predominately purchasing solutions from our media verticals (OTT video services, gaming, social media, etc.), including revenue from non-media solutions that those customers purchase. During 2017, the divisional categorization of certain customers was adjusted based on how those customer relationships were being managed. The historical presentation of divisional revenue was revised in order to reflect the most recent categorization and to provide a comparable view for all periods presented. During 2018, we plan to consolidate and manage our customers in two divisions: the Web Division and the Media and Carrier Division.

	For the Years Ended December 31,				For the Years Ended December 31,			
	2017	2016	% Change	% Change at Constant Currency	2016	2015	% Change	% Change at Constant Currency
Web Division	\$ 1,302,489	\$ 1,132,858	15.0%	15.0%	\$ 1,132,858	\$ 986,025	14.9%	14.9%
Media Division	1,119,282	1,136,150	(1.5)	(1.5)	1,136,150	1,157,016	(1.8)	(1.7)
Enterprise and Carrier Division	81,225	71,041	14.3	14.3	71,041	54,408	30.6	31.0
Total revenue	<u>\$ 2,502,996</u>	<u>\$ 2,340,049</u>	<u>7.0%</u>	<u>7.0%</u>	<u>\$ 2,340,049</u>	<u>\$ 2,197,449</u>	<u>6.5%</u>	<u>6.6%</u>

The increase in Web Division revenue for 2017 as compared to 2016 was due to increased purchases of new solutions and upgrades to existing services by this customer base. Increased sales of our Cloud Security Solutions to Web Division customers, in particular our Kona Site Defender and Prolexic solutions, as well as our new Bot Manager, offering were a principal contributor to our overall revenue growth. The increase in Web Division revenue in 2016 as compared to 2015 was due to increased demand across most of our customer base particularly for our Cloud Security Solutions.

The declines in the year-over-year revenue growth rate in Media Division revenue for 2017 as compared to 2016, and 2016 as compared to 2015, were primarily the result of decreased traffic from our Internet Platform Customers. The year-over-year revenue growth rate for other Media Division customers was 4% and 14% for the years ended December 31, 2017 and 2016, respectively.

The following table quantifies the contribution to revenue during the periods presented from our solution categories, which is a product-focused view that reflects revenue by solution purchased (in thousands):

	For the Years Ended December 31,				For the Years Ended December 31,			
	2017	2016	% Change	% Change at Constant Currency	2016	2015	% Change	% Change at Constant Currency
Performance and Security Solutions	\$ 1,542,558	\$ 1,355,030	13.8%	13.9%	\$ 1,355,030	\$ 1,158,281	17.0%	17.3%
Media Delivery Solutions	738,916	787,179	(6.1)	(6.2)	787,179	868,820	(9.4)	(9.6)
Services and Support Solutions	221,522	197,840	12.0	12.0	197,840	170,347	16.1	16.0
Total revenue	<u>\$ 2,502,996</u>	<u>\$ 2,340,049</u>	<u>7.0%</u>	<u>7.0%</u>	<u>\$ 2,340,049</u>	<u>\$ 2,197,448</u>	<u>6.5%</u>	<u>6.6%</u>

The increases in Performance and Security Solutions revenue for 2017 as compared to 2016, and 2016 as compared to 2015, were due to new product introductions and increased demand across all major product lines, with especially strong growth in our Cloud Security Solutions. Cloud Security Solutions revenue for the year ended December 31, 2017 was \$481.5 million, as compared to \$364.9 million and \$254.4 million for the years ended December 31, 2016 and 2015, respectively.

The declines in Media Delivery Solutions revenue for 2017 as compared to 2016, and 2016 as compared to 2015, were primarily the result of decreased traffic from our Internet Platform Customers, resulting from their "do-it-yourself" efforts in delivering their content. During 2017 as compared to 2016, revenue from our Media Delivery Solutions for other customers remained flat.

The increases in Services and Support Solutions revenue for 2017 as compared to 2016, and 2016 as compared to 2015, were due to strong attachment rates for our professional services for new customers as well as purchases of upgrades to professional services by our existing customers.

The following table quantifies revenue derived in the U.S. and internationally (in thousands):

	For the Years Ended December 31,				For the Years Ended December 31,			
	2017	2016	% Change	% Change at Constant Currency	2016	2015	% Change	% Change at Constant Currency
U.S.	\$ 1,647,948	\$ 1,620,724	1.7%	1.7%	\$ 1,620,724	\$ 1,604,492	1.0%	1.0%
International	855,048	719,325	18.9	18.9	719,325	592,956	21.3	21.6
Total revenue	\$ 2,502,996	\$ 2,340,049	7.0%	7.0%	\$ 2,340,049	\$ 2,197,448	6.5%	6.6%

The reduced revenue from our Internet Platform Customers negatively impacted our U.S. revenue growth rates for the years ended December 31, 2017 and 2016, as these customers are based in the U.S. For the year ended December 31, 2017, approximately 34% of our revenue was derived from our operations located outside of the U.S., compared to 31% for the year ended December 31, 2016, and 27% for the year ended December 31, 2015. No single country outside of the U.S. accounted for 10% or more of revenue during any of these periods.

During 2017 and 2016, we continued to see strong revenue growth from our operations in the Asia Pacific region. Changes in foreign currency exchange rates negatively impacted our revenue by \$0.4 million in 2017 as compared to 2016, and by \$1.0 million in 2016 as compared to 2015.

Cost of Revenue

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

	For the Years Ended December 31,			For the Years Ended December 31,		
	2017	2016	% Change	2016	2015	% Change
Bandwidth fees	\$ 168,092	\$ 168,202	(0.1)%	\$ 168,202	\$ 150,607	11.7%
Co-location fees	130,181	129,904	0.2	129,904	125,983	3.1
Network build-out and supporting services	75,209	61,320	22.7	61,320	58,207	5.3
Payroll and related costs	216,681	189,409	14.4	189,409	158,742	19.3
Stock-based compensation, including amortization of prior capitalized amounts	36,677	31,145	17.8	31,145	26,222	18.8
Depreciation of network equipment	143,825	140,777	2.2	140,777	130,098	8.2
Amortization of internal-use software	105,093	88,244	19.1	88,244	75,761	16.5
Total cost of revenue	\$ 875,758	\$ 809,001	8.3 %	\$ 809,001	\$ 725,620	11.5%
As a percentage of revenue	35.0%	34.6%		34.6%	33.0%	

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

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

The increase in total cost of revenue for 2016 as compared to 2015 was primarily due to increases in:

- amounts paid to network providers for bandwidth fees to support the increase in traffic served on our network and for traffic served from higher cost regions;
- payroll and related costs, as well as stock-based compensation, due to increased hiring in our services team to support revenue growth; and
- depreciation of network equipment and amortization of internal-use software as we continued to invest in our infrastructure and release internally-developed software onto our network.

We have long-term purchase commitments for co-location services and bandwidth usage with various vendors and network and Internet service providers. Our minimum commitments related to bandwidth usage and co-location services may vary from period to period depending on the timing and length of contract renewals with our service providers. See Note 12 to our consolidated financial statements included elsewhere in this annual report on Form 10-K for details regarding our bandwidth usage and co-location services purchase commitments.

We believe that cost of revenue will increase during 2018 as compared to 2017 due to higher bandwidth expenses associated with increased customer traffic on our network and the costs we expect to incur to increase our network's capacity and resiliency with the goal of combating potential attacks on our platform. Additionally, during 2018, we anticipate amortization of internal-use software development costs to increase as compared to 2017, along with increased payroll and related costs associated with our professional services personnel and related expenses. However, we do not anticipate that cost of revenue will increase as a percentage of revenue during 2018 as compared to 2017. We plan to continue making investments in our network with the expectation that our customer base will continue to expand and that we will continue to deliver more traffic to existing customers.

Research and Development Expenses

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

	For the Years Ended December 31,			For the Years Ended December 31,		
	2017	2016	% Change	2016	2015	% Change
Payroll and related costs	\$ 322,604	\$ 253,351	27.3%	\$ 253,351	\$ 220,198	15.1%
Stock-based compensation	38,863	29,739	30.7	29,739	23,926	24.3
Capitalized salaries and related costs	(148,998)	(122,084)	22.0	(122,084)	(103,352)	18.1
Other expenses	9,965	6,622	50.5	6,622	7,819	(15.3)
Total research and development	\$ 222,434	\$ 167,628	32.7%	\$ 167,628	\$ 148,591	12.8%
<i>As a percentage of revenue</i>	<i>8.9%</i>	<i>7.2%</i>		<i>7.2%</i>	<i>6.8%</i>	

The increases in research and development expenses for 2017 as compared to 2016 and 2016 as compared to 2015, were due to increases in:

- payroll and related costs as a result of headcount growth to support investments in new product development and network scaling, and as a result of recent acquisitions; and
- stock-based compensation due to increased headcount and market adjustments of award sizes to existing employees due to competition for certain engineering talent.

The increases in research and development expenses for the periods presented above were partially offset by increases in capitalized salaries and related costs due to continued investment in internal-use software deployed on our network. Research and development costs are expensed as incurred, other than certain internal-use software development costs eligible for capitalization. Capitalized development costs consist of payroll and related costs for personnel and external consulting expenses involved in the development of internal-use software used to deliver our services and operate our network. For the years ended December 31, 2017, 2016 and 2015, we capitalized \$26.8 million, \$21.4 million and \$16.7 million, respectively, of stock-based compensation. These capitalized internal-use software development costs are amortized to cost of revenue over their estimated useful lives, which is generally two years.

We believe that research and development expenses during 2018 will increase as compared to 2017, as a result of the increases in headcount we experienced throughout 2017. We expect the increases to payroll and related costs in 2018 as compared to 2017 to be at a slower pace than we experienced in 2017.

Sales and Marketing Expenses

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

	For the Years Ended December 31,			For the Years Ended December 31,		
	2017	2016	% Change	2016	2015	% Change
Payroll and related costs	\$ 354,829	\$ 309,181	14.8%	\$ 309,181	\$ 316,845	(2.4)%
Stock-based compensation	60,247	55,407	8.7	55,407	53,542	3.5
Marketing programs and related costs	48,551	36,904	31.6	36,904	43,990	(16.1)
Other expenses	30,005	25,475	17.8	25,475	26,611	(4.3)
Total sales and marketing	\$ 493,632	\$ 426,967	15.6%	\$ 426,967	\$ 440,988	(3.2)%
<i>As a percentage of revenue</i>	<i>19.7%</i>	<i>18.2%</i>		<i>18.2%</i>	<i>20.1%</i>	

The increase in sales and marketing expenses for 2017 as compared to 2016 was primarily due to increases in:

- payroll and related costs from headcount increases to enable our Web and Enterprise and Carrier Divisions' go-to-market strategies in support of growth opportunities; and
- marketing programs and related costs in support of our go-to-market strategies and ongoing geographic expansion.

The decrease in sales and marketing expenses for 2016 as compared to 2015 was primarily due to a decrease in performance-based commissions earned and reduced spending on marketing programs and related costs as we moderated discretionary spending to align with our revenue growth rates.

We believe that sales and marketing expenses will increase during 2018 as compared to 2017, due to increased payroll and related costs as a result of headcount growth during 2017 and expected hiring in 2018.

General and Administrative Expenses

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

	For the Years Ended December 31,			For the Years Ended December 31,		
	2017	2016	% Change	2016	2015	% Change
Payroll and related costs	\$ 194,199	\$ 163,348	18.9%	\$ 163,348	\$ 161,660	1.0%
Stock-based compensation	44,884	41,073	9.3	41,073	35,062	17.1
Depreciation and amortization	76,128	65,780	15.7	65,780	54,562	20.6
Facilities-related costs	80,452	72,549	10.9	72,549	64,302	12.8
Provision for doubtful accounts	3,209	1,235	159.8	1,235	1,717	(28.1)
Acquisition-related costs	23,373	1,028	2,173.6	1,028	1,756	(41.5)
License of patent	(16,421)	(8,577)	91.5	(8,577)	—	(100.0)
Professional fees and other expenses	103,341	103,480	(0.1)	103,480	69,206	49.5
Total general and administrative	\$ 509,165	\$ 439,916	15.7%	\$ 439,916	\$ 388,265	13.3%
<i>As a percentage of revenue</i>	<i>20.3%</i>	<i>18.8%</i>		<i>18.8%</i>	<i>17.7%</i>	

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

- payroll and related costs, specifically in our network infrastructure and information technology functions in support of our security infrastructure growth and network scaling and efficiency efforts;
- facilities-related costs and depreciation and amortization due to expansion of company infrastructure throughout 2016 and 2017 to support investments in engineering, go-to market capacity and enterprise expansion initiatives, particularly expansion of our facility footprint; and
- acquisition-related costs due to the release of an indemnification receivable related to an acquisition.

The increase in total general and administrative expenses for 2016 as compared to 2015 was primarily due to increases in:

- legal and other professional fees due to ongoing litigation;
- expansion of company infrastructure throughout 2015 and 2016 to support investments in engineering, go-to market capacity and enterprise expansion initiatives, particularly expansion of our facility footprint, which increased facilities-related costs and depreciation and amortization; and
- stock-based compensation as a result of increased headcount and the impact that changing estimates have on performance-based stock-based compensation awards from period to period.

General and administrative expenses for 2017 and 2016 are broken out by category as follows (in thousands):

	For the Years Ended December 31,			For the Years Ended December 31,		
	2017	2016	% Change	2016	2015	% Change
Global functions	\$ 201,539	\$ 189,485	6.4%	\$ 189,485	\$ 160,019	18.4%
<i>As a percentage of revenue</i>	<i>8.1%</i>	<i>8.1%</i>		<i>8.1%</i>	<i>7.3%</i>	
Infrastructure	297,465	255,855	16.3	255,855	222,674	14.9
<i>As a percentage of revenue</i>	<i>11.9%</i>	<i>10.9%</i>		<i>10.9%</i>	<i>10.1%</i>	
Other	10,161	(5,424)	(287.3)	(5,424)	5,572	(197.3)
Total general and administrative expenses	\$ 509,165	\$ 439,916	15.7%	\$ 439,916	\$ 388,265	13.3%
<i>As a percentage of revenue</i>	<i>20.3%</i>	<i>18.8%</i>		<i>18.8%</i>	<i>17.7%</i>	

Global functions expense includes payroll, stock-based compensation and other employee-related costs for administrative functions, including finance, purchasing, order entry, human resources, legal, information technology and executive personnel, as well as third-party professional service fees. Infrastructure expense includes payroll, stock-based compensation and other employee-related costs for our network infrastructure functions, as well as facility rent expense, depreciation and amortization of facility and IT-related assets, software and software-related costs, business insurance and taxes. Our network infrastructure function is responsible for network planning, sourcing, architecture evaluation and platform security. Other expenses includes acquisition-related costs, provision for doubtful accounts and the license of a patent.

During 2018, we expect payroll and related costs of our general and administrative functions to increase as compared to 2017 as a result of headcount growth in 2017. We do not expect other areas of general and administrative expenses to experience the same level of increases as past years and we expect acquisition-related costs to decrease as a result of the release of an indemnification receivable in 2017 that will not recur in 2018 that related to a prior acquisition.

Amortization of Acquired Intangible Assets

<i>(in thousands)</i>	For the Years Ended December 31,			For the Years Ended December 31,		
	2017	2016	% Change	2016	2015	% Change
Amortization of acquired intangible assets	\$ 30,904	\$ 26,642	16.0%	\$ 26,642	\$ 27,067	(1.6)%
<i>As a percentage of revenue</i>	<i>1.2%</i>	<i>1.1%</i>		<i>1.1%</i>	<i>1.2%</i>	

The increase in amortization of acquired intangible assets in 2017 as compared to 2016 was the result of amortization of assets related to our 2016 and 2017 acquisitions. The decrease in amortization of acquired intangible assets in 2016 as compared to 2015 was attributable to the finalization of amortization of intangible assets acquired in previous years; partially offset by intangible assets we acquired in 2015 and 2016.

Based on acquired intangible assets as of December 31, 2017, future amortization is expected to be approximately \$33.3 million, \$36.5 million, \$33.8 million, \$27.9 million and \$22.4 million for the years ending December 31, 2018, 2019, 2020, 2021 and 2022, respectively.

Restructuring Charges

<i>(in thousands)</i>	For the Years Ended December 31,			For the Years Ended December 31,		
	2017	2016	% Change	2016	2015	% Change
Restructuring charges	\$ 54,884	\$ 10,301	432.8%	\$ 10,301	\$ 767	1,243.0%
<i>As a percentage of revenue</i>	<i>2.2%</i>	<i>0.4%</i>		<i>0.4%</i>	<i>—%</i>	

The increase in restructuring charges in 2017 as compared to 2016 was the result of certain restructuring actions taken in the fourth quarter of 2017. Management committed to an action to restructure certain parts of the business, primarily media-related, with the intent of shifting focus to more critical areas and away from products that have not seen expected commercial success. The restructuring is also intended to facilitate other cost efficiencies and savings. Certain capitalized internal-use software charges have been realized for software not yet placed into service that will not be completed and launched due to this action. In addition, as part of cost efficiencies and savings, certain headcount and facility reductions were made. The restructuring charges in 2017 also consisted of severance expenses associated with the acquisitions of Soasta and Nominum.

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

The restructuring charges in 2015 consisted of severance expenses for redundant employees associated with acquisitions completed during those years.

We expect to incur additional restructuring charges of up to \$15.0 million in 2018 as a result of the action committed to in the fourth quarter of 2017 and continued in the first quarter of 2018. These charges will include severance and related expenses for terminations of approximately 300 employees in the first quarter of 2018 and charges related to facility closures we plan to implement in 2018.

