AKAMAI TECHNOLOGIES INC
Form 10-K
March 01, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
(Mark One)

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

For the fiscal year ended December 31, 2012
or

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

For the transition period from to
Commission File number 0-27275
Akamai Technologies, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	04-3432319
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
8 Cambridge Center, Cambridge, MA	02142
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (617) 444-3000
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $.01 par value	NASDAQ Global Select Market

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Exchange Act Rule 12b-2)

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately $5,473.8 million based on the last reported sale price of the Common Stock on the Nasdaq Global Select Market on June 29, 2012.

The number of shares outstanding of the registrant's Common Stock, par value $0.01 per share, as of February 22, 2013: 177,882,191 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 2013 Annual Meeting of Stockholders to be held on May 15, 2013 are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this annual report on Form 10-K.

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PART I

Forward-Looking Statements

This annual report on Form 10-K contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management based on information currently available to them. Use of words such as “believes,” "continues," “expects,” “anticipates,” “intends,” “plans,” “estimates,” “forecasts,” “should,” “may,” “could, similar expressions indicates a forward-looking statement. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions. Important factors that could cause actual results to differ materially from the forward-looking statements include, but are not limited to, those set forth under the heading “Risk Factors.” We disclaim any obligation to update any forward-looking statements as a result of new information, future events or otherwise.

Item 1. Business

Overview

Akamai provides content delivery and cloud infrastructure services for accelerating and improving the delivery of content and applications over the Internet. Our solutions range from delivery of conventional content on websites, to tools that support the delivery and operation of cloud-based applications, to live and on-demand streaming video capabilities - all designed to help our customers interact with people accessing the Internet from myriad devices and locations around the world. We believe that our solutions offer unmatched reliability, sophistication and security. At the same time, we help customers save money by enabling them to reduce expenses associated with internal infrastructure build-outs. In short, our core solutions are designed to help organizations efficiently offer websites that improve visitor experiences and increase the effectiveness of their Internet-focused operations.

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

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.

Making the Cloud Work for our Customers

The Internet plays a crucial role in the way companies, government agencies and other enterprises conduct business and reach the public. Enterprises want to offer a dynamic, consistent, secure experience for millions of end users and to take advantage of the potential cost savings of cloud computing - using third party server facilities to enable Internet operations. The Internet, however, is a complex system of networks that was not originally created to accommodate the volume or sophistication of today's communication demands or the dramatic expansion in the number and types of devices individuals use to access it. The ad hoc architecture presents potential problems for its widespread usage today, such as:

- traffic congestion at data centers and between networks;
- Internet traffic exceeding the capacity of routing equipment;
- absence of a coordinated security system to protect against hackers, bots and other malefactors that want to steal assets and disrupt the functioning of the Web; and
- “last mile” issues -- Internet bandwidth constraints between an end user and the Internet access provider.

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

- increasingly dynamic and personalized websites;
- growth in the transmission of rich content, including HD video, music and games;

- rapid expansion in the use of mobile devices leveraging different technologies and delivery systems; and
- the desire of millions of consumers worldwide to be able to enjoy the same high-quality experience across all of the devices they use.

The resulting individual experience can be a disappointing one.

Achieving an enterprise's goals in the face of these challenges is made more difficult by internal technology issues. Driven by competition, globalization and expense-containment strategies, companies need an agile Internet-facing infrastructure that cost-effectively meets real-time strategic and business objectives. The dramatic increase in Internet usage places extensive demands on infrastructure; however, expanding internal systems to meet routine demand can be cost-prohibitive. Keeping pace with new developments can also be a difficult challenge. Special marketing or promotional initiatives or unanticipated one-time events such as important unanticipated news, may draw millions of additional visitors to a company's website over a brief period of time. Putting in place incremental internal infrastructure to deal with such spikes is usually impractical and expensive. Network operators themselves are challenged to profitably manage consumer access to the Internet over their networks; recouping the costs of the infrastructure build outs they need to make is generally not supported by their traditional business models.