Non-Operating Income (Expense)

<i>(in thousands)</i>	For the Years Ended December 31,			For the Years Ended December 31,		
	2017	2016	% Change	2016	2015	% Change
Interest income	\$ 17,855	\$ 14,702	21.4 %	\$ 14,702	\$ 11,200	31.3 %
<i>As a percentage of revenue</i>	0.7 %	0.6 %		0.6 %	0.5 %	
Interest expense	\$ (18,839)	\$ (18,638)	1.1 %	\$ (18,638)	\$ (18,525)	0.6 %
<i>As a percentage of revenue</i>	(0.8)%	(0.8)%		(0.8)%	(0.8)%	
Other income (expense), net	\$ 887	\$ 3,788	(76.6)%	\$ 3,788	\$ (2,201)	(272.1)%
<i>As a percentage of revenue</i>	— %	0.2 %		0.2 %	(0.1)%	

For the periods presented, interest income primarily consists of interest earned on invested cash balances and marketable securities, and interest expense consists of the amortization of the debt discount and debt issuance costs related to our convertible senior notes issued in February 2014.

Other income (expense), net for the years ended December 31, 2017, 2016 and 2015 primarily represents net foreign exchange gains and losses mainly due to foreign currency exchange rate fluctuations on intercompany and other non-functional currency transactions. The fluctuation in other income (expense), net for 2016, as compared to 2015 also includes the impact of gains recognized on the disposition of certain cost method investments. Other income (expense), net may fluctuate in the future based on changes in foreign currency exchange rates or other events.

Provision for Income Taxes

<i>(in thousands)</i>	For the Years Ended December 31,			For the Years Ended December 31,		
	2017	2016	% Change	2016	2015	% Change
Provision for income taxes	\$ 97,801	\$ 143,314	(31.8)%	\$ 143,314	\$ 135,218	6.0%
<i>As a percentage of revenue</i>	3.9%	6.1%		6.1%	6.2%	
<i>Effective income tax rate</i>	30.9%	31.2%		31.2%	29.6%	

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

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

For the year ended December 31, 2016, our effective income tax rate was lower than the federal statutory tax rate due to the composition of income from foreign jurisdictions that is taxed at lower rates compared to the statutory tax rates in the U.S., the domestic production activities deduction and U.S. federal, state and foreign research and development credits, partially

offset by the effects of stock-based compensation in accordance with authoritative guidance for share-based payments and state income taxes.

For the year ended December 31, 2015, our effective income tax rate was lower than the federal statutory tax rate due to the retroactive application of a U.S. tax court ruling with respect to the treatment of stock-based compensation in intercompany arrangements, U.S. federal, state, and foreign research and development credits, the domestic production activities deduction and the composition of income from foreign jurisdictions that is taxed at lower rates compared to the statutory tax rates in the U.S. These benefits were partially offset by the effects of accounting for stock-based compensation in accordance with the authoritative guidance for share-based payments and state income taxes.

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

The increase in the provision for income taxes for 2016 as compared to 2015 was mainly due to the retroactive application of a U.S. tax court ruling with respect to the treatment of stock-based compensation on intercompany arrangements that occurred in 2015, a decrease in U.S. federal and state research and development credits and a change in the composition of income from foreign jurisdictions. This increase in the provision for income taxes was partially offset by an increase in the domestic production activities deduction.

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

Non-GAAP Financial Measures

In addition to providing financial measurements based on accounting principles generally accepted in the U.S., or GAAP, we publicly discuss additional financial measures that are not prepared in accordance with GAAP, or non-GAAP financial measures. Management uses non-GAAP financial measures, in addition to GAAP financial measures, to understand and compare operating results across accounting periods, for financial and operational decision-making, for planning and forecasting purposes, to set executive compensation and to evaluate our financial performance. These non-GAAP financial measures are: non-GAAP income from operations, non-GAAP operating margin, non-GAAP net income, non-GAAP net income per diluted share, Adjusted EBITDA, Adjusted EBITDA margin and impact of foreign currency exchange rates, as discussed below.

Management believes that these non-GAAP financial measures reflect our ongoing business in a manner that facilitates meaningful comparisons and analysis of trends in the business, as they assist in the comparison of financial results across accounting periods and to those of our peer companies. Management also believes that these non-GAAP financial measures enable investors to evaluate our operating results and future prospects in the same manner as management. These non-GAAP financial measures may exclude expenses and gains that may be unusual in nature, infrequent or not reflective of our ongoing operating results.

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

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

- **Amortization of acquired intangible assets** – We have incurred amortization of intangible assets, included in our GAAP financial statements, related to various acquisitions we have made. The amount of an acquisition's purchase price allocated to intangible assets and the term of its related amortization can vary significantly and are unique to each acquisition; therefore, we exclude amortization of acquired intangible assets from our non-GAAP financial measures to provide investors with a consistent basis for comparing pre- and post-acquisition operating results.
- **Stock-based compensation and amortization of capitalized stock-based compensation** – Although stock-based compensation is an important aspect of the compensation paid to our employees, the grant date fair value varies based

on the stock price at the time of grant, varying valuation methodologies, subjective assumptions and the variety of award types. This makes the comparison of our current financial results to previous and future periods difficult to evaluate; therefore, we believe it is useful to exclude stock-based compensation and amortization of capitalized stock-based compensation from our non-GAAP financial measures in order to highlight the performance of our core business and to be consistent with the way many investors evaluate our performance and compare our operating results to peer companies.

- **Acquisition-related costs** – Acquisition-related costs include transaction fees, advisory fees, due diligence costs and other direct costs associated with strategic activities. In addition, subsequent adjustments to our initial estimated amounts of contingent consideration and indemnification associated with specific acquisitions are included within acquisition-related costs. These amounts are impacted by the timing and size of the acquisitions. We exclude acquisition-related costs from our non-GAAP financial measures to provide a useful comparison of our operating results to prior periods and to our peer companies because such amounts vary significantly based on the magnitude and quantity of our acquisition transactions.
- **Restructuring charges** – We have incurred restructuring charges that are included in our GAAP financial statements, primarily related to workforce reductions and estimated costs of exiting facility lease commitments. We exclude these items from our non-GAAP financial measures when evaluating our continuing business performance as such items vary significantly based on the magnitude of the restructuring action and do not reflect expected future operating expenses. In addition, these charges do not necessarily provide meaningful insight into the fundamentals of current or historical operations of our business.
- **Amortization of debt discount and issuance costs and amortization of capitalized interest expense** – In February 2014, we issued \$690 million of convertible senior notes due 2019 with a coupon interest rate of 0%. The imputed interest rate of the convertible senior notes was approximately 3.2%. This is a result of the debt discount recorded for the conversion feature that is required to be separately accounted for as equity under GAAP, thereby reducing the carrying value of the convertible debt instrument. The debt discount is amortized as interest expense together with the issuance costs of the debt. All of our interest expense is comprised of these non-cash components and is excluded from management's assessment of our operating performance because management believes the non-cash expense is not representative of ongoing operating performance.
- **Gains and losses on investments** – We have recorded gains and losses from the disposition and impairment of certain investments. We believe excluding these amounts from our non-GAAP financial measures is useful to investors as the types of events giving rise to them occur infrequently and are not representative of our core business operations or ongoing operating performance.
- **Legal matter costs** – We have incurred losses from the settlement of legal matters and costs with respect to our 2015 internal U.S. Foreign Corrupt Practices Act, or FCPA, investigation in addition to the disgorgement payments we made to resolve the matter. We believe excluding these amounts from our non-GAAP financial measures is useful to investors as the types of events giving rise to them are not representative of our core business operations.
- **Income tax effect of non-GAAP adjustments and certain discrete tax items** – The non-GAAP adjustments described above are reported on a pre-tax basis. The income tax effect of non-GAAP adjustments is the difference between GAAP and non-GAAP income tax expense. Non-GAAP income tax expense is computed on non-GAAP pre-tax income (GAAP pre-tax income adjusted for non-GAAP adjustments) and excludes certain discrete tax items (such as the release of income tax reserves due to statute expiration and one-time impacts of the TCJA), if any. We believe that applying the non-GAAP adjustments and their related income tax effect allows us to highlight income attributable to our core operations.

The following table reconciles GAAP income from operations to non-GAAP income from operations and non-GAAP operating margin for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Income from operations	\$ 316,219	\$ 459,594	\$ 466,150
Amortization of acquired intangible assets	30,904	26,642	27,067
Stock-based compensation	164,308	144,506	126,677
Amortization of capitalized stock-based compensation and capitalized interest expense	19,953	15,439	13,618
Restructuring charges	54,884	10,301	767
Acquisition-related costs	23,374	1,064	865
Legal matter costs	—	890	3,291
Non-GAAP income from operations	<u>\$ 609,642</u>	<u>\$ 658,436</u>	<u>\$ 638,435</u>
GAAP operating margin	13%	20%	21%
Non-GAAP operating margin	24%	28%	29%

The following table reconciles GAAP net income to non-GAAP net income for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Net income	\$ 218,321	\$ 316,132	\$ 321,406
Amortization of acquired intangible assets	30,904	26,642	27,067
Stock-based compensation	164,308	144,506	126,677
Amortization of capitalized stock-based compensation and capitalized interest expense	19,953	15,439	13,618
Restructuring charges	54,884	10,301	767
Acquisition-related costs	23,374	1,064	865
Legal matter costs	—	890	3,291
Amortization of debt discount and issuance costs	18,839	18,638	18,525
(Gain) loss on investments	(450)	(4,807)	25
Income tax effect of above non-GAAP adjustments and certain discrete tax items	(77,385)	(52,661)	(58,309)
Non-GAAP net income	<u>\$ 452,748</u>	<u>\$ 476,144</u>	<u>\$ 453,932</u>

The following table reconciles GAAP net income per diluted share to non-GAAP net income per diluted share for the years ended December 31, 2017, 2016 and 2015 (shares in thousands):

	2017	2016	2015
GAAP net income per diluted share	\$ 1.26	\$ 1.79	1.78
Amortization of acquired intangible assets	0.18	0.14	0.16
Stock-based compensation	0.95	0.82	0.70
Amortization of capitalized stock-based compensation and capitalized interest expense	0.12	0.09	0.08
Restructuring charges	0.32	0.06	—
Acquisition-related costs	0.14	0.01	—
Legal matter costs	—	0.01	0.02
Amortization of debt discount and issuance costs	0.11	0.11	0.10
(Gain) loss on investments	—	(0.03)	—
Income tax effect of above non-GAAP adjustments and certain discrete tax items	(0.45)	(0.30)	(0.32)
Non-GAAP net income per diluted share ⁽¹⁾	<u>\$ 2.62</u>	<u>\$ 2.70</u>	<u>\$ 2.52</u>
Shares used in per share calculations	172,711	176,215	180,415

(1) May not foot due to rounding

Non-GAAP net income per diluted share is calculated as non-GAAP net income divided by diluted weighted average common shares outstanding. GAAP diluted weighted average shares outstanding are adjusted in non-GAAP per share calculations for the shares that would be delivered to us pursuant to the note hedge transactions entered into in connection with the issuance of our convertible senior notes. Under GAAP, shares delivered under hedge transactions are not considered offsetting shares in the fully-diluted share calculation until they are delivered. However, we would receive a benefit from the note hedge transactions and would not allow the dilution to occur, so management believes that adjusting for this benefit provides a meaningful view of net income per share. Unless and until our weighted average stock price is greater than \$89.56, the initial conversion price, there will be no difference between our GAAP and non-GAAP diluted weighted average common shares outstanding.

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

The following table reconciles GAAP net income to Adjusted EBITDA and Adjusted EBITDA margin for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Net income	\$ 218,321	\$ 316,132	\$ 321,406
Amortization of acquired intangible assets	30,904	26,642	27,067
Stock-based compensation	164,308	144,506	126,677
Amortization of capitalized stock-based compensation and capitalized interest expense	19,953	15,439	13,618
Restructuring charges	54,884	10,301	767
Acquisition-related costs	23,374	1,064	865
Legal matter costs	—	890	3,291
Interest income	(17,855)	(14,702)	(11,200)
Amortization of debt discount and issuance costs	18,839	18,638	18,525
Provision for income taxes	97,801	143,314	135,218
Depreciation and amortization	321,456	292,221	258,878
Other (income) expense, net	(887)	(3,788)	2,201
Adjusted EBITDA	<u>\$ 931,098</u>	<u>\$ 950,657</u>	<u>\$ 897,313</u>
Adjusted EBITDA margin	37%	41%	41%

Impact of Foreign Currency Exchange Rates

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

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

Liquidity and Capital Resources

To date, we have financed our operations primarily through public and private sales of debt and equity securities and cash generated by operations. As of December 31, 2017, our cash, cash equivalents and marketable securities, which primarily consisted of corporate bonds and U.S. government agency securities, totaled \$1.3 billion. Factoring in our convertible senior notes of \$690.0 million, our net cash at December 31, 2017 was \$589.5 million. We place our cash investments in instruments that meet high-quality credit standards, as specified in our investment policy. Our investment policy also limits the amount of our credit exposure to any one issue or issuer and seeks to manage these assets to achieve our goals of preserving principal and maintaining adequate liquidity at all times.

Changes in cash, cash equivalents and marketable securities are dependent upon changes in, among other things, working capital items such as deferred revenues, accounts payable, accounts receivable and various accrued expenses, as well as changes in our capital and financial structure due to common stock repurchases, debt repurchases and issuances, stock option exercises, purchases and sales of marketable securities and similar events. We believe our strong balance sheet and cash position are important competitive differentiators that provide the financial flexibility necessary to make investments at opportune times. We expect to continue to evaluate strategic investments to strengthen our business.

As of December 31, 2017, we had cash and cash equivalents of \$212.4 million held in accounts outside the U.S. As a result of the TCJA, we have recorded a provisional tax expense of \$43.4 million related to the one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. The TCJA also provides for a territorial tax system in the U.S., which may provide companies with the ability to repatriate earnings with minimal U.S. federal income tax impact beginning in 2018. We have sufficient cash in the U.S. to pay this tax obligation and do not need to rely on cash outside the U.S. for payment. As a result, our liquidity is not materially impacted by the amount of cash and cash equivalents held in accounts outside the U.S. For additional information, including information on the impact of the TCJA, see Note 17 to the consolidated financial statements included elsewhere in this annual report on Form 10-K.

Cash Provided by Operating Activities

<i>(in thousands)</i>	For the Years Ended December 31,		
	2017	2016	2015
Net income	\$ 218,321	\$ 316,132	\$ 321,406
Non-cash reconciling items included in net income	596,624	515,328	454,667
Changes in operating assets and liabilities	(13,962)	40,352	17,379
Net cash flows provided by operating activities	<u>\$ 800,983</u>	<u>\$ 871,812</u>	<u>\$ 793,452</u>

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

The increase in cash provided by operating activities for 2016 as compared to 2015 was primarily due to higher cash collection from customers due to increased revenue and lower commissions and annual bonus payments due to lower attainment levels. These increases to cash provided by operating activities were partially offset by higher cash payments for taxes during 2016 as compared to 2015.

Cash Used in Investing Activities

<i>(in thousands)</i>	For the Years Ended December 31,		
	2017	2016	2015
Cash paid for acquired businesses, net of cash acquired	\$ (369,073)	\$ (95,439)	\$ (141,147)
Purchases of property and equipment and capitalization of internal-use software development costs	(414,778)	(316,289)	(444,983)
Net marketable securities activity	326,272	(58,484)	153,060
Other investing activities	(2,098)	782	(2,494)
Net cash used in investing activities	<u>\$ (459,677)</u>	<u>\$ (469,430)</u>	<u>\$ (435,564)</u>

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

The increase in cash used in investing activities in 2016 as compared to 2015 was driven by net marketable securities activity which was a net outflow for the year. Our excess cash as well as the proceeds from sales and maturities of our marketable securities were reinvested, as compared to 2015, where we did not reinvest a portion of our proceeds in order to fund acquisitions. This outflow was partially offset by a decrease in purchases of property and equipment during 2016, as compared 2015, as we moderated investment in our network. Additionally, acquisitions during 2016 were of a smaller magnitude than those during 2015.

Cash Used in Financing Activities

<i>(in thousands)</i>	For the Years Ended December 31,		
	2017	2016	2015
Activity related to stock-based compensation	\$ (2,715)	\$ 14,015	\$ 7,627
Repurchases of common stock	(361,194)	(373,794)	(302,606)
Other financing activities	(1,096)	—	(2,050)
Net cash used in financing activities	<u>\$ (365,005)</u>	<u>\$ (359,779)</u>	<u>\$ (297,029)</u>

The increase in cash used in financing activities during 2017 as compared to 2016 was primarily due to an increase in employee taxes paid related to net share settlement of stock-based awards. The increase in cash used in financing activities during 2016 as compared to 2015 was primarily the result of increased share repurchases.

In October 2013, the Board of Directors authorized a \$750.0 million share repurchase program, effective from October 16, 2013 through December 31, 2016. In February 2016, the Board of Directors authorized a \$1.0 billion share repurchase program that superseded the October 2013 repurchase program and became effective in February 2016 through December 31, 2018. The Company's goals for the share repurchase program are to offset the dilution created by its employee equity compensation programs and to provide the flexibility to return capital to shareholders as business and market conditions warrant.

During 2017, 2016 and 2015, we repurchased 6.9 million, 7.0 million and 4.5 million shares of our common stock, respectively, at an average price per share of \$52.59, \$53.28 and \$67.05, respectively. These repurchases have contributed to a decrease in weighted average shares over at least the past three years.

Convertible Senior Notes

In February 2014, we issued \$690.0 million in par value of convertible senior notes due 2019 and entered into related convertible note hedge and warrant transactions. The terms of the notes, hedge and warrant transactions are discussed more fully in Note 11 to the consolidated financial statements included elsewhere in this annual report on Form 10-K. We have used, and intend to use, the net proceeds of the offering for share repurchases, working capital and general corporate purposes, including potential acquisitions and other strategic transactions.

The convertible senior notes are due in February 2019, and are classified as a long-term liability on our consolidated balance sheet as of December 31, 2017. We are currently assessing our options with respect to repayment of the notes.

Liquidity Outlook

We believe, based on our present business plan, that our current cash, cash equivalents and marketable securities balances and our forecasted cash flows from operations will be sufficient to meet our foreseeable cash needs for at least the next 12 months. Our foreseeable cash needs, in addition to our recurring operating costs, include our expected capital expenditures, investments in information technology and facility expansion, opportunistic business acquisitions, anticipated share repurchases, lease and purchase commitments and settlements of other long-term liabilities.

Contractual Obligations, Contingent Liabilities and Commercial Commitments

The following table presents our contractual obligations and commercial commitments, as of December 31, 2017, for the next five years and thereafter (in thousands):

	Payments Due by Period				
	Total	Less than 12 Months	12 to 36 Months	36 to 60 Months	More than 60 Months
Real estate operating leases	\$ 756,998	\$ 50,187	\$ 110,449	\$ 114,891	\$ 481,471
Bandwidth and co-location agreements	137,109	108,988	28,121	—	—
Open vendor purchase orders	105,340	93,385	9,380	2,575	—
Convertible senior notes	690,000	—	690,000	—	—
Total contractual obligations	<u>\$ 1,689,447</u>	<u>\$ 252,560</u>	<u>\$ 837,950</u>	<u>\$ 117,466</u>	<u>\$ 481,471</u>

In accordance with the authoritative guidance for accounting for uncertainty in income taxes, as of December 31, 2017, we had unrecognized tax benefits of \$90.7 million, including \$10.7 million of accrued interest and penalties. We believe that it is reasonably possible that \$3.3 million of our unrecognized tax benefits will be recognized by the end of 2018. The settlement period for the remaining amount of the unrecognized tax benefits is unknown.

Letters of Credit

As of December 31, 2017, we had outstanding \$6.4 million in irrevocable letters of credit issued by us in favor of third party beneficiaries, primarily related to facility leases. These irrevocable letters of credit, which are not included in the table of contractual obligations above, are unsecured and are expected to remain in effect, in some cases, until 2028.

Off-Balance Sheet Arrangements

We have entered into indemnification agreements with third parties, including vendors, customers, landlords, our officers and directors, shareholders of acquired companies, joint venture partners and third parties to which we license technology. Generally, these indemnification agreements require us to reimburse losses suffered by a third party due to various events, such as lawsuits arising from patent or copyright infringement or our negligence. These indemnification obligations are considered off-balance sheet arrangements in accordance with the authoritative guidance for guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others. See Note 12 to our consolidated financial statements included elsewhere in this annual report on Form 10-K for further discussion of these indemnification agreements. The fair value of guarantees issued or modified during 2017 and 2016 was determined to be immaterial.

Legal Matters

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

In November 2015, Limelight filed a complaint in the U.S. District Court for the Eastern District of Virginia against Akamai and XO Communications LLC, or XO, alleging patent infringement by the two companies. The complaint seeks to recover from Akamai and XO significant monetary damages based upon lost revenue due to infringing technology used by the companies. We have agreed to indemnify XO for damages it incurs in this matter. We have made counterclaims in the action against Limelight alleging that Limelight has infringed Akamai content delivery patents, and we are seeking monetary damages based upon lost revenue due to the infringing technology used by Limelight. A trial date on Limelight's patents has been set for April 2018. We currently believe that the outcome of this litigation will not have a material impact on our business.

Significant Accounting Policies and Estimates

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

Application of Critical Accounting Policies and Estimates

Overview

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

Definitions

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

Review of Critical Accounting Policies and Estimates

Revenue Recognition

Revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability of the resulting receivable is reasonably assured.

We primarily derive revenue from sales of services to customers executing contracts with terms of one year or longer. These contracts generally commit the customer to a minimum monthly, quarterly or annual level of usage and specify the rate at which the customer must pay for actual usage above the monthly, quarterly or annual minimum. For contracts with a monthly commitment, we recognize the monthly minimum as revenue each month, provided that an enforceable contract has been signed by both parties, the service has been delivered to the customer, the fee for the service is fixed or determinable and collection is reasonably assured. Should a customer's usage of our service exceed the monthly minimum, we recognize revenue for such excess usage in the period of the additional usage. For annual or other non-monthly period revenue commitments, we recognize revenue monthly based upon the customer's actual usage each month of the commitment period and only recognize any remaining committed amount for the applicable period in the last month thereof.

We typically charge customers an integration fee when the purchased services are first activated. The integration fees are recorded as deferred revenue and recognized as revenue ratably over the estimated life of the customer arrangement. We also derive revenue from services sold as discrete, non-recurring events or based solely on usage. For these services, we recognize revenue once the event or usage has occurred.

When more than one element is contained in a revenue arrangement, we determine the fair value for each element in the arrangement based on vendor-specific objective evidence, or VSOE, for each respective element, including any renewal rates for services contractually offered to the customer. Elements typically included in our multiple element arrangements consist of our core services – the delivery of content, applications and software over the Internet – as well as mobile and security solutions and enterprise professional services. These elements have value to our customers on a stand-alone basis in that they can be sold separately by another vendor. Generally, there is no right of return relative to these services.

We typically use VSOE to determine the fair value of our separate elements. All stand-alone sales of professional services are reviewed to establish the average stand-alone selling price for those services. For our core services, the fair value is the price charged for a single deliverable on a per unit basis when it is sold separately.

For arrangements in which we are unable to establish VSOE, third party evidence, or TPE, of the fair value of each element is determined based upon the price charged when the element is sold separately by another vendor. For arrangements in which we are unable to establish VSOE or TPE for each element, we use the best estimate of selling price, or BESP, to determine the fair value of the separate deliverables. We estimate BESP based upon a management-approved price list and pre-

established discount levels for each solution that take into consideration volume, geography and industry lines. We allocate arrangement consideration across the multiple elements using the relative selling price method.

At the inception of a customer contract, we make an estimate as to that customer's ability to pay for the services provided. We base our estimate on a combination of factors, including the successful completion of a credit check or financial review, our collection experience with the customer and other forms of payment assurance. Upon the completion of these steps, we recognize revenue monthly in accordance with our revenue recognition policy. If we subsequently determine that collection from the customer is not reasonably assured, we record an allowance for doubtful accounts and bad debt expense for all of that customer's unpaid invoices and cease recognizing revenue for continued services provided until cash is received from the customer. Changes in our estimates and judgments about whether collection is reasonably assured would change the timing of revenue or amount of bad debt expense that we recognize.

We also sell our services through a reseller channel. Assuming all other revenue recognition criteria are met, we recognize revenue from reseller arrangements based on the reseller's contracted non-refundable minimum purchase commitments over the term of the contract, plus amounts sold by the reseller to its customers in excess of the minimum commitments. Amounts attributable to this excess usage are recognized as revenue in the period in which the service is provided.

From time to time, we enter into contracts to sell our services or license our technology to unrelated enterprises at or about the same time we enter into contracts to purchase products or services from the same enterprises. If we conclude that these contracts were negotiated concurrently, we record as revenue only the net cash received from the vendor, unless the product or service received has a separate and identifiable benefit and the fair value to us of the vendor's product or service can be objectively established.

We may from time to time resell licenses or services of third parties. We record revenue for these transactions on a gross basis when we have risk of loss related to the amounts purchased from the third party and we add value to the license or service, such as by providing maintenance or support for such license or service. If these conditions are present, we recognize revenue when all other revenue recognition criteria are satisfied.

Deferred revenue represents amounts billed to customers for which revenue has not been recognized. Deferred revenue primarily consists of the unearned portion of monthly billed service fees, prepayments made by customers for future periods, deferred integration and activation set-up fees and amounts billed under customer arrangements with extended payment terms.

Accounts Receivable and Related Reserves

Trade accounts receivable are recorded at the invoiced amounts and do not bear interest. In addition to trade accounts receivable, our accounts receivable balance includes unbilled accounts that represent revenue recorded for customers that is typically billed within one month. We record reserves against our accounts receivable balance. These reserves consist of allowances for doubtful accounts and revenue from certain customers on a cash-basis. Increases and decreases in the allowance for doubtful accounts are included as a component of general and administrative expense in the consolidated statements of income. Increases in the reserve for cash-basis customers are recorded as a reduction of revenue. The reserve for cash-basis customers increases as services are provided to customers for which collection is no longer reasonably assured. The reserve decreases and revenue is recognized when and if cash payments are received.

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

Valuation and Impairment of Marketable Securities

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

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

Impairment and Useful Lives of Long-Lived Assets

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

Goodwill and Acquired Intangible Assets

We test goodwill for impairment on an annual basis, as of December 31, or more frequently if events or changes in circumstances indicate that the asset might be impaired. We have concluded that we have one reporting unit and that our chief operating decision maker is our chief executive officer and the executive management team. We have assigned the entire balance of goodwill to our one reporting unit. The fair value of the reporting unit was based on our market capitalization as of each of December 31, 2017 and 2016, and it was substantially in excess of the carrying value of the reporting unit at each date.

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

Income Taxes

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

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

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

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

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

The TCJA made significant changes to the U.S. Internal Revenue Code, including a corporate income tax rate decrease from 35% to 21%, the implementation of a modified territorial tax system, a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017 and the repeal of the domestic production activities deduction, among other items. The Securities and Exchange Commission, or the Commission, issued guidance for the accounting for certain income tax effects of the TCJA that allows us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date.

We have recognized the provisional impacts related to the one-time transition tax and the re-measurement of our deferred tax balances in our consolidated financial statements for the year ended December 31, 2017. The ultimate impact could materially differ from the provisional amounts we have recorded due to additional analysis, changes in assumptions or interpretations we have made, additional guidance that may be issued and actions we may take as a result of the TCJA. For the one-time transition tax, further information is required to finalize the estimated amount of accumulated foreign earnings as well as to validate the amount of earnings represented by the aggregate foreign cash position as defined in the TCJA. For the re-measurement of the deferred tax assets and liabilities, further analysis will be required to refine our calculations and related account balances. We expect to complete the analysis within the measurement period, and any subsequent adjustment to the provisional amounts will be recognized as a current tax provision or benefit in the quarter of 2018 in which the analysis is completed.

Accounting for Stock-Based Compensation

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

Capitalized Internal-Use Software Costs

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our portfolio of cash equivalents and short- and long-term investments is maintained in a variety of securities, including U.S. government agency obligations, high-quality corporate debt securities, commercial paper, mutual funds and money market funds. The majority of our investments are classified as available-for-sale securities and carried at fair market value with cumulative unrealized gains or losses recorded as a component of accumulated other comprehensive loss within stockholders' equity. A sharp rise in interest rates could have an adverse impact on the fair market value of certain securities in our portfolio. We do not currently hedge our interest rate exposure and do not enter into financial instruments for trading or speculative purposes.

Foreign Currency Risk

Growth in our international operations will incrementally increase our exposure to foreign currency fluctuations as well as other risks typical of international operations that could impact our business, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures and other regulations and restrictions.

Transaction Exposure

Foreign exchange rate fluctuations may adversely impact our consolidated results of operations as exchange rate fluctuations on transactions denominated in currencies other than functional currencies result in gains and losses that are reflected in our consolidated statements of income. We enter into short-term foreign currency forward contracts to offset foreign exchange gains and losses generated by the re-measurement of certain assets and liabilities recorded in non-functional currencies. Changes in the fair value of these derivatives, as well as re-measurement gains and losses, are recognized in our consolidated statements of income within other income (expense), net. Foreign currency transaction gains and losses from these forward contracts were determined to be immaterial during the years ended December 31, 2017, 2016 and 2015. We do not enter into derivative financial instruments for trading or speculative purposes.

Translation Exposure

To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency-denominated transactions will result in increased revenue and operating expenses. Conversely, our revenue and operating expenses will decrease when the U.S. dollar strengthens against foreign currencies.

Foreign exchange rate fluctuations may also adversely impact our consolidated financial condition as the assets and liabilities of our foreign operations are translated into U.S. dollars in preparing our consolidated balance sheet. These gains or losses are recorded as a component of accumulated other comprehensive loss within stockholders' equity.

Credit Risk

Concentrations of credit risk with respect to accounts receivable are limited to certain customers to which we make substantial sales. Our customer base consists of a large number of geographically dispersed customers diversified across numerous industries. We believe that our accounts receivable credit risk exposure is limited. As of December 31, 2017 and 2016, no customer had an accounts receivable balance of 10% or more of our accounts receivable. We believe that at December 31, 2017, the concentration of credit risk related to accounts receivable was insignificant.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Akamai Technologies, Inc. and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based payments in 2017.

Basis for Opinions

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

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

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit

preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts
March 1, 2018

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

AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS

<i>(in thousands, except share data)</i>	December 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 313,382	\$ 324,169
Marketable securities	398,554	512,849
Accounts receivable, net of reserves of \$1,279 and \$6,145 at December 31, 2017 and 2016, respectively	459,127	368,596
Prepaid expenses and other current assets	137,809	104,303
Total current assets	1,308,872	1,309,917
Property and equipment, net	862,535	801,017
Marketable securities	567,592	779,311
Goodwill	1,498,688	1,228,503
Acquired intangible assets, net	201,259	149,463
Deferred income tax assets	51,069	8,982
Other assets	112,829	95,953
Total assets	\$ 4,602,844	\$ 4,373,146
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 80,278	\$ 76,120
Accrued expenses	283,743	238,777
Deferred revenue	77,705	52,972
Other current liabilities	22,178	6,719
Total current liabilities	463,904	374,588
Deferred revenue	6,839	3,758
Deferred income tax liabilities	15,510	11,652
Convertible senior notes	662,913	640,087
Other liabilities	142,955	118,691
Total liabilities	1,292,121	1,148,776
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized; 700,000 shares designated as Series A Junior Participating Preferred Stock; no shares issued or outstanding	—	—
Common stock, \$0.01 par value; 700,000,000 shares authorized; 169,893,324 and 173,254,797 shares issued and outstanding at December 31, 2017 and 2016, respectively	1,699	1,733
Additional paid-in capital	4,073,362	4,239,588
Accumulated other comprehensive loss	(21,930)	(56,222)
Accumulated deficit	(742,408)	(960,729)
Total stockholders' equity	3,310,723	3,224,370
Total liabilities and stockholders' equity	\$ 4,602,844	\$ 4,373,146

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

AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,		
	2017	2016	2015
<i>(in thousands, except per share data)</i>			
Revenue	\$ 2,502,996	\$ 2,340,049	\$ 2,197,448
Costs and operating expenses:			
Cost of revenue (exclusive of amortization of acquired intangible assets shown below)	875,758	809,001	725,620
Research and development	222,434	167,628	148,591
Sales and marketing	493,632	426,967	440,988
General and administrative	509,165	439,916	388,265
Amortization of acquired intangible assets	30,904	26,642	27,067
Restructuring charges	54,884	10,301	767
Total costs and operating expenses	2,186,777	1,880,455	1,731,298
Income from operations	316,219	459,594	466,150
Interest income	17,855	14,702	11,200
Interest expense	(18,839)	(18,638)	(18,525)
Other income (expense), net	887	3,788	(2,201)
Income before provision for income taxes	316,122	459,446	456,624
Provision for income taxes	97,801	143,314	135,218
Net income	\$ 218,321	\$ 316,132	\$ 321,406
Net income per share:			
Basic	\$ 1.27	\$ 1.81	\$ 1.80
Diluted	\$ 1.26	\$ 1.79	\$ 1.78
Shares used in per share calculations:			
Basic	171,559	174,917	178,391
Diluted	172,711	176,215	180,415

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

AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(in thousands)</i>	For the Years Ended December 31,		
	2017	2016	2015
Net income	\$ 218,321	\$ 316,132	\$ 321,406
Other comprehensive income (loss):			
Foreign currency translation adjustments	34,698	(14,081)	(22,872)
Change in unrealized loss on investments, net of income tax benefit of \$245, \$432 and \$773 for the years ended December 31, 2017, 2016 and 2015, respectively	(406)	(688)	(970)
Other comprehensive income (loss)	34,292	(14,769)	(23,842)
Comprehensive income	\$ 252,613	\$ 301,363	\$ 297,564