As our business has developed in recent years, Akamai has created solutions to assist enterprises and network operators in meeting their goals in spite of the challenges at the intersection of the Internet and the hyperconnected world. Our services have grown increasingly sophisticated, and we have moved into new areas to address the evolution of business on the Internet. In particular, our solutions are designed to help companies, government agencies and other enterprises increase revenues and reduce costs by improving the performance, reliability and security of their Internet-facing operations. For network operators, we have developed solutions designed to enable them to leverage Akamai's technology - and its potential benefits - within their own networks to sell content delivery solutions to enterprises and federate with Akamai's network.

With all of our solutions, we seek to make using the cloud a viable approach for customers by addressing the following market needs in a way that is affordable:

Superior Performance. Commercial enterprises invest in websites to attract customers, transact business and provide information about themselves. Our solutions are designed to help customers improve the performance of their websites without the need for them to make the significant investment required to develop their own Internet-related infrastructure. Instead, we have more than 125,000 servers deployed in more than 1,100 networks around the world so that content and applications can be delivered from Akamai servers located closer to website visitors - from what we call the “edge” of the Internet. We are thus able to reduce the impact of traffic congestion, bandwidth constraints and capacity limitations for our customers.

Scalability. With the proliferation of HD video and other types of rich content and the emergence of the Internet as a crucial sales channel, enterprises of all types must be able to handle rapidly increasing numbers of requests for bandwidth-intensive digital media assets. Websites must also be able to process millions of transactions, particularly during busy seasons. In all of these instances, it can be difficult and expensive to manage such peaks. With our vast distributed network and proprietary software technology, we believe we are uniquely able to handle today's traffic volumes as well as planned and unplanned traffic peaks. In short, our platform is architected with the robustness and flexibility to enable us to provide an on-demand solution to address our customers' capacity needs, helping them avoid expensive investment in a centralized infrastructure.

Security. Internet-based security threats, such as viruses, worms, hactivists, information theft and other intrusions, can impact every measure of performance, including information security, speed, reliability and customer confidence. Security is a key component of our technology platform; we deploy flexible, intelligent cloud-based defense capabilities to help organizations guard the perimeter of their networks and bolster security without sacrificing performance. As discussed below, we also offer specific security-focused solutions to address the discrete concerns of our different customers.

Functionality. Websites have become increasingly dynamic, complex and sophisticated. To meet these challenges, we have added solutions through both internal investment and acquisitions. These solutions include services designed to help our customers accelerate dynamic content and applications, more effectively manage their online media assets, optimize how pages load on individual browsers and adapt content for access through mobile devices.

Our Core Solutions

We offer five solutions designed to meet the online business needs of our customers: Terra, Aqua, Sola, Kona and Aura. Through these solutions, we provide application and cloud performance services, solutions for digital media and software distribution and storage, website optimization services, security tools, network operator solutions and other specialized Internet-based offerings.

Terra

Akamai's Terra solutions are designed to improve the operation of highly-dynamic applications used by enterprises to connect with their employees, suppliers and customers. Traditionally, this market has been addressed by hardware and embedded software products. We believe our managed-service approach offers a more cost-effective and comprehensive solution in this area and enables customers to avoid making significant infrastructure investments. Terra includes the following:

Alta

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Terra Alta is an application management service and web accelerator that extends managed application delivery optimizations from the edge of the data center to the edge of the Internet. It is intended to spur application adoption for business applications. Terra Alta is built for the cloud; it is designed to instantly configure and provide improvements in application acceleration and application performance management in both private and public cloud computing environments. This service is appropriate for companies involved in technology, business services, travel and leisure, manufacturing and other industries where there is a focus on Internet-based communication with remote customers, suppliers and franchisees.