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

AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(in thousands)</i>	For the Years Ended December 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net income	\$ 218,321	\$ 316,132	\$ 321,406
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	372,313	334,302	299,563
Stock-based compensation	164,308	144,506	126,677
(Benefit) provision for deferred income taxes	(869)	7,308	4,098
Amortization of debt discount and issuance costs	18,839	18,638	18,525
Restructuring-related software charges	31,965	4,587	—
Other non-cash reconciling items, net	10,068	5,987	5,804
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:			
Accounts receivable	(63,825)	3,356	(56,247)
Prepaid expenses and other current assets	(22,311)	23,881	7,137
Accounts payable and accrued expenses	33,232	18,491	51,624
Deferred revenue	1,142	(1,213)	3,224
Other current liabilities	16,378	5,484	(345)
Other non-current assets and liabilities	21,422	(9,647)	11,986
Net cash provided by operating activities	800,983	871,812	793,452
Cash flows from investing activities:			
Cash paid for acquisitions, net of cash acquired	(369,073)	(95,439)	(141,147)
Purchases of property and equipment	(254,146)	(180,949)	(311,676)
Capitalization of internal-use software development costs	(160,632)	(135,340)	(133,307)
Purchases of short- and long-term marketable securities	(326,497)	(781,061)	(692,879)
Proceeds from sales of short and long-term marketable securities	219,916	57,740	2,008
Proceeds from maturities of short and long-term marketable securities	432,853	664,837	843,931
Other non-current assets and liabilities	(2,098)	782	(2,494)
Net cash used in by investing activities	(459,677)	(469,430)	(435,564)
Cash flows from financing activities:			
Proceeds related to the issuance of common stock under stock plans	55,680	59,560	61,791
Employee taxes paid related to net share settlement of stock-based awards	(58,395)	(45,545)	(54,164)
Repurchases of common stock	(361,194)	(373,794)	(302,606)
Other non-current assets and liabilities	(1,096)	—	(2,050)
Net cash used in financing activities	(365,005)	(359,779)	(297,029)
Effects of exchange rate changes on cash and cash equivalents	12,912	(7,907)	(10,036)
Net (decrease) increase in cash and cash equivalents	(10,787)	34,696	50,823
Cash and cash equivalents at beginning of year	324,169	289,473	238,650
Cash and cash equivalents at end of year	\$ 313,382	\$ 324,169	\$ 289,473
Supplemental disclosure of cash flow information:			
Cash paid for income taxes, net of refunds received in the years ended December 31, 2017, 2016 and 2015 of \$6,750, \$1,664 and \$19,374, respectively	\$ 91,640	\$ 120,223	\$ 75,033
Non-cash financing and investing activities:			
Purchases of property and equipment and capitalization of internal-use software development costs included in accounts payable and accrued expenses	\$ 27,209	\$ 36,742	\$ 19,327
Capitalization of stock-based compensation	\$ 28,851	\$ 23,093	\$ 17,867

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

AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss		Total Stockholders' Equity
	Shares	Amount			Comprehensive Loss	Deficit	
<i>(in thousands, except share data)</i>							
Balance at December 31, 2014	178,300,603	\$ 1,783	\$ 4,559,430	\$ —	\$ (17,611)	\$ (1,598,267)	\$ 2,945,335
Issuance of common stock upon the exercise of stock options and vesting of restricted and deferred stock units, net of shares withheld for employee taxes	2,756,357	27	(27,697)				(27,670)
Issuance of common stock under employee stock purchase plan	668,654	7	34,834				34,841
Stock-based compensation			144,544				144,544
Tax benefit from stock-based award activity, net			28,870				28,870
Repurchases of common stock	(4,513,433)			(302,606)			(302,606)
Treasury stock retirement		(45)	(302,561)	302,606			—
Net income						321,406	321,406
Foreign currency translation adjustment						(22,872)	(22,872)
Change in unrealized gain on investments, net of tax						(970)	(970)
Balance at December 31, 2015	177,212,181	1,772	4,437,420	—	(41,453)	(1,276,861)	3,120,878
Issuance of common stock upon the exercise of stock options and vesting of restricted and deferred stock units, net of shares withheld for employee taxes	2,194,699	22	(27,416)				(27,394)
Issuance of common stock under employee stock purchase plan	863,419	9	39,905				39,914
Stock-based compensation			166,987				166,987
Tax deficiency from stock-based award activity, net			(3,584)				(3,584)
Repurchases of common stock	(7,015,502)			(373,794)			(373,794)
Treasury stock retirement		(70)	(373,724)	373,794			—
Net income						316,132	316,132
Foreign currency translation adjustment						(14,081)	(14,081)
Change in unrealized gain on investments, net of tax						(688)	(688)
Balance at December 31, 2016	173,254,797	1,733	4,239,588	—	(56,222)	(960,729)	3,224,370

AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY, continued

	Common Stock		Additional Paid- in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount					
<i>(in thousands, except share data)</i>							
Balance at December 31, 2016	173,254,797	\$ 1,733	\$ 4,239,588	\$ —	\$ (56,222)	\$ (960,729)	\$ 3,224,370
Issuance of common stock upon the exercise of stock options and vesting of restricted and deferred stock units, net of shares withheld for employee taxes	2,453,961	24	(40,562)				(40,538)
Issuance of common stock under employee stock purchase plan	1,052,684	11	42,291				42,302
Stock-based compensation			193,170				193,170
Repurchases of common stock	(6,868,118)			(361,194)			(361,194)
Treasury stock retirement		(69)	(361,125)	361,194			—
Net income						218,321	218,321
Foreign currency translation adjustment					34,698		34,698
Change in unrealized gain on investments, net of tax					(406)		(406)
Balance at December 31, 2017	169,893,324	\$ 1,699	\$ 4,073,362	\$ —	\$ (21,930)	\$ (742,408)	\$ 3,310,723

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

AKAMAI TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business and Basis of Presentation

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

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in the accompanying consolidated financial statements. The Company has reclassified certain line items within cash flows from operating activities in its consolidated statements of cash flows to conform to current year presentation.

2. Summary of Significant Accounting Policies

Use of Estimates

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

Cash, Cash Equivalents and Marketable Securities

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

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

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

Accounts Receivable and Related Reserves

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

Estimates are used in determining these reserves and are based upon the Company's review of outstanding balances on a customer-specific, account-by-account basis. The allowance for doubtful accounts is based upon a review of customer receivables from prior sales with collection issues where the Company no longer believes that the customer has the ability to pay for services previously provided. The Company also performs ongoing credit evaluations of its customers. If such an evaluation indicates that payment is no longer reasonably assured for services provided, any future services provided to that customer will result in the creation of a cash-basis reserve until the Company receives consistent payments. The Company does not have any off-balance sheet credit exposure related to its customers.

Concentrations of Credit Risk

The amounts reflected in the consolidated balance sheets for accounts receivable, other current assets, accounts payable, accrued liabilities and other current liabilities approximate fair values due to their short-term maturities. The Company maintains the majority of its cash, cash equivalents and marketable securities with major financial institutions that the Company believes to be of high credit standing. The Company believes that, as of December 31, 2017, its concentration of credit risk related to cash equivalents and marketable securities was not significant.

Concentrations of credit risk with respect to accounts receivable are primarily limited to certain customers to which the Company makes substantial sales. The Company's customer base consists of a large number of geographically-dispersed customers diversified across several industries. To reduce risk, the Company routinely assesses the financial strength of its customers. Based on such assessments, the Company believes that its accounts receivable credit risk exposure is limited. For the years ended December 31, 2017, 2016 and 2015, no customer accounted for more than 10% of total revenue. As of December 31, 2017 and 2016, no customer had an accounts receivable balance greater than 10% of total accounts receivable. The Company believes that, as of December 31, 2017, its concentration of credit risk related to accounts receivable was not significant.

Fair Value of Financial Measurements

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

Property and Equipment

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

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

Goodwill, Acquired Intangible Assets and Long-Lived Assets

Goodwill is the amount by which the cost of acquired net assets in a business combination exceeds the fair value of the net identifiable assets on the date of purchase and is carried at its historical cost. The Company tests goodwill for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company performs its impairment test of goodwill as of December 31 each year. As of December 31, 2017, 2016 and 2015, the fair value of the Company's reporting unit was substantially in excess of the carrying value. The tests did not result in an impairment to goodwill during the years ended December 31, 2017, 2016 and 2015.

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

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

Revenue Recognition

The Company recognizes service revenue in accordance with the authoritative guidance for revenue recognition, including guidance on revenue arrangements with multiple deliverables. Revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability of the resulting receivable is reasonably assured.

The Company primarily derives revenue from the sale of services to customers executing contracts having terms of one year or longer. These contracts generally commit the customer to a minimum of monthly, quarterly or annual level of usage and specify the rate at which the customer must pay for actual usage above the monthly, quarterly or annual minimum. For contracts with a monthly commitment, the Company recognizes the monthly minimum as revenue each month, provided that an enforceable contract has been signed by both parties, the service has been delivered to the customer, the fee for the service is fixed or determinable and collection is reasonably assured. Should a customer's usage of the Company's services exceed the monthly, quarterly or annual minimum, the Company recognizes revenue for such excess in the period of additional usage. For annual or other non-monthly period revenue commitments, the Company recognizes revenue monthly based upon the customer's actual usage each month of the commitment period and only recognizes any remaining committed amount for the applicable period in the last month thereof.

The Company typically charges its customers an integration fee when the services are first activated. Integration fees are recorded as deferred revenue and recognized as revenue ratably over the estimated life of the customer arrangement. The Company also derives revenue from services sold as discrete, non-recurring events or based solely on usage. For these services, the Company recognizes revenue once the event or usage has occurred.

When more than one element is contained in a revenue arrangement, the Company determines the fair value for each element in the arrangement based on vendor-specific objective evidence ("VSOE") for each respective element, including any renewal rates for services contractually offered to the customer. Elements typically included in the Company's multiple element arrangements consist of its core services – the delivery of content, applications and software over the Internet – as well as mobile and security solutions and enterprise professional services. These elements have value to the customer on a stand-alone basis in that they can be sold separately by another vendor. Generally, there is no right of return relative to these services.

The Company typically uses VSOE to determine the fair value of its separate elements. All stand-alone sales of professional services are reviewed to establish the average stand-alone selling price for those services. For the Company's core services, the fair value is the price charged for a single deliverable on a per unit basis when it is sold separately.

For arrangements in which the Company is unable to establish VSOE, third-party evidence ("TPE") of the fair value of each element is determined based upon the price charged when the element is sold separately by another vendor. For arrangements in which the Company is unable to establish VSOE or TPE for each element, the Company uses the best estimate of selling price ("BESP") to determine the fair value of the separate deliverables. The Company estimates BESP based upon a management-approved listing of unit pricing for all solutions and pre-established discount levels for each solution that takes into consideration

volume, geography and industry lines. The Company allocates arrangement consideration across the multiple elements using the relative selling price method.

At the inception of a customer contract, the Company makes an assessment as to that customer's ability to pay for the services provided. The Company bases its assessment on a combination of factors, including the successful completion of a credit check or financial review, its collection experience with the customer and other forms of payment assurance. Upon the completion of these steps, the Company recognizes revenue monthly in accordance with its revenue recognition policy. If the Company subsequently determines that collection from the customer is not reasonably assured, the Company records an allowance for doubtful accounts and bad debt expense for all of that customer's unpaid invoices and ceases recognizing revenue for continued services provided until cash is received from the customer. Changes in the Company's estimates and judgments about whether collection is reasonably assured would change the timing of revenue or amount of bad debt expense that the Company recognizes.

The Company also sells its services through reseller channels. Assuming all other revenue recognition criteria are met, the Company recognizes revenue from reseller arrangements based on the reseller's contracted non-refundable minimum purchase commitments over the term of the contract, plus amounts sold by the reseller to its customers in excess of the minimum commitments. Amounts attributable to this excess usage are recognized as revenue in the period in which the service is provided.

From time to time, the Company enters into contracts to sell its services or license its technology to unrelated enterprises at or about the same time that it enters into contracts to purchase products or services from the same enterprises. If the Company concludes that these contracts were negotiated concurrently, the Company records as revenue only the net cash received from the vendor, unless the product or service received has a separate identifiable benefit and the fair value of the vendor's product or service can be established objectively.

The Company may from time to time resell licenses or services of third parties. The Company records revenue for these transactions on a gross basis when the Company has risk of loss related to the amounts purchased from the third party and the Company adds value to the license or service, such as by providing maintenance or support for such license or service. If these conditions are present, the Company recognizes revenue when all other revenue recognition criteria are satisfied.

Deferred revenue represents amounts billed to customers for which revenue has not been recognized. Deferred revenue primarily consists of the unearned portion of monthly billed service fees, prepayments made by customers for future periods, deferred integration and activation set-up fees and amounts billed under customer arrangements with extended payment terms.

Cost of Revenue

Cost of revenue consists primarily of fees paid to network providers for bandwidth and to third-party network data centers for housing servers, also known as co-location costs. Cost of revenue also includes employee costs for services delivery and network operation, build-out and support of the Company's network; network storage costs; cost of software licenses; depreciation of network equipment used to deliver the Company's services; amortization of network-related internal-use software; and costs for the production of live events streamed by the Company for customers. The Company enters into contracts for bandwidth with third-party network providers with terms typically ranging from several months to five years. These contracts generally commit the Company to pay minimum monthly fees plus additional fees for bandwidth usage above the committed level. In some circumstances, Internet service providers ("ISPs") make rack space available for the Company's servers and access to their bandwidth at a discount or no cost. In exchange, the ISP and its customers benefit by receiving content through a local Company server resulting in better content delivery. The Company does not consider these relationships to represent the culmination of an earnings process. Accordingly, the Company does not recognize as revenue the value to the ISPs associated with the use of the Company's servers, nor does the Company recognize as expense the value of the rack space and bandwidth received at discounted or no cost.

Research and Development Costs and Capitalized Internal-Use Software

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

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

Accounting for Stock-Based Compensation

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

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

Foreign Currency Translation and Forward Currency Contracts

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

The Company enters into short-term foreign currency forward contracts to offset foreign exchange gains and losses generated by the re-measurement of certain assets and liabilities recorded in non-functional currencies. Changes in the fair value of these derivatives, as well as re-measurement gains and losses, are recognized in current earnings in Other income (expense), net. As of December 31, 2017 and 2016, the fair value of the forward currency contracts and the underlying net gains for the years ended December 31, 2017, 2016 and 2015 were immaterial.

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

Taxes

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

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

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

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

In December 2017, the U.S. Tax Cuts and Jobs Act (the "TCJA") was enacted, making significant changes to the Internal Revenue Code. The U.S. Securities and Exchange Commission staff issued guidance for the accounting for certain income tax effects of the TCJA, which allows the Company to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. The Company has recognized the provisional impacts of the TCJA in its consolidated financial statements for the year ended December 31, 2017. The ultimate impact could materially differ from the provisional amounts recorded due to additional analysis, changes in assumptions or interpretations, additional guidance that may be issued and actions the Company may take as a result of the TCJA. The Company expects to complete the analysis within the measurement period and any subsequent adjustment to the provisional amounts will be recognized as a current tax provision or benefit in the quarter of 2018 in which the analysis is completed.

Newly-Adopted Accounting Pronouncements

Share-Based Payments

In March 2016, the Financial Accounting Standards Board ("FASB") issued guidance that is intended to simplify aspects of how share-based payments are accounted for and presented in financial statements. This guidance requires that entities record all tax effects of share-based payments at settlement or expiration through the income statement. The standard also amends how windfall tax benefits are recognized, the minimum statutory tax withholding requirements and how entities elect to recognize share-based payment forfeitures. In addition, this guidance impacts the presentation of cash flows related to excess tax benefits by no longer requiring separate presentation as a financing activity apart from other operating income tax cash flows.

This guidance was effective for the Company on January 1, 2017. Upon adoption, the Company began recognizing tax benefits related to stock-based compensation in its provision for income taxes rather than as additional paid-in capital. The Company elected to continue estimating forfeitures in determining the amount of compensation cost. The Company was not required to adjust beginning retained earnings as a result of these two items.

In addition, the Company adopted the presentation requirements related to the excess tax benefit in its statements of cash flows on a retrospective basis beginning January 1, 2015. The line item labeled excess tax benefits from stock-based compensation included in both cash flows from operating activities and financing activities was eliminated. This had the impact of increasing net cash provided by operating activities and net cash used in financing activities. Prior periods have been revised as follows (in thousands):

	Net Cash Provided by Operating Activities		Net Cash Used in Financing Activities	
	As Reported	As Adjusted	As Reported	As Adjusted
Year ended December 31, 2016	\$ 866,298	\$ 871,812	\$ (354,265)	\$ (359,779)
Year ended December 31, 2015	764,151	793,452	(267,728)	(297,029)

Recent Accounting Pronouncements

Revenue Recognition

In May 2014, the FASB issued updated guidance and disclosure requirements for recognizing revenue. The new revenue recognition standard provides a five-step model for recognizing revenue from contracts with customers. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard could be adopted using one of two methods: retrospectively to each prior period presented or a modified retrospective application by recognizing a cumulative-effect adjustment as a component of equity as of the date of adoption. This standard became effective for the Company on January 1, 2018, and the Company has elected to adopt it retrospectively to each prior period presented.

The updated guidance impacts, or requires the Company to modify, certain judgments and estimates that the Company currently makes as it relates to recognizing revenue. The Company primarily derives revenue from the sales of its services, but in some instances licenses software to some of its customers. Prior to adoption of the updated guidance, the Company did not establish VSOE for the undelivered elements sold with the software. Thus, revenue from license sales was deferred and recognized over the arrangement term. Upon adoption of the new revenue standard, license revenue will be recognized at a point in time when the license is delivered, provided all other revenue recognition criteria have been met. This will result in accelerating revenue recognition for these types of arrangements. For sales of the Company's services, integration fee revenue that was previously recognized ratably over the estimated life of the customer arrangement will be recognized when integration has been completed, which will have the effect of accelerating revenue recognition from integration fees. In addition, the Company historically established a reserve for cash basis customers if collectability was not reasonably assured and recognized revenue as cash was collected. Upon adoption of the new standard, revenue will be recognized for those customers when collectability becomes probable, transfer of control for all performance obligations has occurred and all other revenue recognition criteria have been achieved, rather than when collectability is reasonably assured.

The Company has quantified the impact that these changes would have had on revenue reported for the years ended December 31, 2017 and 2016, and each of the quarters therein, and determined that they would not have had a material impact on the Company's consolidated financial statements.