Aqua

Akamai's Aqua solutions are designed to accelerate business-to-consumer websites that integrate rich, collaborative content and applications into their online architecture. Leveraging our worldwide network of servers and sophisticated mapping and routing technologies, we provide whole-site and object delivery for our customers' websites. As a result, our customers have access to a more efficient way to implement and maintain a global Internet presence. These services are appropriate for enterprises of all types as well as government agencies. Specific solutions include:

Aqua Ion

Our Aqua Ion solution consists of an integrated suite of delivery, acceleration, and optimization technologies that make real-time web experience optimization decisions based on the requirements of the given situation. In particular, we use front-end optimization techniques based on sophisticated analysis of the end user's web application as well as real-time conditions specific to the end-user's environment such as browser, device, network speed and usage of third-party service. Applying this analysis and our proprietary technology enables our customers to reduce HTTP requests, which allows Web pages to load more quickly.

Aqua Ion Mobile

Aqua Ion Mobile extends the acceleration and optimization technologies described above to help provide end users with optimal mobile web or connected native application experiences. In particular, we utilize adaptive image compression and device characterization to improve the speed at which Web pages load.

Dynamic Site Accelerator

Dynamic Site Accelerator provides global delivery, load balancing and storage of content and applications, enabling businesses to focus valuable resources on strategic matters, rather than on technical infrastructure issues. Our Dynamic Site Accelerator solution includes advanced site delivery service features such as secure content distribution, site failover, content targeting, cache optimization and capacity on-demand.

Sola

Akamai's Sola solutions are designed to enable enterprises to execute digital media and software distribution strategies by improving the end-user experience, boosting reliability and scalability and reducing the cost of Internet-related infrastructure. Customers of these services typically consist of media and software companies. Within Sola, customers can choose from the following:

Sola Media Experience

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

The Sola Media Experience is made up of three key elements designed to provide superior quality viewing experiences: Sola Sphere, Sola Vision and Sola Media Analytics. Each element may be used individually to address specific online media needs or together as a complete, simplified one-stop platform for online content distribution.

The Sola Sphere HTTP delivery network supports progressive media downloading and adaptive bitrate streaming to a variety of player platforms, including Flash®, iOS/Quicktime®, Silverlight®, and HTML5. Sola Sphere's global reach, reliability, and rapid scalability are designed to address the toughest media delivery challenges. In addition, our NetStorage solution provides globally-distributed, cloud-based storage that may be used for content origin, workflow staging, and advanced feature enablement, such as DVR-enabled live streaming.

Our Sola Vision cloud-based media streaming and distribution solutions serve content across video devices, while delivering turn-key solutions in a secure, efficient, and open media work flow. These solutions include transcoding and stream packaging

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services; an Akamai media player that incorporates advanced heuristics and network server mapping designed to support high-quality video delivery; content protection and conditional access technologies; identity services; and digital locker services.

Our Sola Media Analytics solution is designed to provide our customers with quality of service and other measurement capabilities for post event analysis, real-time quality awareness, and the ability to troubleshoot issues to the individual viewer level.

Sola Software Distribution

Due to the expanding prevalence of broadband access, distribution of computer software has moved primarily to the Internet where traffic conditions and high loads can dramatically diminish software download speed and reliability. Furthermore, surges in traffic from product launches or periodic distributions of anti-virus security updates can overwhelm traditional centralized software delivery infrastructure, adversely affecting website performance and causing users to be unable to download software. Our Sola Software Distribution solution handles the distribution of software for our customers. Our network is designed to withstand large surges in traffic related to software launches and other distributions with a goal of improved customer experiences, increased use of electronic delivery and successful online product launches. We also offer a number of tools to enhance the effectiveness of this distribution model including electronic download receipts, storage, a download manager that provides end users with control over the handling of files received and reporting. This solution is appropriate for software companies of all types including consumer, enterprise, anti-virus and gaming software companies.

Kona

Designed to provide superior cloud computing security, prevent data theft and downtime and mitigate distributed denial of service, or DDoS, attacks by extending the security perimeter outside the data center, Kona Security Solutions are intended to be part of an overall web security strategy. We offer a variety of services that address the Internet security needs of our customers including the following:

•Site Defender - 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.

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

Aura

With the growth in consumer adoption of Internet video and other media, networks around the world have experienced significant traffic increases, resulting in congestion across an operator's network from aggregation, to backbone, to interconnection. Aura Network Solutions is a line of managed and licensed content delivery network, or CDN, offerings designed specifically for network operators to build their own CDN capabilities. Our Aura Network Solutions include:

•Managed CDN - provides a network operator with dedicated CDN capacity that is available for its own content applications or third party CDN services. Akamai servers are deployed inside the operator network and are managed by Akamai on behalf of the network operator. The operator can utilize our customer portal to self-provision and control its content and generate usage reports and advanced analytics. Because this CDN capacity is dedicated to the network operator's usage, the operator can make the decisions on where the servers are placed, how much capacity is needed, and for what services they will be used.

•Licensed CDN - provides a network operator with software it can deploy into its network to improve content delivery capabilities. These solutions include technology we acquired through our purchase of Verivue, Inc. In particular, we license software that offers a unified caching technology to support a variety of workloads, ranging from HTML to High Definition video streaming.

We also offer network operators the opportunity to participate in the following program:

•Aura Accelerated Network Partner Program - under this program, a network operator installs Akamai caching servers inside its network data centers. The servers and CDN capacity are fully managed by Akamai and are part of the Akamai Intelligent Platform. The servers are monitored and managed from the Akamai's Network Operations Command Center, or NOCC. The program is designed to enable network operators to offer subscribers a better end user experience for popular content and services.

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Our Technology and Network

Our expansive network infrastructure and sophisticated technology are the foundation of our services. We believe Akamai has deployed the world's largest globally-distributed computing platform, with more than 125,000 servers located in over 1,100 networks around the world. Applying our proprietary technology, we deliver our customers' content and computing applications across a system of widely distributed networks of servers in the cloud; the content and applications are then processed at the most efficient places within the network. Servers are deployed in networks ranging from large, backbone network providers to medium and small ISPs, to cable modem and satellite providers to universities and other networks. By deploying servers within a wide variety of networks, we are better able to manage and control routing and delivery quality to geographically diverse users. We also have more than 1,000 peering relationships that provide us with direct paths to end user networks, which reduce data loss, while also potentially giving us more options for delivery at reduced cost.

To make this wide-reaching deployment effective, we use specialized technologies, such as advanced routing, load balancing, data collection and monitoring. Our intelligent routing software is designed to ensure that website visitors experience fast page loading, access to applications and content assembly wherever they are on the Internet, regardless of global or local traffic conditions. Dedicated professionals staff our NOCC on a 24 hour a day, seven day a week basis to monitor and react to Internet traffic patterns and trends. We frequently deploy enhancements to our software globally to strengthen and improve the effectiveness of our network. Customers are also able to control the extent of their use of Akamai services to scale on demand, using as much or as little capacity of the global platform as they require, to support widely varying traffic and rapid growth without the need for expensive and complex internal infrastructure.

Business Segments and Geographic Information

We operate in one industry segment: providing services for accelerating and improving the delivery of content and applications over the Internet. For the years ended December 31, 2012, 2011 and 2010, 28%, 29% and 28%, respectively, of our total revenues was derived from our operations outside the United States. Revenues from Europe represented 17%, 18% and 17% of total revenues, respectively. No single country outside of the United States accounted for 10% or more of our revenues in any such year. For more segment and geographic information, including total long-lived assets for each of the last two fiscal years, see our consolidated financial statements included elsewhere in this annual report on Form 10-K, including Note 18 thereto.

Our long-lived assets include servers, which are deployed into networks worldwide. As of December 31, 2012, we had approximately $225.5 million and $119.6 million of property and equipment, net of accumulated depreciation, located in the United States and foreign locations, respectively. As of December 31, 2011, we had approximately $194.0 million and $99.0 million of property and equipment, net of accumulated depreciation, located in the United States and foreign locations, respectively.