The Company is also assessing the impact of capitalizing costs associated with obtaining customer contracts, specifically commission and incentive payments. Historically, these payments have been expensed in the period in which they were incurred. Under the updated guidance, these payments will be deferred on the Company's consolidated balance sheets and amortized over the expected life of the customer arrangement. The Company has quantified the impact that these changes would have had on sales and marketing expenses recorded in the consolidated statements of income for the years ended December 31, 2016 and 2017, and for each of the quarters therein and determined it would not have had a material impact on the consolidated statements of income for such periods. Upon adoption, the Company expects to record a deferred commission and incentive asset on the consolidated balance sheet of \$58.6 million as of December 31, 2017. The current portion of the asset will be included in prepaid expenses and other current assets, and the long-term portion will be included in other assets. The full amount of the adjustment will be included in retained earnings.

The Company is substantially complete with its implementation efforts as of the filing of these financial statements; however, it is continuing to evaluate the impact that this guidance will have on disclosure requirements related to revenue and revenue-related items.

Leases

In February 2016, the FASB issued guidance that requires companies to present assets and liabilities arising from leases with terms greater than 12 months on the consolidated balance sheets. The updated standard aims to increase transparency and comparability among organizations by requiring lessees to recognize right-of-use assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. This will impact all leases, including leases for real estate and co-location facilities, among other arrangements currently under evaluation. The Company plans to adopt this standard in the first quarter of 2019 and expects to record significant right-of-use assets and lease liabilities on its consolidated balance sheets. The Company has formed a project team to assess the current state of accounting for leases, to understand the gaps between the current state and required future state and to implement the new processes, systems and controls required. The Company expects the adoption of this standard to require changes to its processes, systems and controls over financial reporting.

Credit Losses on Financial Instruments

In June 2016, the FASB issued guidance that introduces a new methodology for accounting for credit losses on financial instruments, including available-for-sale debt securities. The guidance establishes a new "expected loss model" that requires entities to estimate current expected credit losses on financial instruments by using all practical and relevant information. Any expected credit losses are to be reflected as allowances rather than reductions in the amortized cost of available-for-sale debt securities. This guidance will be effective for the Company on January 1, 2020. The Company is evaluating the potential impact on its consolidated financial statements of adopting this new accounting guidance.

Intra-Entity Asset Transfers

In October 2016, the FASB issued guidance that requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This guidance became effective for the Company on January 1, 2018 and is to be applied on a modified retrospective basis through recognizing a cumulative-effect adjustment as a

component of equity as of the date of adoption. Upon adoption, the Company expects to reclassify \$11.6 million from other current assets and \$27.0 million from other assets to retained earnings.

Business Combinations

In January 2017, the FASB issued guidance that changes the definition of a business to assist entities with evaluating whether transactions should be accounted for as transfers of assets or business combinations. This guidance became effective for the Company on January 1, 2018 and is to be applied prospectively. The adoption of this new accounting guidance will change the manner in which the Company evaluates whether a transaction is a transfer of assets or a business combination. This may result in a transaction being recorded as a transfer of assets, whereas previously the Company may have concluded it was a business combination.

3. Fair Value Measurements

The following is a summary of available-for-sale marketable securities held as of December 31, 2017 and 2016 (in thousands):

As of December 31, 2017	Amortized Cost	Gross Unrealized		Aggregate Fair Value	Classification on Balance Sheet	
		Gains	Losses		Short-Term Marketable Securities	Long-Term Marketable Securities
Commercial paper	\$ 6,951	\$ —	\$ (9)	\$ 6,942	\$ 6,942	\$ —
Corporate bonds	736,902	2	(3,829)	733,075	289,378	443,697
U.S. government agency obligations	220,014	—	(1,764)	218,250	102,234	116,016
	<u>\$ 963,867</u>	<u>\$ 2</u>	<u>\$ (5,602)</u>	<u>\$ 958,267</u>	<u>\$ 398,554</u>	<u>\$ 559,713</u>
As of December 31, 2016						
Commercial paper	\$ 40,965	\$ —	\$ (45)	\$ 40,920	\$ 40,920	\$ —
Corporate bonds	984,650	123	(3,697)	981,076	418,495	562,581
U.S. government agency obligations	267,473	35	(1,366)	266,142	53,157	212,985
	<u>\$ 1,293,088</u>	<u>\$ 158</u>	<u>\$ (5,108)</u>	<u>\$ 1,288,138</u>	<u>\$ 512,572</u>	<u>\$ 775,566</u>

The Company offers certain eligible employees the ability to participate in a non-qualified deferred compensation plan. The mutual funds held by the Company that are associated with this plan are classified as restricted trading securities. These securities are not included in the available-for-sale securities table above but are included in marketable securities in the consolidated balance sheets.

Unrealized gains and unrealized temporary losses on investments classified as available-for-sale are included within accumulated other comprehensive loss in the consolidated balance sheets. Upon realization, those amounts are reclassified from accumulated other comprehensive loss to interest income in the consolidated statements of income. As of December 31, 2017, the Company held for investment corporate bonds with a fair value of \$543.6 million, which are classified as available-for-sale marketable securities and have been in a continuous unrealized loss position for more than 12 months. The unrealized losses of \$3.9 million related to these corporate bonds are included in accumulated other comprehensive income as of December 31, 2017. The unrealized losses are attributable to changes in interest rates. Based on the evaluation of available evidence, the Company does not believe any unrealized losses represent other than temporary impairments.

The following table details the fair value measurements within the fair value hierarchy of the Company's financial assets and liabilities as of December 31, 2017 and 2016 (in thousands):

	Total Fair Value	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
As of December 31, 2017				
<i>Cash Equivalents and Marketable Securities:</i>				
Money market funds	\$ 22,649	\$ 22,649	\$ —	\$ —
Commercial paper	10,928	—	10,928	—
Corporate bonds	733,075	—	733,075	—
U.S. government agency obligations	218,248	—	218,248	—
Mutual funds	7,879	7,879	—	—
	<u>\$ 992,779</u>	<u>\$ 30,528</u>	<u>\$ 962,251</u>	<u>\$ —</u>
<i>Liabilities:</i>				
Contingent consideration obligation related to completed acquisitions	\$ (8,631)	\$ —	\$ —	\$ (8,631)
As of December 31, 2016				
<i>Cash Equivalents and Marketable Securities:</i>				
Money market funds	\$ 8,726	\$ 8,726	\$ —	\$ —
Commercial paper	40,920	—	40,920	—
Corporate bonds	981,076	—	981,076	—
U.S. government agency obligations	266,142	—	266,142	—
Mutual funds	4,022	4,022	—	—
	<u>\$ 1,300,886</u>	<u>\$ 12,748</u>	<u>\$ 1,288,138</u>	<u>\$ —</u>
<i>Liabilities:</i>				
Contingent consideration obligation related to completed acquisitions	\$ (7,100)	\$ —	\$ —	\$ (7,100)

As of December 31, 2017 and 2016, the Company grouped money market funds and mutual funds using a Level 1 valuation because market prices for such investments are readily available in active markets. As of December 31, 2017 and 2016, the Company grouped commercial paper, U.S. government agency obligations and corporate bonds using a Level 2 valuation because quoted prices for similar assets in active markets (or identical assets in an inactive market) are available. The Company did not have any transfers of assets or liabilities between Level 1 and Level 2 of the fair value measurement hierarchy during the years ended December 31, 2017 and 2016.

When developing fair value estimates, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs. When available, the Company uses quoted market prices to measure fair value. The valuation technique used to measure fair value for the Company's Level 1 and Level 2 assets is a market approach, using prices and other relevant information generated by market transactions involving identical or comparable assets. If market prices are not available, the fair value measurement is based on models that use primarily market-based parameters including yield curves, volatilities, credit ratings and currency rates. In certain cases where market rate assumptions are not available, the Company is required to make judgments about assumptions market participants would use to estimate the fair value of a financial instrument.

The valuation technique used to measure the fair value of the Company's Level 3 liabilities, which consist of contingent consideration related to the acquisitions of Soha Systems, Inc. ("Soha") and Cyberfend, Inc. ("Cyberfend") in 2016 (Note 8), was primarily an income-based approach. The significant unobservable input used in the fair value measurement of the contingent consideration is the likelihood of achieving development milestones to integrate the acquired technology into the Company's technology as well as achieving certain post-closing financial results.

Contractual maturities of the Company's available-for-sale marketable securities held as of December 31, 2017 and 2016 were as follows (in thousands):

	December 31, 2017	December 31, 2016
Due in 1 year or less	\$ 398,554	\$ 512,572
Due after 1 year through 5 years	559,713	775,566
	<u>\$ 958,267</u>	<u>\$ 1,288,138</u>

The following table reflects the activity for the Company's major classes of liabilities measured at fair value using Level 3 inputs for the years ended December 31, 2017 and 2016 (in thousands):

	Other Liabilities: Contingent Consideration Obligation
Balance, January 1, 2016	\$ —
Contingent consideration obligation related to Soha acquisition	(1,600)
Contingent consideration obligation related to Cyberfend acquisition	(5,500)
Balance, December 31, 2016	\$ (7,100)
Fair value adjustment to contingent consideration included in general and administrative expense	(2,781)
Cash paid upon achievement of milestone	1,250
Balance, December 31, 2017	<u>\$ (8,631)</u>

4. Accounts Receivable

Net accounts receivable consisted of the following as of December 31, 2017 and 2016 (in thousands):

	December 31, 2017	December 31, 2016
Trade accounts receivable	\$ 319,996	\$ 260,976
Unbilled accounts receivable	140,410	113,765
Gross accounts receivable	460,406	374,741
Allowance for doubtful accounts	(1,043)	(829)
Reserve for cash-basis customers	(236)	(5,316)
Total accounts receivable reserves	(1,279)	(6,145)
Accounts receivable, net	<u>\$ 459,127</u>	<u>\$ 368,596</u>

A summary of activity in the accounts receivable reserves for the years ended December 31, 2017, 2016 and 2015, is as follows (in thousands):

	2017	2016	2015
Beginning balance	\$ 6,145	\$ 7,364	\$ 9,023
Charges to income from operations	5,809	49,677	37,870
Collections from cash basis customers and write-offs	(10,675)	(50,896)	(39,529)
Ending balance	<u>\$ 1,279</u>	<u>\$ 6,145</u>	<u>\$ 7,364</u>

Charges to income from operations represent charges to bad debt expense for increases in the allowance for doubtful accounts and reductions to revenue for increases in reserves for cash basis customers. The decrease in the reserve activity during 2017 is primarily attributable to two customers that were removed from cash-basis revenue recognition due to a strong, consistent history of payment.

5. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following as of December 31, 2017 and 2016 (in thousands):

	December 31, 2017	December 31, 2016
Prepaid income taxes	\$ 30,314	\$ 25,161
Prepaid sales and other taxes	22,973	18,877
Prepaid equipment and software maintenance	26,354	15,805
Other prepaid expenses	28,866	24,727
Other current assets	29,302	19,733
Total	<u>\$ 137,809</u>	<u>\$ 104,303</u>

6. Property and Equipment

Property and equipment consisted of the following as of December 31, 2017 and 2016 (in thousands except years):

	December 31, 2017	December 31, 2016	Estimated Useful Life
Computer and networking equipment	\$ 1,292,587	\$ 1,170,471	3-7
Purchased software	61,276	51,727	3-10
Furniture and fixtures	48,521	41,968	5
Office equipment	26,949	24,497	3-5
Leasehold improvements	152,487	139,991	1-16
Internal-use software	765,162	656,053	2-7
Property and equipment, gross	<u>2,346,982</u>	<u>2,084,707</u>	
Accumulated depreciation and amortization	<u>(1,484,447)</u>	<u>(1,283,690)</u>	
Property and equipment, net	<u>\$ 862,535</u>	<u>\$ 801,017</u>	

Depreciation and amortization expense on property and equipment and capitalized internal-use software for the years ended December 31, 2017, 2016 and 2015 was \$341.4 million, \$307.7 million and \$272.5 million, respectively. During the years ended December 31, 2017, 2016 and 2015, the Company capitalized \$28.9 million, \$23.1 million and \$17.9 million, respectively, of stock-based compensation related to employees who developed and enhanced internal-use software applications.

During the years ended December 31, 2017 and 2016, the Company wrote off \$174.6 million and \$93.4 million, respectively, of property and equipment, gross, along with the associated accumulated depreciation and amortization. The write-offs were primarily related to computer and networking equipment and internal-use software no longer in use. These assets had been substantially depreciated and amortized. In addition, during the year ended December 31, 2017, the Company wrote off \$36.2 million of internal-use software as a result of certain restructuring efforts. These assets had a net book value of \$32.0 million and are included in restructuring charges in the consolidated statements of income.

7. Goodwill and Acquired Intangible Assets

The changes in the carrying amount of goodwill for the years ended December 31, 2017 and 2016 were as follows (in thousands):

	2017	2016
Beginning balance	\$ 1,228,503	\$ 1,150,244
Acquisition of Concord Systems, Inc.	—	1,079
Acquisition of Soha Systems, Inc.	—	43,515
Acquisition of Cyberfend, Inc.	—	38,754
Acquisition of Soasta, Inc.	121,668	—
Acquisition of Nominum, Inc.	133,754	—
Measurement period adjustments	4,217	—
Foreign currency translation	10,546	(5,089)
Ending balance	<u>\$ 1,498,688</u>	<u>\$ 1,228,503</u>

Acquired intangible assets that are subject to amortization consisted of the following as of December 31, 2017 and 2016 (in thousands):

	December 31, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Completed technologies	\$ 145,091	\$ (65,283)	\$ 79,808	\$ 119,091	\$ (50,823)	\$ 68,268
Customer-related intangible assets	245,310	(128,835)	116,475	192,810	(114,209)	78,601
Non-compete agreements	4,710	(3,975)	735	5,030	(3,775)	1,255
Trademarks and trade names	7,200	(2,959)	4,241	3,700	(2,361)	1,339
Acquired license rights	490	(490)	—	490	(490)	—
Total	<u>\$ 402,801</u>	<u>\$ (201,542)</u>	<u>\$ 201,259</u>	<u>\$ 321,121</u>	<u>\$ (171,658)</u>	<u>\$ 149,463</u>

Aggregate expense related to amortization of acquired intangible assets for the years ended December 31, 2017, 2016 and 2015 was \$30.9 million, \$26.6 million and \$27.1 million, respectively. Based on the Company's acquired intangible assets as of December 31, 2017, aggregate expense related to amortization of acquired intangible assets is expected to be approximately \$33.3 million, \$36.5 million, \$33.8 million, \$27.9 million and \$22.4 million for the years ending December 31, 2018, 2019, 2020, 2021 and 2022, respectively.

8. Business Acquisitions

Acquisition-related costs were \$5.5 million, \$1.7 million and \$1.8 million during the years ended December 31, 2017, 2016 and 2015, respectively, and are included in general and administrative expense in the consolidated statements of income. Pro forma results of operations for the acquisitions completed in the years ended December 31, 2017, 2016 and 2015 have not been presented because the effects of the acquisitions, individually and in the aggregate, are not material to the Company's consolidated financial results. Revenue and earnings attributable to acquired operations since the dates of their acquisitions are included in the Company's consolidated statements of income and not presented separately because they are not material.

2017 Acquisitions

Nominum

On November 27, 2017, the Company acquired Nominum, Inc. ("Nominum"), a provider of domain name system ("DNS") and enterprise security solutions, for \$180.3 million in cash. The allocation of the purchase price has not been finalized as of the filing of these financial statements. The acquisition is intended to add complementary capabilities to the Company's portfolio of security offerings while expanding the Company's distribution to carriers that serve enterprise customers.

The following table presents the preliminary allocation of the purchase price for Nominum (in thousands):

Total purchase consideration	\$	180,327
Allocation of the purchase consideration:		
Cash	\$	8,455
Accounts receivable		9,845
Prepays and other current assets		1,481
Identifiable intangible assets		32,800
Goodwill		133,754
Fixed assets		2,169
Deferred tax assets		11,398
Other assets		19
Total assets acquired		<u>199,921</u>
Accounts payable		(1,460)
Accrued liabilities		(3,306)
Deferred revenue		(14,828)
Total liabilities assumed		<u>(19,594)</u>
Net assets acquired	\$	<u>180,327</u>

The value of the goodwill can be attributed to a number of business factors, including a trained technical and sales workforce and cost synergies expected to be realized. The total amount of goodwill related to the acquisition of Nominum expected to be deductible for tax purposes is \$44.2 million.

The following were the identified intangible assets acquired and their respective weighted average useful lives (in thousands, except years):

	Gross Carrying Amount	Weighted Average Useful Life
Completed technologies	\$ 7,200	2.2
Customer-related intangible assets	24,300	6.5
Trademarks	1,100	3.7
Non-compete agreements	200	1.5
Total	<u>\$ 32,800</u>	

The total weighted average amortization period for the intangible assets acquired from Nominum is 5.4 years. The intangible assets are being amortized based upon the pattern in which the economic benefits of the intangible assets are being utilized.

Soasta

On April 6, 2017, the Company acquired Soasta, Inc. ("Soasta"), a leader in digital performance management, for \$199.3 million in cash. The allocation of the purchase price has not been finalized as of the filing of these financial statements. The acquisition is expected to allow the Company to offer solutions designed to provide greater visibility into the business impact of customers' website and application optimization strategies.