Customers

Our customer base primarily consists of enterprises. As of December 31, 2012, our customers included many of the world's leading corporations, including Adobe, Apple, Audi, Dolce & Gabbana, EMC, Hitachi, Home Depot, L'Oreal, Microsoft, MTV Networks, the National Football League, Philips, Qantas, SAP and Standard Chartered Bank. We also actively sell to government agencies. As of December 31, 2012, our public sector customers included the Federal Aviation Administration, the Federal Emergency Management Agency, the U.S. Air Force, the U.S. Census Bureau, the U.S. Department of Defense, the U.S. Postal Service and the U.S. Department of Labor. No customer accounted for 10% or more of total revenues for any of the years ended December 31, 2012, 2011or 2010. Less than 10% of our total revenues in each of the years ended December 31, 2012, 2011 and 2010 were derived from contracts or subcontracts terminable at the election of the federal government, and we do not expect such contracts to account for more than 10% of our total revenues in 2013.

Sales, Service and Marketing

Our sales and service professionals are located in 41 offices in the United States, Europe, the Middle East and Asia. We market and sell our services and solutions globally through our direct sales and services organization and through more than 100 active channel partners including AT&T, IBM Corporation, Verizon 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, sales agents and referral partners. By aligning with these companies, we believe we are better able to market our services and encourage increased adoption of our technology throughout the industry.

Our sales and service organization includes employees in direct and channel sales, professional services, account management and technical consulting. As of December 31, 2012, we had approximately 1,462 employees in our sales and support organization, including 215 direct sales representatives whose performance is measured on the achievement of quota objectives. Additionally, we have 663 technical and professional service employees who support our go-to-market initiatives.

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,

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strategic alliances, on-going customer communication programs, training and sales support. As of December 31, 2012, we had 140 employees in our global marketing organization, which is a component of our sales and support organization.

Research and Development

Our research and development personnel are continuously undertaking efforts to enhance and improve our existing services, strengthen our network and create new services in response to our customers' needs and market demand. As of December 31, 2012, we had 815 research and development employees. Our research and development expenses were $74.7 million, $52.3 million and $54.8 million for the years ended December 31, 2012, 2011 and 2010, respectively. In addition, for the years ended December 31, 2012, 2011 and 2010, we capitalized $50.6 million, $40.4 million and $31.1 million, respectively, of external consulting and payroll and payroll-related costs related to the development of internal-use software used by us to deliver our services and operate our network. Additionally, during the years ended December 31, 2012, 2011 and 2010, we capitalized $8.9 million, $7.1 million and $7.6 million, respectively, of stock-based compensation attributable to our research and development personnel.

Competition

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

- 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 to Internet performance problems, such as load balancers and server switches. Other companies offer online distribution of digital media assets through advertising-based billing or revenue-sharing models that may represent an alternative method for charging for the delivery of content and applications over the Internet. In addition, potential customers may decide to purchase or develop their own hardware, software or other technology solutions rather than rely on a provider of externally-managed services like Akamai.

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

Proprietary Rights and Licensing

Our success and ability to compete are dependent on our ability to develop and maintain the proprietary aspects of our technology and operate without infringing on the proprietary rights of others. We rely on a combination of patent, trademark, trade secret and copyright laws and contractual restrictions to protect the proprietary aspects of our technology. We currently have numerous issued United States and foreign-country patents covering our content and application delivery technology, and we have numerous additional patent applications pending. Our issued patents extend to various dates between approximately 2015 and 2025. In October 1998, we entered into a license agreement with the Massachusetts Institute of Technology, or MIT, under which we were granted a royalty-free, worldwide right to use and sublicense the intellectual property rights of MIT under various patent applications and copyrights relating to Internet content delivery technology. We seek to limit disclosure of our intellectual property by requiring employees and consultants with access to our proprietary information to execute confidentiality agreements with us and by restricting access to our source code.

Employees

As of December 31, 2012, we had 3,074 full-time and part-time employees. Our future success will depend in part on our ability to attract, retain and motivate highly qualified technical and management personnel for whom competition is intense. Our employees are not represented by any collective bargaining unit. We believe our relations with our employees are good.

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Item 1A. Risk Factors

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

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

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

- Current and potential competitors may have greater name recognition, broader customer relationships and substantially greater financial, technical and marketing resources than we do.
- Some competitors may attract customers by offering less-sophisticated versions of services than we provide at lower prices than those we charge.
- Nimbler companies may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements, resulting in superior offerings.
- Some current or potential competitors may bundle their offerings with other services, software or hardware in a manner that may discourage enterprises from purchasing any service we offer.
- Both existing and potential customers may decide to purchase or develop their own hardware, software and other technology solutions rather than rely on an external provider like Akamai. As a result, our competitors include hardware manufacturers, software companies and other entities that offer Internet-related solutions that are not service-based.

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

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

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

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

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

- continuing market pressure to decrease our prices, particularly in our media business;

- the impact of lower pricing and other terms in renewal agreements we enter into with existing customers;
- failure to experience traffic growth and increase sales of our core services and advanced features to offset price declines;
- significant increases in co-location and bandwidth costs, head count or other operating expenses;
- increased competition;

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- inability to increase sales to new and existing customers faster than the rate of loss of existing customers and revenues; and
- failure of a significant number of customers to pay our fees on a timely basis or at all or failure to continue to purchase our services in accordance with their contractual commitments.

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

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

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

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

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

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

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

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

intended, or may take longer to be effective, which could have a negative impact on our results of operations and growth projections.
As a result of the diversification of our business, personnel growth, acquisitions and international expansion in recent years, many of our employees are now based outside of our Cambridge, Massachusetts headquarters. However, most management decisions are made by a relatively small group of individuals based primarily at our headquarters. If we are unable to appropriately increase management depth, enhance succession planning and decentralize our decision-making at a pace commensurate with our actual or desired growth rates, we may not be able to achieve our financial or operational goals.
We have greatly increased our employee base in recent years. We expect that by the end of 2013 more than 50% of our employee population will have been at Akamai for fewer than two years. It is important to our continued success that we hire

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qualified employees, properly train them and manage out poorly-performing personnel, all while maintaining our corporate culture and spirit of innovation. If we are not successful at these efforts, our growth and operations could be adversely affected.

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

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

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

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

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

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

We are in the information technology business, and our services and network transmit and store our customers' information and data as well as our own. We have a reputation for a secure and reliable platform and services and have invested a great deal of time and resources in protecting the integrity and security of our services and internal and external data that we manage. Nevertheless, there have been, and in the future are likely to be, attempts to gain unauthorized access to our information technology systems in order to steal information about our technology, financial data or other information or take other actions that would be damaging to our customers and us. Such attacks may be pursued through viruses, worms and other malicious software programs that attack our platform, exploit potential security vulnerabilities of our services, create system disruptions and cause shutdowns or denials of service. Data may also be accessed or modified improperly as a result of employee or supplier error or malfeasance, and third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our data, our customers' data or our IT systems.

As we expand our emphasis on selling security-related solutions, we may become a more attractive target for attacks on our infrastructure. Security risks for us will also increase as we continue to grow our cloud-based offerings and services, especially in customer sectors involving particularly sensitive data such as health sciences, financial services and the government. We have acquired a number of companies over the years and may continue to do so in the future. While we make significant efforts to address any IT security issues with respect to our acquisitions, we may still inherit such risks when we integrate these acquisitions within Akamai.

There can be no assurance that attacks by unauthorized users will not be attempted in the future, that our security measures will be effective, that we will quickly detect an attack, or that a successful attack would not be damaging. Any widespread interruption of the functioning of our network or services would reduce our revenues and could harm our business, financial results and reputation. Any insurance coverage we carry may not be sufficient to cover all or a significant portion of the losses we could suffer from an attack. Any breach of the security of our information systems could lead to the unauthorized release of valuable confidential information, including trade secrets, material nonpublic information about our customers, personally identifiable information about individuals, financial information and sensitive data that others could use to compete against us. Such events

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could likely harm our business and reputation. If the security solutions we offer to address the Internet security needs of our customers fail to operate effectively or to provide benefits promised by us, we could suffer from reduced revenues and harm to our business and reputation.