The following table presents the preliminary allocation of the purchase price for Soasta (in thousands):

Total purchase consideration	\$	199,280
Allocation of the purchase consideration:		
Cash	\$	1,935
Accounts receivable		4,108
Prepays and other current assets		1,143
Identifiable intangible assets		49,900
Goodwill		125,584
Deferred tax assets		31,206
Total assets acquired		<u>213,876</u>
Accounts payable		(1,119)
Accrued liabilities		(3,915)
Deferred revenue		(9,562)
Total liabilities assumed		<u>(14,596)</u>
Net assets acquired	\$	<u>199,280</u>

The value of the goodwill can be attributed to a number of business factors, including a trained technical and sales workforce and cost synergies expected to be realized. The total amount of goodwill related to the acquisition of Soasta expected to be deductible for tax purposes is \$35.6 million.

The following were the identified intangible assets acquired and their respective weighted average useful lives (in thousands, except years):

	Gross Carrying Amount	Weighted Average Useful Life
Completed technologies	\$ 18,800	4.1
Customer-related intangible assets	28,200	4.6
Trademarks	2,400	4.9
Non-compete agreements	500	1.9
Total	<u>\$ 49,900</u>	

The total weighted average amortization period for the intangible assets acquired from Soasta is 4.4 years. The intangible assets are being amortized based upon the pattern in which the economic benefits of the intangible assets are being utilized.

2016 Acquisitions

Concord Systems

On September 23, 2016, the Company acquired Concord Systems, Inc. ("Concord"), a provider of technology for processing data at scale, for \$3.0 million in cash. The acquisition was intended to provide the Company with technology to complement existing platform data processing capabilities. The Company allocated \$1.1 million of the cost of the acquisition to goodwill and \$2.8 million to an identifiable intangible asset with a useful life of 7.0 years. The value of the goodwill is primarily attributable to synergies related to the integration of Concord technology onto the Company's platform as well as a trained technical workforce. An insignificant portion of the goodwill related to the acquisition of Concord is expected to be deducted for tax purposes.

Soha

On October 3, 2016, the Company acquired Soha, a provider of technology designed to facilitate secure access to enterprise applications, for \$55.0 million in initial consideration and up to an additional \$5.0 million for the achievement of post-closing milestones. The acquisition was intended to complement the Company's strategy of securing, protecting and accelerating enterprise applications and services in the cloud. The Company allocated \$44.1 million of the cost of the acquisition to goodwill and \$10.7 million to identifiable intangible assets. The total weighted average useful life of the intangible assets acquired from Soha is 4.7 years. The value of the goodwill is primarily attributable to synergies related to the integration of Soha technology onto the Company's platform as well as a trained technical workforce. The total amount of goodwill related to the acquisition of Soha expected to be deducted for tax purposes is \$12.0 million.

Cyberfend

On December 15, 2016, the Company acquired Cyberfend, an innovator in bot and automation detection solutions for web and mobile environments, for \$37.5 million in initial consideration and up to an additional \$10.5 million upon the achievement of post-closing milestones. The acquisition was intended to further strengthen the Company's existing bot management and mitigation services. The Company allocated \$38.5 million of the cost of the acquisition to goodwill and \$6.5 million to acquired intangible assets. The total weighted average useful life of the intangible assets acquired from Cyberfend is 3.6 years. The value of the goodwill from the acquisition can be attributed to a number of business factors including a trained technical workforce and cost synergies expected to be realized. The total amount of goodwill related to the acquisition of Cyberfend expected to be deducted for tax purposes is \$11.0 million.

2015 Acquisitions

Xerocole

On February 27, 2015, the Company acquired Xerocole, Inc. ("Xerocole"), a provider of recursive DNS functionality, for \$16.6 million in cash. The Company acquired Xerocole with a goal of expanding its existing authoritative DNS products. The Company allocated \$12.9 million of the cost of the acquisition to goodwill and \$4.9 million to acquired intangible assets. The total weighted average useful life of the intangible assets acquired from Xerocole is 8.8 years. The value of the goodwill from the acquisition can be attributed to a number of business factors including a trained technical workforce and cost synergies expected to be realized. The total amount of goodwill expected to be deducted for tax purposes is \$2.7 million.

Octoshape

On April 6, 2015, the Company acquired all of the outstanding capital stock of Codemate A/S and its wholly-owned subsidiary Octoshape ApS (together, "Octoshape") in exchange for \$107.0 million in cash. Octoshape was a cloud service provider focused on delivering broadcast, enterprise and carrier solutions. The goal of acquiring Octoshape was to make available for the Company's customers additional delivery and optimization technologies for video streams of over-the-top (often referred to as OTT) content and to enable the Company to more fully support Internet Protocol television solutions. The following table presents the final allocation of the purchase price for Octoshape (in thousands):

Total purchase consideration	\$ 107,047
Allocation of the purchase consideration:	
Cash	\$ 664
Accounts receivable	1,976
Other current assets	393
Identifiable intangible assets	41,950
Goodwill	69,445
Deferred tax assets	5,230
Total assets acquired	<u>119,658</u>
Other current liabilities	(1,983)
Current deferred revenue	(770)
Deferred tax liabilities	(9,858)
Total liabilities assumed	<u>(12,611)</u>
Net assets acquired	<u>\$ 107,047</u>

The value of the goodwill can be attributed to a number of business factors, including a trained technical and sales workforce and cost synergies expected to be realized. The total amount of goodwill related to the acquisition of Octoshape expected to be deducted for tax purposes is \$69.4 million.

The following were the identified intangible assets acquired and their respective weighted average useful lives (in thousands, except years):

	Gross Carrying Amount	Weighted Average Useful Life
Completed technologies	\$ 25,310	9.8
Customer-related intangible assets	16,560	11.8
Non-compete agreements	80	2.0
Total	<u>\$ 41,950</u>	

The total weighted average amortization period for the intangible assets acquired from Octoshape is 10.6 years. The intangible assets are being amortized based upon the pattern in which the economic benefits of the intangible assets are being utilized.

Bloxx

On October 30, 2015, the Company acquired Bloxx Limited ("Bloxx"), a provider of Secure Web Gateway technology, for \$18.7 million in cash. The acquisition was intended to provide the Company with technology to complement its cloud security strategy for protecting businesses against Internet vulnerabilities. The Company allocated \$17.7 million of the cost of the acquisition to goodwill and \$3.9 million to the acquired intangible assets. The total weighted average useful life of the intangible assets acquired from Bloxx is 7.2 years. The value of the goodwill from the acquisition can be attributed to a number of business factors including a trained technical workforce and cost synergies expected to be realized. The total amount of goodwill related to the acquisition of Bloxx expected to be deducted for tax purposes is \$17.7 million.

9. Accrued Expenses and Other Liabilities

Accrued expenses consisted of the following as of December 31, 2017 and 2016 (in thousands):

	December 31, 2017	December 31, 2016
Payroll and other related benefits	\$ 150,784	\$ 110,822
Bandwidth and co-location	72,782	61,084
Property, use and other taxes	47,584	52,858
Professional service fees	4,225	4,277
Other accrued expenses	8,368	9,736
Total	<u>\$ 283,743</u>	<u>\$ 238,777</u>

Other liabilities consisted of the following as of December 31, 2017 and 2016 (in thousands):

	December 31, 2017	December 31, 2016
Deferred rent	\$ 31,510	\$ 29,668
Uncertain tax positions	86,814	73,231
Other long-term liabilities	24,631	15,792
Total	<u>\$ 142,955</u>	<u>\$ 118,691</u>

10. Restructuring

During the fourth quarter of 2017, management committed to an action to restructure certain parts of the Company, with the intent of shifting focus to more critical areas of the business and away from products that have not seen expected commercial success. The restructuring is also intended to facilitate cost efficiencies and savings. Certain capitalized internal-use software charges have been realized for software not yet placed into service that will not be completed and implemented due to this action. In addition, as part of cost efficiency and savings, certain headcount and facility reductions were made. The total restructuring charge expected as part of this action is up to \$65.0 million, of which \$49.3 million was recognized during the year ended December 31, 2017.

During the first quarter of 2016, management made changes to the Company's organizational structure to reorganize the Company's product and development groups and global sales, services and marketing teams into divisions centered on the Company's customers and solutions. The restructuring charges relate to severance expenses for impacted employees and charges for internal-use software not yet placed into service that will not be completed and launched due to changing priorities as part of the reorganization. The restructuring charges recognized for this action during the year ended December 31, 2016, were \$9.7 million. No additional charges are expected.

The Company also recognizes restructuring charges for redundant employees, facilities and contracts associated with completed acquisitions.

The following table summarizes the activity of the Company's restructuring accrual during the years ended December 31, 2017, 2016 and 2015 (in thousands):

	Employee Severance and Related Benefits	Software Charges	Excess Facilities, Contract Terminations and Other	Total
Balance January 1, 2015	\$ —	\$ —	\$ 281	\$ 281
Costs incurred	767	—	—	767
Cash disbursements	(605)	—	(56)	(661)
Balance December 31, 2015	162	—	225	387
Costs incurred	5,714	4,587	—	10,301
Cash disbursements	(4,432)	—	(56)	(4,488)
Software charges	—	(4,587)	—	(4,587)
Balance December 31, 2016	1,444	—	169	1,613
Costs incurred	17,311	31,965	5,608	54,884
Cash disbursements	(5,898)	—	(3,212)	(9,110)
Software and other non-cash charges	—	(31,965)	(1,179)	(33,144)
Balance December 31, 2017	\$ 12,857	\$ —	\$ 1,386	\$ 14,243

11. Convertible Senior Notes

In February 2014, the Company issued \$690.0 million in par value of convertible senior notes due 2019 (the "Notes"). The Notes are senior unsecured obligations of the Company, do not bear regular interest and mature on February 15, 2019, unless repurchased or converted prior to maturity.

At their option, holders may convert their Notes prior to the close of business on the business day immediately preceding August 15, 2018 only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ended June 30, 2014 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; or
- during the five business day period after any five consecutive trading day period in which the trading price per \$1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; or upon the occurrence of specified corporate events.

On or after August 15, 2018, holders may convert all or any portion of their Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, regardless of the foregoing circumstances.

Upon conversion, the Company, at its election, may pay or deliver to holders cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock. The initial conversion rate is 11.1651 shares of the Company's common stock per \$1,000 principal amount, which is equivalent to an initial conversion price of approximately \$89.56 per share, subject to adjustments in certain events, and represents a potential conversion into 7.7 million shares.

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying cost of the liability component was calculated by measuring the fair value of a similar debt obligation that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the Notes. The difference between the principal amount of the Notes and the proceeds allocated to the liability component ("debt discount") is amortized to interest expense using the effective interest method over the term of the Notes. The equity component is recorded in additional paid-in capital in the consolidated balance sheet and will not be re-measured as long as it continues to meet the conditions for equity classification.

In accounting for the transaction costs related to the issuance of the Notes, the Company allocated the total transaction costs incurred to the liability and equity components based on their relative values. Transaction costs attributable to the liability component are being amortized to interest expense over the term of the Notes, and transaction costs attributable to the equity component are netted against the equity component of the Notes in stockholders' equity.

The Notes consist of the following components as of December 31, 2017 and 2016 (in thousands):

	December 31, 2017	December 31, 2016
Liability component:		
Principal	\$ 690,000	\$ 690,000
Less: debt discount and issuance costs, net of amortization	(27,087)	(49,913)
Net carrying amount	\$ 662,913	\$ 640,087
Equity component:	\$ 101,276	\$ 101,276

The estimated fair value of the Notes at December 31, 2017 was \$697.0 million. The fair value was determined based on the quoted price of the Notes in an inactive market on the last trading day of the reporting period and has been classified as Level 2 within the fair value hierarchy. Based on the closing price of the Company's common stock of \$65.04 on December 31, 2017, the value of the Notes if converted to common stock was less than the principal amount of \$690.0 million.

The Company used \$62.0 million of the proceeds from the offering to repurchase shares of its common stock, concurrent with the issuance of the Notes. The repurchase was made in accordance with a share repurchase program previously approved by the Board of Directors (Note 13). Additionally, \$23.3 million of the proceeds was used for the net cost of convertible note hedge and warrant transactions. The remaining net proceeds are for working capital, share repurchases and other general corporate purposes, as well as for potential acquisitions and strategic transactions.

Note Hedge

To minimize the impact of potential dilution upon conversion of the Notes, the Company entered into convertible note hedge transactions with respect to its common stock in February 2014. The Company paid \$101.3 million for the note hedge transactions. The note hedge transactions cover approximately 7.7 million shares of the Company's common stock at a strike price that corresponds to the initial conversion price of the Notes, also subject to adjustment, and are exercisable upon conversion of the Notes. The note hedge transactions are intended to reduce dilution in the event of conversion of the Notes.

Warrants

Separately, in February 2014, the Company entered into warrant transactions, whereby the Company sold warrants to acquire, subject to anti-dilution adjustments, up to 7.7 million shares of the Company's common stock at a strike price of approximately \$104.49 per share. The Company received aggregate proceeds of \$78.0 million from the sale of the warrants. The convertible note hedge and warrant transactions will generally have the effect of increasing the conversion price of the Notes to approximately \$104.49 per share.

Interest Expense

The Notes do not bear regular interest, but have an effective interest rate of 3.2% attributable to the conversion feature. The following table sets forth total interest expense included in the consolidated statements of income related to the Notes for the years ended December 31, 2017 and 2016 (in thousands):

	2017	2016
Amortization of debt discount and issuance costs	\$ 22,826	\$ 22,040
Capitalization of interest expense	(3,987)	(3,402)
Total interest expense	\$ 18,839	\$ 18,638

12. Commitments and Contingencies

Operating Lease Commitments

The Company leases its facilities under non-cancelable operating leases. These operating leases expire at various dates through December 2034 and generally require the payment of real estate taxes, insurance, maintenance and operating costs.

The minimum aggregate future obligations under non-cancelable leases as of December 31, 2017 were as follows (in thousands):

2018	\$	50,187
2019		49,418
2020		61,031
2021		58,680
2022		56,211
Thereafter		481,471
Total	\$	<u>756,998</u>

Rent expense for the years ended December 31, 2017, 2016 and 2015 was \$58.8 million, \$50.3 million and \$47.9 million, respectively. The Company has entered into sublease agreements with tenants of various properties previously vacated by the Company. The amounts paid to the Company by these sublease tenants was \$3.6 million, \$1.3 million and \$3.6 million for the years ended December 31, 2017, 2016 and 2015, respectively.

As of December 31, 2017, the Company had outstanding letters of credit in the amount of \$6.4 million, primarily related to operating leases. The letters of credit remain in effect until the Company fulfills its obligations under these leases or as such obligations expire under the terms of the letters of credit.

Purchase Commitments

As of December 31, 2017, the Company had long-term commitments for bandwidth usage and co-location with various networks and ISPs and for asset purchases for network equipment. Additionally, as of December 31, 2017, the Company had entered into purchase orders with various vendors. The minimum future commitments as of December 31, 2017 were as follows (in thousands):

	Bandwidth and Co-location Commitments	Purchase Order Commitments
2018	\$ 108,988	\$ 93,385
2019	27,304	6,175
2020	817	3,205
2021	—	1,385
2022	—	1,190
Thereafter	—	—
Total	\$ <u>137,109</u>	\$ <u>105,340</u>

Legal Matters

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

In July 2016, as part of the resolution of a patent infringement lawsuit filed by the Company against Limelight Networks, Inc. ("Limelight") in 2006, the Company entered into an agreement that requires Limelight to pay the Company \$54.0 million in 12 equal installments over three years, beginning in August 2016. During the years ended December 31, 2017 and 2016, the Company received \$18.0 million and \$9.0 million, respectively, under this agreement, of which \$16.4 million and \$8.6 million was recorded as a gain contingency, which reduced general and administrative expenses in the consolidated statements of income, respectively, and \$1.6 million and \$0.4 million was recorded as interest income, respectively.

In November 2015, Limelight filed a complaint in the U.S. District Court for the Eastern District of Virginia against the Company and XO Communications LLC ("XO"), alleging patent infringement by the two companies. The complaint seeks to recover from the Company and XO monetary damages based upon lost revenue due to infringing technology used by the companies. The Company has agreed to indemnify XO for damages it incurs in this matter. The Company has made counterclaims in the action against Limelight alleging that Limelight has infringed multiple of the Company's content delivery patents, and the Company is seeking monetary damages based upon lost revenue due to the infringing technology used by Limelight. A trial date on Limelight's patents has been set for April 2018. No provision with respect to this matter has been made in the Company's consolidated financial statements. An estimate of the possible loss or range of loss cannot be made.

Indemnification

The Company enters into standard indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company agrees to indemnify, hold harmless and reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally the Company's business partners, vendors or customers, in connection with its provision of its services. Generally, these obligations are limited to claims relating to infringement of a patent, copyright or other intellectual property right or the Company's negligence, willful misconduct or violation of law. Subject to applicable statutes of limitation, the term of each of these indemnification agreements is generally perpetual from the time of execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company carries insurance that covers certain third-party claims relating to its services and activities and that could limit the Company's exposure in that respect.

The Company has agreed to indemnify each of its officers and directors during his or her lifetime for certain events or occurrences that happen by reason of the fact that the officer or director is or was or has agreed to serve as an officer or director of the Company. The Company has director and officer insurance policies that may limit its exposure and may enable the Company to recover a portion of certain future amounts paid.

To date, the Company has not encountered material costs as a result of such indemnification obligations and has not accrued any related liabilities in its financial statements. In assessing whether to establish an accrual, the Company considers such factors as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss.

13. Stockholders' Equity

Stock Repurchase Program

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

During the years ended December 31, 2017, 2016 and 2015, the Company repurchased 6.9 million, 7.0 million and 4.5 million shares, respectively, of its common stock for \$361.2 million, \$373.8 million and \$302.6 million, respectively, pursuant to the current repurchase program as well as prior ones approved by the Board of Directors. As of December 31, 2017, the Company had \$333.3 million available for future purchases of shares under the current repurchase program.

The Board of Directors authorized the retirement of all the outstanding shares of its treasury stock as of each of December 31, 2017, 2016 and 2015. The retired shares were returned to the number of authorized but unissued shares of the Company's common stock, and the retirement was recorded to additional paid-in capital.

14. Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated other comprehensive loss, which is reported as a component of stockholders' equity, for the year ended December 31, 2017 (in thousands):

	Foreign Currency Translation	Net Unrealized Gains (Losses) on Investments	Total
Balance as of January 1, 2017	\$ (59,017)	\$ 2,795	\$ (56,222)
Other comprehensive income (loss)	34,698	(406)	34,292
Balance as of December 31, 2017	<u>\$ (24,319)</u>	<u>\$ 2,389</u>	<u>\$ (21,930)</u>

The tax effect on accumulated unrealized gains on investments was insignificant as of December 31, 2017 and 2016. Amounts reclassified from accumulated other comprehensive loss to net income were insignificant for the year ended December 31, 2017.

15. Employee Benefit Plan

The Company has established a savings plan for its employees that is designed to be qualified under Section 401(k) of the Internal Revenue Code. Eligible employees are permitted to contribute to this plan through payroll deductions within statutory and plan limits. The Company contributed approximately \$15.6 million, \$13.7 million and \$13.1 million of cash to the savings plan for the years ended December 31, 2017, 2016 and 2015, respectively, under a matching program.

16. Stock-Based Compensation

Equity Plans

In May 2013, the Company's stockholders approved the Akamai Technologies, Inc. 2013 Stock Incentive Plan (as amended in 2015 and 2017, the "2013 Plan"). The 2013 Plan replaced the Akamai Technologies, Inc. 2009 Stock Incentive Plan (the "2009 Plan"), which in turn replaced the Akamai Technologies, Inc. 2006 Stock Incentive Plan, the Akamai Technologies, Inc. 2001 Stock Incentive Plan and the Akamai Technologies, Inc. 1998 Stock Incentive Plan (together with the 2009 Plan, the "Previous Plans"). The Company no longer issues equity awards under the Previous Plans, and they solely exist to satisfy outstanding equity awards previously granted under those plans. The 2013 Plan allows for the issuance of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, other stock-based awards and cash-based awards up to 18.5 million shares of common stock to employees, officers, directors, consultants and advisers of the Company. Additionally, the Company may grant up to 3.8 million shares of common stock thereunder that were available for grant under the 2009 Plan immediately prior to stockholder approval of the 2013 Plan. Any shares of common stock that are currently outstanding under the Previous Plans that are terminated, canceled, surrendered or forfeited will become available to grant under the 2013 Plan. As of December 31, 2017, the Company had reserved approximately 11.1 million shares of common stock available for future issuance of equity awards under the 2013 Plan.

The Company has assumed certain stock option plans and the outstanding stock options of companies that it has acquired ("Assumed Plans"). Stock options outstanding as of the date of acquisition under the Assumed Plans were exchanged for the Company's stock options and adjusted to reflect the appropriate conversion ratio as specified by the applicable acquisition agreement, but are otherwise administered in accordance with the terms of the Assumed Plans. Stock options under the Assumed Plans generally vest over four years and expire ten years from the date of grant.

The 1999 Employee Stock Purchase Plan ("1999 ESPP") permits eligible employees to purchase up to 1.5 million shares each June 1 and December 1, provided that the aggregate number of shares issued shall not exceed 20.0 million. The 1999 ESPP allows participants to purchase shares of common stock at a 15% discount from the fair market value of the stock as determined on specific dates at six-month intervals. During the years ended December 31, 2017, 2016 and 2015, the Company issued 1.1 million, 0.9 million and 0.7 million shares under the 1999 ESPP, respectively, with a weighted average purchase price per share of \$40.18, \$46.23 and \$52.05, respectively. Total cash proceeds from the purchase of shares under the 1999

ESPP in the years ended December 31, 2017, 2016 and 2015 were \$42.3 million, \$39.9 million and \$34.8 million, respectively. As of December 31, 2017, approximately \$6.1 million had been withheld from employees for future purchases under the 1999 ESPP.

Stock-Based Compensation Expense

The following table summarizes the components of total stock-based compensation expense included in the Company's consolidated statements of income for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Cost of revenue	\$ 20,314	\$ 18,287	\$ 14,145
Research and development	38,864	29,739	23,927
Sales and marketing	60,246	55,407	53,542
General and administrative	44,884	41,073	35,063
Total stock-based compensation	164,308	144,506	126,677
Provision for income taxes	(56,237)	(49,014)	(49,033)
Total stock-based compensation, net of taxes	\$ 108,071	\$ 95,492	\$ 77,644

In addition to the amounts of stock-based compensation reported in the table above, the Company's consolidated statements of income for the years ended December 31, 2017, 2016 and 2015 also include stock-based compensation reflected as a component of amortization of capitalized internal-use software; the additional stock-based compensation was \$17.5 million, \$13.8 million and \$12.7 million, respectively, before taxes.

The Company uses the Black-Scholes option pricing model to determine the fair value of the Company's stock option awards. This model requires the input of subjective assumptions, including expected stock price volatility and the estimated term of each award. The estimated fair value of the Company's stock-based awards, less expected forfeitures, is amortized over the awards' vesting period on a straight-line basis. Expected volatilities are based on the Company's historical stock price volatility and implied volatility from traded options in its stock. The Company uses historical data to estimate the expected term of options granted within the valuation model. The risk-free interest rate for periods commensurate with the expected term of the option is based on the U.S. Treasury yield rate in effect at the time of grant. The expected dividend yield is zero, as the Company currently does not pay a dividend and does not anticipate doing so in the future.

The grant-date fair values of awards granted under the 1999 ESPP during the years ended December 31, 2017, 2016 and 2015 were estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2017	2016	2015
Expected term (in years)	0.5	0.5	0.5
Risk-free interest rate	1.0%	0.5%	0.2%
Expected volatility	35.8%	36.2%	28.0%
Dividend yield	—%	—%	—%

For the years ended December 31, 2017, 2016 and 2015, the weighted average fair value of awards granted under the 1999 ESPP was \$13.60 per share, \$14.54 per share and \$15.63 per share, respectively.

As of December 31, 2017, total pre-tax unrecognized compensation cost for stock options, restricted stock units, deferred stock units and shares of common stock issued under the 1999 ESPP was \$267.8 million. The expense is expected to be recognized through 2021 over a weighted average period of 1.9 years.

Stock Options

The following table summarizes stock option activity during the year ended December 31, 2017:

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2017	874	\$ 35.51		
Exercised	(522)	34.68		
Forfeited	(13)	47.26		
Outstanding at December 31, 2017	339	\$ 36.36	1.66	\$ 9,734
Exercisable at December 31, 2017	338	\$ 36.31	1.66	\$ 9,708
Vested or expected to vest December 31, 2017	339	\$ 36.35	1.66	\$ 9,731

The total pre-tax intrinsic value of options exercised during the years ended December 31, 2017, 2016 and 2015 was \$12.3 million, \$18.3 million and \$53.6 million, respectively. The total fair value of options vested for the years ended December 31, 2017, 2016 and 2015 was \$1.2 million, \$6.5 million and \$10.3 million, respectively.

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on the Company's closing stock price of \$65.04 on December 31, 2017, that would have been received by the option holders had all option holders exercised their "in-the-money" options as of that date. The total number of shares issuable upon the exercise of "in-the-money" options exercisable as of December 31, 2017 was 0.3 million.

Deferred Stock Units

The Company has granted deferred stock units ("DSUs") to non-employee members of its Board of Directors. Each DSU represents the right to receive one share of the Company's common stock upon vesting. The holder may elect to defer receipt of the vested shares of stock represented by the DSU for a period of at least one year but not more than ten years from the grant date. DSUs vest 100% on the first anniversary of the grant date. If a director has completed one year of Board service, vesting of 100% of the DSUs held by such director will accelerate at the time of his or her departure from the Board.

The following table summarizes the DSU activity for the year ended December 31, 2017:

	Units (in thousands)	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2017	164	\$ 44.90
Granted	44	47.50
Vested and distributed	(31)	54.97
Outstanding at December 31, 2017	177	\$ 43.77

The total pre-tax intrinsic value of DSUs that were vested and distributed during the years ended December 31, 2017, 2016 and 2015 was \$1.5 million, \$1.4 million and \$10.7 million, respectively. The total fair value of DSUs that were vested and distributed during the years ended December 31, 2017, 2016 and 2015 was \$1.7 million, \$1.6 million and \$4.9 million, respectively. The grant-date fair value is calculated based upon the Company's closing stock price on the date of grant. As of December 31, 2017, 44,000 DSUs were unvested, with an aggregate intrinsic value of approximately \$2.9 million and a weighted average remaining contractual life of approximately 0.4 years. These units are expected to vest in May 2018.

Restricted Stock Units

The following table summarizes the different types of restricted stock units ("RSUs") granted by the Company during the year ended December 31, 2017 (in thousands):

	December 31, 2017
RSUs with service-based vesting conditions	3,411
RSUs with market-based vesting conditions	116
RSUs with performance-based vesting conditions	82
Total	<u>3,609</u>

RSUs represent the right to receive one share of the Company's common stock upon vesting. RSUs are granted at the discretion of the Board of Directors, a committee thereof or, subject to defined limitations, the Chief Executive Officer of the Company, acting as a committee of one director, to whom such authority has been delegated. The Company has issued RSUs that vest based on the passage of time assuming continued service with the Company, RSUs that vest only upon the achievement of defined performance metrics tied primarily to revenue and income targets and other key financial performance indicators and RSUs that vest based upon total shareholder return ("TSR") measured against the benchmark TSR of a peer group.

For RSUs with service-based vesting conditions, the fair value is calculated based upon the Company's closing stock price on the date of grant, and the stock-based compensation expense is being recognized over the vesting period. Most RSUs with service-based vesting provisions vest in installments over a three- or four-year period following the grant date.

Beginning in the first quarter of 2016, the Company granted RSUs with market-based vesting conditions to certain of its executive officers. The Company uses the Monte Carlo simulation model to determine the fair value of the Company's RSUs based on TSR. This model requires the input of assumptions, including the estimated term of each award, the risk-free interest rate, historical stock price volatility of the Company's shares and historical stock price volatility of peer-company shares. The grant-date fair values of the Company's RSUs with market-based vesting conditions granted during the year ended December 31, 2017 and 2016 were estimated using a Monte Carlo simulation model with the following assumptions:

	2017	2016
Expected term (in years)	3.0	3.0
Risk-free interest rate	1.4%	0.8%
Akamai historical share price volatility	33.2%	34.3%
Average volatility of peer-company share price	27.1%	27.6%

For the years ended December 31, 2017, 2016 and 2015, management measured compensation expense for performance-based RSUs based upon a review of the Company's expected achievement against specified financial performance targets. Such compensation cost is being recorded using a graded-vesting method for each series of grants of performance-based RSUs, to the extent management has deemed that such awards are probable of vesting based upon the expected achievement against the specified targets. On a periodic basis, management reviews the Company's expected performance and adjusts the compensation cost, if needed, at such time.

The following table summarizes the RSU activity for the year ended December 31, 2017:

	Units (in thousands)	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2017	5,710	\$ 59.51
Granted	3,609	59.60
Vested	(2,910)	59.59
Forfeited	(566)	46.65
Outstanding at December 31, 2017	<u>5,843</u>	<u>\$ 59.94</u>

The total pre-tax intrinsic value of RSUs that vested during the years ended December 31, 2017, 2016 and 2015 was \$168.6 million, \$128.5 million and \$153.6 million, respectively. The total fair value of RSUs that vested during the years ended December 31, 2017, 2016 and 2015 was \$173.6 million, \$140.4 million and \$105.3 million, respectively. The grant-date fair value of each RSU is calculated based upon the Company's closing stock price on the date of grant. As of December 31, 2017, 5.8 million RSUs were outstanding and unvested, with an aggregate intrinsic value of \$380.2 million and a weighted average remaining vesting period of approximately 1.9 years. These RSUs are expected to vest on various dates through October 2021.

17. Income Taxes

The components of income before provision for income taxes were as follows for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
U.S.	\$ 94,518	\$ 273,176	\$ 233,247
Foreign	221,604	186,270	223,377
Income before provision for income taxes	<u>\$ 316,122</u>	<u>\$ 459,446</u>	<u>\$ 456,624</u>

The provision for income taxes consisted of the following for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Current tax provision (benefit):			
Federal	\$ 41,090	\$ 89,816	\$ 70,298
State	6,336	6,238	(1,750)
Foreign	51,244	39,952	62,572
Deferred tax provision (benefit):			
Federal	(17,136)	4,265	23,381
State	21,689	(86)	(742)
Foreign	(4,992)	3,916	(18,536)
Change in valuation allowance	(430)	(787)	(5)
Total	<u>\$ 97,801</u>	<u>\$ 143,314</u>	<u>\$ 135,218</u>

The current tax provision includes income taxes incurred on intercompany sales, primarily intellectual property. For financial statement purposes this amount is required to be deferred on the balance sheet with the offset recorded as a deferred tax benefit. The income tax that is deferred is amortized into earnings over the economic life of the intellectual property that was sold. The amount of the current year deferral included in the Company's deferred tax provision was a benefit of \$16.0 million, \$9.1 million and \$15.5 million in the years ended December 31, 2017, 2016 and 2015, respectively.

The Company's effective rate differed from the U.S. federal statutory rate as follows for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
U.S. federal income tax rate	35.0%	35.0%	35.0%
State taxes	1.6	2.0	1.7
Share-based compensation	3.7	2.7	1.9
U.S. federal, state and foreign research and development credits	(6.9)	(3.3)	(4.1)
Foreign earnings	(7.8)	(3.4)	(4.6)
Domestic production activities deduction	(0.7)	(1.7)	(1.2)
U.S Tax Cuts and Jobs Act, net	8.2	—	—
Impact of acquisition-related uncertain tax position	(2.9)	—	—
Other	0.7	(0.1)	0.9
	<u>30.9%</u>	<u>31.2%</u>	<u>29.6%</u>

In December 2017 the TCJA was enacted, making significant changes to the U.S. Internal Revenue Code. Changes include a corporate income tax rate decrease from 35% to 21%, the implementation of a modified territorial tax system, a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017 and the repeal of the domestic production activities deduction, among other items.

The Company has recognized a provisional net tax expense of \$26.0 million for the impact of the TJCA which is comprised of a one-time transition tax expense of \$43.4 million on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017, offset by a \$17.4 million tax benefit related to the re-measurement of deferred tax assets and liabilities due to the lower corporate income tax rate. Any subsequent adjustments to the provisional amounts will be recorded to current tax expense or benefit in the quarter of 2018 in which the analysis is completed.

The components of the net deferred tax assets and liabilities and the related valuation allowance as of December 31, 2017 and 2016 were as follows (in thousands):

	2017	2016
Accrued bonus	\$ 19,950	\$ 18,390
Deferred revenue	8,861	10,055
Deferred rent	8,000	12,592
Stock-based compensation	20,557	32,030
Net operating losses	26,698	7,855
Unrealized losses	1,239	1,862
Tax credit carryforwards	49,135	23,629
License income	6,611	16,932
Other	11,909	7,048
Deferred tax assets	<u>152,960</u>	<u>130,393</u>
Depreciation and amortization	(13,933)	(10,470)
Acquired intangible assets	(48,781)	(44,788)
Internal-use software development costs capitalized	(54,687)	(77,375)
Deferred tax liabilities	<u>(117,401)</u>	<u>(132,633)</u>
Valuation allowance	—	(430)
Net deferred tax assets (liabilities)	<u>\$ 35,559</u>	<u>\$ (2,670)</u>

The Company re-measured the U.S. deferred tax assets and liabilities as of December 31, 2017 included in the table above at the applicable tax rate of 21% in accordance with the TCJA.

The table below summarizes the Company's NOL and tax credit carryforwards in federal, state, and foreign jurisdictions as of December 31, 2017 and 2016 (in thousands, except for years):

	2017	2016	Expirations at Various Dates Through:
NOL carryforwards:			
Federal	\$ 99,200	\$ 16,500	2037
State	89,500	11,400	2035
Foreign	—	—	—
Federal and state research and development tax credit and other credit carryforwards	65,900	41,500	2032

The Company's U.S. federal and state NOL carryforwards relate to acquisitions completed in 2012 and 2017.

As of December 31, 2017, foreign earnings of approximately \$603.2 million have been taxed due to the one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings required by the TCJA. No provision for U.S. income and foreign withholding taxes has been provided for any remaining undistributed foreign earnings not subject to the transition tax, or any additional basis differences inherent in these entities, as these amounts continue to be indefinitely reinvested. Determination of the amount of the unrecognized deferred tax liability on outside basis differences is not practicable because of the complexity of laws and regulations, the varying tax treatment of alternative repatriation scenarios, and the variation due to multiple potential assumptions relating to the timing of any future repatriation.