We may have insufficient transmission and co-location space, which could result in interruptions in our services and loss of revenues.

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

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

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

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

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

- the difficulty of integrating the operations and personnel of acquired companies;
- the potential disruption of our ongoing business;
- the potential distraction of management;
- expenses related to the transactions;
- that accounting charges such as impairment of goodwill or intangible assets, amortization of intangible assets acquired and a reduction in the useful lives of intangible assets acquired could decrease our net income and earnings per share; and
- potential unknown liabilities associated with acquired businesses

Any inability to integrate completed acquisitions or combinations in an efficient and timely manner could have an adverse impact on our results of operations. In addition, we may not be able to recognize any expected synergies or benefits in connection with a future acquisition or combination. If we are not successful in completing acquisitions or other strategic transactions that we may pursue in the future, we may incur substantial expenses and devote significant management time and resources without a successful result. Future acquisitions could require use of substantial portions of our available cash or result in dilutive issuances of securities. Technology sharing or other strategic relationships we enter into may give rise to disputes over intellectual property ownership, operational responsibilities and other significant matters. Such disputes may be expensive and time-consuming to resolve.

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

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

- quarterly variations in operating results;
- introduction of new products, services and strategic developments by us or our competitors;
- market speculation about whether we are a takeover target;
- changes in financial estimates and recommendations by securities analysts;
- failure to meet the expectations of public market analysts;
- macro-economic factors;
- repurchases of shares of our common stock;
- performance by other companies in our industry; and
- geopolitical conditions such as acts of terrorism or military conflicts.

Furthermore, our revenues, particularly those attributable to usage of our services beyond customer commitments, can be difficult to forecast, and, as a result, our quarterly operating results can fluctuate substantially. This concern is particularly acute with respect to our media customers and commerce customers for which holiday sales are a key but unpredictable driver of usage of our services. As we introduce new services and potentially increase software licensing, we expect to face additional challenges with our forecasting processes. Also, because a significant portion of our cost structure is largely fixed in the short-term, revenue shortfalls tend to have a disproportionately negative impact on our profitability. If we announce revenue or profitability results that do not meet or exceed our guidance, our stock price may decrease significantly in reaction.

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

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

Our future success depends upon the continued services of our executive officers and other key technology, sales, marketing and support personnel who have critical industry experience and relationships. There is significant competition for talented individuals in the regions in which our primary offices are located, which affects both our ability to retain key employees and hire new ones. None of our officers or key employees is bound by an employment agreement for any specific term. Members of our senior management team have left Akamai over the years for a variety of reasons, and we cannot be certain that there will not be additional departures, which may be disruptive to our operations. We compensate our officers and employees in part through equity incentives, including stock options. Some of these stock options held by our officers and employees have exercise prices in excess of the current market price of our common stock, which has diminished the retentive value of such options. The loss of the services of any of our key employees could hinder or delay the implementation of our business model and the development and introduction of, and negatively impact our ability to sell, our services.

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

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

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

- cease selling, incorporating or using products or services that incorporate the challenged intellectual property;
- pay substantial damages and incur significant litigation expenses;

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- obtain a license from the holder of the infringed intellectual property right, which license may not be available on reasonable terms or at all; or
- redesign products or services.

If we are forced to take any of these actions, our business may be seriously harmed. In the event of a successful claim of infringement against us and our failure or inability to obtain a license to the infringed technology, our business and operating results could be materially adversely affected.

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

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

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

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

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

Certain of our service offerings use software that is subject to open-source licenses. Open-source code is software that is freely accessible, usable and modifiable. Certain open-source code is governed by license agreements, the terms of which could require users of such software to make any derivative works of such software available to others on unfavorable terms or at no cost. Because we use open-source code, we may be required to take remedial action in order to protect our proprietary software. Such action could include replacing certain source code used in our software, discontinuing certain of our products or taking other actions that could divert resources away from our development efforts. In addition, the terms relating to disclosure of derivative works in many open-source licenses are unclear. We periodically review our compliance with the open-source licenses we use and do not believe we will be required to make our proprietary software freely available. However, if a court interprets one or more such open-source licenses in a manner that is unfavorable to us, we could be required to make certain of our key software available at no cost.