The following is a roll forward of the Company's unrecognized tax benefits for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Balance at beginning of year	\$ 69,117	\$ 65,290	\$ 33,320
Gross increases — tax positions of prior periods	2,692	6,391	11,238
Gross increases — current period tax positions	27,163	6,252	27,043
Gross decreases — tax positions of prior periods	(277)	(6,491)	(5,739)
Gross decreases — lapse of applicable statute of limitations	(12,850)	(287)	(257)
Gross decreases — settlements	—	(2,038)	(315)
Balance at end of year	\$ 85,845	\$ 69,117	\$ 65,290

As of December 31, 2017, 2016 and 2015, the Company had approximately \$90.7 million, \$77.1 million and \$72.3 million of unrecognized tax benefits, respectively. The total unrecognized tax benefits include \$10.7 million, \$13.7 million, and \$10.0 million of accrued interest and penalties as of December 31, 2017, 2016 and 2015, respectively. Interest and penalties related to unrecognized tax benefits are recorded in the provision for income taxes and were \$2.3 million, \$3.9 million and \$2.2 million for the years ended December 31, 2017, 2016 and 2015, respectively. The amount of unrecognized tax benefits that, if recognized, would impact the effective income tax rate is approximately \$76.0 million.

As of December 31, 2017, it is reasonably possible that \$3.3 million of unrecognized tax benefits may be recognized by the end of 2018 as a result of the expiration of local statutes of limitations. Certain state and foreign income tax returns from 2011 through 2016 are currently under audit, including the Commonwealth of Massachusetts.

18. Net Income per Share

Basic net income per share is computed using the weighted average number of common shares outstanding during the applicable period. Diluted net income per share is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of potential common stock. Potential common stock consists of shares issuable pursuant to stock options, RSUs, DSUs, convertible senior notes and warrants issued by the Company. The dilutive effect of outstanding awards and convertible securities is reflected in diluted earnings per share by application of the treasury stock method.

The following table sets forth the components used in the computation of basic and diluted net income per share for the years ended December 31, 2017, 2016 and 2015 (in thousands, except per share data):

	2017	2016	2015
Numerator:			
Net income	\$ 218,321	\$ 316,132	\$ 321,406
Denominator:			
Shares used for basic net income per share	171,559	174,917	178,391
Effect of dilutive securities:			
Stock options	260	384	794
RSUs and DSUs	892	914	1,230
Convertible senior notes	—	—	—
Warrants related to issuance of convertible senior notes	—	—	—
Shares used for diluted net income per share	<u>172,711</u>	<u>176,215</u>	<u>180,415</u>
Basic net income per share	\$ 1.27	\$ 1.81	\$ 1.80
Diluted net income per share	\$ 1.26	\$ 1.79	\$ 1.78

For the years ended December 31, 2017, 2016 and 2015, certain potential outstanding shares from stock options, service-based RSUs, convertible notes and warrants were excluded from the computation of diluted net income per share because the effect of including these items was anti-dilutive. Additionally, certain performance-based RSUs were excluded from the computation of diluted net income per share because the underlying performance conditions for such RSUs had not been met as of these dates. The number of potentially outstanding shares excluded from the computation of diluted net income per share for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Stock options	9	58	22
Service-based RSUs	3,258	2,262	660
Performance-based RSUs	1,054	690	1,007
Convertible senior notes	7,704	7,704	7,704
Warrants related to issuance of convertible senior notes	7,704	7,704	7,704
Total shares excluded from computation	<u>19,729</u>	<u>18,418</u>	<u>17,097</u>

19. Segment and Geographic Information

The Company's chief operating decision-maker is the chief executive officer and the executive management team. As of December 31, 2017, the Company operated in one industry segment: providing cloud services for delivering, optimizing and securing content and business applications over the Internet. The Company is not organized by market and is managed and operated as one business. A single management team that reports to the chief executive officer comprehensively manages the entire business. The Company does not operate any material separate lines of business or separate business entities with respect to its services. Accordingly, the Company does not accumulate discrete financial information with respect to separate divisions and does not have separate operating or reportable segments.

The Company deploys its servers into networks worldwide. As of December 31, 2017, the Company had approximately \$311.7 million and \$249.8 million of net property and equipment, excluding internal-use software, located in the U.S. and foreign locations, respectively. As of December 31, 2016, the Company had approximately \$297.8 million and \$231.8 million of net property and equipment, excluding internal-use software, located in the U.S. and foreign locations, respectively.

The Company sells its services and licenses through a sales force located both domestically and abroad. Revenue derived from operations outside of the U.S. is determined based on the country in which the sale originated and was \$855.0 million, \$720.0 million and \$593.0 million for the years ended December 31, 2017, 2016 and 2015, respectively. Other than the U.S., no single country accounted for 10% or more of the Company's total revenue for any reported period.

20. Quarterly Financial Results (unaudited)

(in thousands, except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year ended December 31, 2017:				
Revenue	\$ 609,237	\$ 608,908	\$ 621,399	\$ 663,452
Cost of revenue (exclusive of amortization of acquired intangible assets)	205,703	214,650	225,468	229,937
Net income	80,930	57,772	60,512	19,107
Basic net income per share	0.47	0.33	0.35	0.11
Diluted net income per share	0.46	0.33	0.35	0.11
Year ended December 31, 2016:				
Revenue	\$ 567,725	\$ 572,135	\$ 584,065	\$ 616,124
Cost of revenue (exclusive of amortization of acquired intangible assets)	194,736	206,323	204,467	203,475
Net income	74,858	73,635	76,000	91,639
Basic net income per share	0.42	0.42	0.44	0.53
Diluted net income per share	0.42	0.42	0.43	0.52

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2017. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2017, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management’s Annual Report on Internal Control over Financial Reporting

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company’s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the financial statements.

To assist management, we have established an internal audit function to verify and monitor our internal controls and procedures. Because of its inherent limitations, however, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2017. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework 2013*.

Based on our assessment, management, with the participation of our Chief Executive Officer and Chief Financial Officer, concluded that, as of December 31, 2017, our internal control over financial reporting was effective based on those criteria at the reasonable assurance level.

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2017 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report, which is included in Item 8 of this annual report on Form 10-K.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the fourth quarter ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The complete response to this Item regarding the backgrounds of our executive officers and directors and other information required by Items 401, 405 and 407 of Regulation S-K will be contained in our definitive proxy statement for our 2018 Annual Meeting of Stockholders under the sections captioned “Executive Compensation Matters,” “Section 16(a) Beneficial Ownership Reporting Compliance” and “Corporate Governance Matters” and is incorporated by reference herein.

Our executive officers and directors and their positions as of March 1, 2018, are as follows:

Name	Position
F. Thomson Leighton	Chief Executive Officer and Director (Principal Executive Officer)
James Benson	Chief Financial Officer (Principal Financial and Accounting Officer)
Aaron Ahola	Senior Vice President and General Counsel
Robert Blumofe	Executive Vice President – Platform and GM Enterprise Division
James Gemmell	Executive Vice President and Chief Human Resources Officer
Adam Karon	Executive Vice President and GM Media and Carrier Divisions
Rick McConnell	President and GM Web Division
William Wheaton	Executive Vice President and Chief Strategy Officer
George H. Conrades	Director
Pamela J. Craig	Director
Monte E. Ford	Director
Jill A. Greenthal	Director
Daniel R. Hesse	Director
Jonathan F. Miller	Director
Paul Sagan	Director
Frederic V. Salerno	Director
Naomi O. Seligman	Director
Bernardus Verwaayen	Director

We have adopted a written code of business ethics, as amended, that applies to our principal executive officer, principal financial and accounting officer or persons serving similar functions and all of our other employees and members of our Board of Directors. The text of our amended code of ethics is available on our website at www.akamai.com. If we amend, or grant a waiver under, our code of business ethics that applies to our principal executive officer, principal financial and accounting officer, or persons performing similar functions, we intend to post information about such amendment or waiver on our website at www.akamai.com.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference herein to our definitive proxy statement for our 2018 Annual Meeting of Stockholders under the sections captioned “Executive Compensation Matters,” “Corporate Governance Matters,” “Compensation Committee Interlocks and Insider Participation” and “Director Compensation.”

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated by reference herein to our definitive proxy statement for our 2018 Annual Meeting of Stockholders under the sections captioned “Executive Compensation Matters,” “Security Ownership of Certain Beneficial Owners and Management” and “Securities Authorized for Issuance Under Equity Compensation Plans.”

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference herein to our definitive proxy statement for our 2018 Annual Meeting of Stockholders under the sections captioned “Certain Relationships and Related Party Transactions,” “Corporate Governance Matters” and “Compensation Committee Interlocks and Insider Participation.”

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated by reference herein to our definitive proxy statement for our 2018 Annual Meeting of Stockholders under the section captioned “Ratification of Selection of Independent Auditors.”

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents Filed as Part of this Annual Report on Form 10-K

1. Financial Statements (included in Item 8 of this Annual Report on Form 10-K):
 - Report of Independent Registered Public Accounting Firm
 - Consolidated Balance Sheets as of December 31, 2017 and 2016
 - Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015
 - Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015
 - Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015
 - Consolidated Statements of Stockholders' Equity for the years ended December 31, 2017, 2016 and 2015
 - Notes to Consolidated Financial Statements
2. Financial Statement Schedules

Financial statements schedules are omitted as they are either not required or the information is otherwise included in the consolidated financial statements.

(b) Exhibits

EXHIBIT INDEX

3.1(A)	Amended and Restated Certificate of Incorporation of the Registrant
3.2(B)	Amended and Restated By-Laws of the Registrant, as amended
4.1(C)	Specimen common stock certificate
4.2(D)	Indenture (including form of Notes) with respect to Akamai's 0% Convertible Senior Notes due 2019, dated as of February 20, 2014, between Akamai and U.S. Bank National Association, as trustee.
10.1(E)	Summary of the Registrant's Compensatory Arrangements with Non-Executive Directors
10.2@	Summary of the Registrant's Compensatory Arrangements with Executive Officers
10.3(F)@	Second Amended and Restated 1998 Stock Incentive Plan of the Registrant, as amended
10.4(G)@	Amended and Restated 1999 Employee Stock Purchase Plan of the Registrant
10.5(H)@	Amendment to Amended and Restated 1999 Employee Stock Purchase Plan of the Registrant
10.6(I)@	2001 Stock Incentive Plan of the Registrant

10.7(J)	2006 Stock Incentive Plan of the Registrant
10.8(K)@	2009 Akamai Technologies, Inc. Stock Incentive Plan
10.9(L)@	2013 Akamai Technologies, Inc. Stock Incentive Plan (as amended)
10.10(M)	Amended and Restated 1999 Stock Compensation Plan of Acerno Intermediate Holdings, Inc. (formerly known as I-Behavior Inc.)
10.11(N)	Blaze Software Inc. Stock Option Plan
10.12(O)	Cotendo, Inc. Amended and Restated 2008 Stock Plan
10.13(P)	Four Cambridge Center Lease Agreement dated October 1, 2007
10.14(P)	Eight Cambridge Center Lease Agreement dated October 1, 2007
10.15(Q)	Amendment to Lease Agreement for Eight Cambridge Center dated November 7, 2016
10.16(Q)	Amendment to Lease Agreement for Four Cambridge Center dated November 7, 2016
10.17(Q)	Indenture of Lease for 145 Broadway, Cambridge, Massachusetts dated November 7, 2016
10.18(Q)	Must-Take Premises and Right of First Offer Agreement among the Registrant, Boston Properties Limited Partnership and the Trustees of Ten Cambridge Center Trust dated November 7, 2016
10.19	150 Broadway Real Property Lease Dated December 20, 2017
10.20(R)†	Exclusive Patent and Non-Exclusive Copyright License Agreement, dated as of October 26, 1998, between the Registrant and Massachusetts Institute of Technology
10.21(S)@	Employment Letter Agreement between the Registrant and F. Thomson Leighton dated February 25, 2013
10.22(T)@	Amendment to Employment Letter Agreement between the Registrant and F. Thomson Leighton dated November 12, 2015
10.23(U)@	Form of Executive Bonus Plan
10.24(V)@	Akamai Technologies, Inc. Executive Severance Pay Plan
10.25(T)@	Form of Executive Change in Control and Severance Agreement
10.26(W)@	Akamai Technologies, Inc. Policy on Departing Director Compensation
10.27(X)@	Form of Stock Option Agreement for use under the 2009 Stock Incentive Plan (four-year vest)
10.28(Y)@	Form of Restricted Stock Unit Agreement for use under the 2013 Stock Incentive Plan (time vesting)
10.29(Y)@	Form of Restricted Stock Unit Agreement for use under the 2013 Stock Incentive Plan (performance vesting)
10.30(Y)@	Form of Stock Option Agreement for use under the 2013 Stock Incentive Plan
10.31(Y)	Form of Deferred Stock Unit Agreement for use under the 2013 Stock Incentive Plan
10.32(Z)@	Form of Performance-Based Vesting Restricted Stock Unit Agreement with Retirement Provision
10.33(D)	Form of Call Option Confirmation between Akamai and each Option Counterparty
10.34(D)	Form of Warrant Confirmation between Akamai and each Option Counterparty
10.35(AA)@	Akamai Technologies, Inc. U.S. Non-Qualified Deferred Compensation Plan
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer pursuant to Rule 13a- 14(a)/Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2	Certification of Chief Financial Officer pursuant to Rule 13a- 14(a)/Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

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- (A) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q (File No. 000-27275, 701319) filed with the Commission on August 14, 2000.
- (B) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-27275, 141172551) filed with the Commission on October 24, 2014.
- (C) Incorporated by reference to the Registrant's Registration Statement on Form S-1, as amended, filed with the Commission on October 13, 1999.
- (D) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-27275, 14629736) filed with the Commission on February 20, 2014.
- (E) Incorporated by reference to the Registrant's Annual Report on Form 10-K (File No. 000-27275, 4660513) filed with the Commission on March 3, 2014.
- (F) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q (File No. 000-27275, 04961682) filed with the Commission on August 9, 2004.
- (G) Incorporated by reference to the Registrant's Annual Report on Form 10-K (File No. 000-27275, 06691330) filed with the Commission on March 16, 2006.
- (H) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q (File No. 000-27275, 08823347) filed with the Commission on May 12, 2008.
- (I) Incorporated by reference to the Registrant's Annual Report on Form 10-K (File No. 000-27275, 02560808) filed with the Commission on February 27, 2002.
- (J) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-27275, 06870771) filed with the Commission on May 26, 2006.
- (K) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-27275, 11865051) filed with the Commission on May 23, 2011.
- (L) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-27275, 17861604) filed with the Commission on May 22, 2017.
- (M) Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on November 18, 2008.
- (N) Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on February 29, 2012.
- (O) Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on March 14, 2012.
- (P) Incorporated by reference to the Registrant's Annual Report on Form 10-K (File No. 000-27275, 08655930) filed with the Commission on February 29, 2008.
- (Q) Incorporated by reference to the Registrant's Current Report on Form 10-K (File No. 000-27275, 161988699) filed with the Commission on November 10, 2016.
- (R) Incorporated by reference to the Registrant's Registration Statement on Form S-1 filed with the Commission on September 27, 1999.
- (S) Incorporated by reference to the Registrant's Annual Report on Form 10-K (File No. 000-27275, 13657899) filed with the Commission on March 1, 2013.
- (T) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-27275, 151238671) filed with the Commission on November 17, 2015.
- (U) Incorporated by reference to the Registrant's Annual Report on Form 10-K (File No. 000-27275, 161466754) filed with the Commission on February 29, 2016.
- (V) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-27275, 12974652) filed with the Commission on July 23, 2012.
- (W) Incorporated by reference to the Registrant's Annual Report on form 10-K (File No. 000-27275, 17647667) filed with the Commission on February 28, 2017.

- (X) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-27275, 09851919) filed with the Commission on May 26, 2009.
- (Y) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q (File No. 000-27275, 131025074) filed with the Commission on August 9, 2013.
- (Z) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-27275, 15585212) filed with the Commission on February 6, 2015.
- (AA) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q (File No. 000-27275, 15850176) filed with the Commission on May 11, 2015.

@ Management contract or compensatory plan or arrangement filed as an exhibit to this Annual Report on Form 10-K pursuant to Item 15(b) of this Annual Report.

† Confidential Treatment has been granted as to certain portions of this Exhibit. Such portions have been omitted and filed separately with the Securities and Exchange Commission.

(c) Not applicable.

Item 16. Form 10-K Summary

None.

Our Management

EXECUTIVE OFFICERS

Tom Leighton

Co-Founder and Chief Executive Officer

Aaron Ahola

Senior Vice President and
General Counsel

Jim Benson

Executive Vice President and
Chief Financial Officer

Robert Blumofe

Executive Vice President,
Platform and General Manager,
Enterprise Division

James Gemmell

Executive Vice President and
Chief Human Resources Officer

Adam Karon

Executive Vice President & General
Manager, Media and Carrier Division

Rick McConnell

President and General Manager,
Web Division

William Wheaton

Chief Strategy Officer

BOARD OF DIRECTORS

George Conrades

Chairman

Pamela Craig

Director

Monte Ford

Director

Jill Greenthal

Director

Daniel Hesse

Director

Tom Leighton

Co-Founder and
Chief Executive Officer

Jonathan Miller

Director

Paul Sagan

Director

Frederic Salerno

Lead Independent Director

Naomi Seligman

Director

Bernardus Verwaayen

Director

Corporate Headquarters

Akamai Technologies, Inc.
150 Broadway
Cambridge, MA 02142
Tel: 617.444.3000
U.S. Toll-Free Tel: 877.425.2624

Transfer Agent

Computershare
College Station, TX
U.S. Toll-Free Tel: 877.282.1168

Independent Auditors

PricewaterhouseCoopers LLP
Boston, MA

Corporate Counsel

Wilmer Cutler Pickering Hale
and Dorr LLP
Boston, MA

Stock Listing

Akamai's common stock is traded
on the NASDAQ Stock Market under
the symbol "AKAM"

Investor Inquiries

Additional copies of this report and
other financial information are available
through investor relations at akamai.com