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

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

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

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

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

Our future income taxes could be adversely affected by earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, or changes in tax laws, regulations, or accounting principles, as well as certain discrete items such as equity-related compensation. We have recorded certain tax reserves to address potential exposures involving our income, sales and use and franchise tax positions. These potential tax liabilities result from the varying application of statutes, rules, regulations and interpretations by different jurisdictions. Our reserves, however, may not be adequate to cover our total actual liability. Although we believe our estimates and reserves are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

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

We have complied with Section 404 of the Sarbanes-Oxley Act of 2002 by assessing, strengthening and testing our system of internal controls. Even though we concluded our internal controls over financial reporting were effective as of December 31, 2012, we need to continue to maintain our processes and systems and adapt them to changes as our business evolves and we rearrange management responsibilities and reorganize our business accordingly. This continuous process of maintaining and adapting our internal controls and complying with Section 404 is expensive and time-consuming and requires significant management attention. We cannot be certain that our internal control measures will continue to provide adequate control over our financial processes and reporting and ensure compliance with Section 404. Furthermore, as our business changes and if we expand through acquisitions of other companies, our internal controls may become more complex and we will require significantly more resources to ensure our internal controls remain effective. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we or our independent registered public accounting firm identify material weaknesses, the disclosure of that fact, even if quickly remediated, could reduce the market's confidence in our financial statements and harm our stock price.

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

Our business has been and could continue to be affected by general global economic and market conditions. Weakness in the United States and/or worldwide economy has had and could continue to have a negative effect on our operating results, including decreases in revenues and operating cash flows. If the U.S. government fails to reach a budget compromise in 2013, automatic spending cuts and tax increases could impact the economy and the businesses of our customers. In addition, the current sovereign debt crisis concerning certain European countries, including Greece, Italy, Ireland, Portugal and Spain and related European financial restructuring efforts, may cause the value of European currencies, including the Euro, to deteriorate, thus reducing the purchasing power of European customers, which could limit the amount of services they purchase from us. To the extent economic conditions impair our customers' ability to profitably monetize the content we deliver on their behalf, they may reduce or eliminate the traffic we deliver for them. Such reductions in traffic would lead to a reduction in our revenues. Additionally, in a down-cycle economic environment, we may experience the negative effects of increased competitive pricing pressure, customer loss, a slow down in commerce over the Internet and corresponding decrease in traffic delivered over our network and failures by customers to pay amounts owed to us on a timely basis or at all. Suppliers on which we rely for servers, bandwidth, co-location and other services could also be negatively impacted by economic conditions that, in turn, could have a negative impact on our operations or expenses. There can be no assurance, therefore, that current economic conditions or worsening economic conditions or a prolonged or recurring recession will not have a significant adverse impact on our operating results.

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

A portion of our revenues is derived from international operations. Revenues generated and expenses incurred by our international subsidiaries are often denominated in the currencies of the local countries. As a result, our consolidated U.S. dollar

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financial statements are subject to fluctuations due to changes in exchange rates as the financial results of our international subsidiaries are translated from local currencies into U.S. dollars. In addition, our financial results are subject to changes in exchange rates that impact the settlement of transactions in non-functional currencies. While we have implemented a foreign currency hedging program, there is no guarantee that such program will be fully effective.

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

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

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

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

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

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

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

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

Laws and regulations that apply to communications and commerce over the Internet are becoming more prevalent. In particular, the growth and development of the market for online commerce has prompted calls for more stringent copyright protection, tax, consumer protection, content, anti-discrimination and privacy laws, both in the United States and abroad, that may impose additional burdens on companies conducting business online or providing Internet-related services such as ours. Other potential regulatory

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proposals could seek to mandate changes to the economic relationships among participants in the Internet ecosystem. The adoption of any of these measures could negatively affect both our business directly as well as the businesses of our customers, which could reduce their demand for our services. In addition, domestic and foreign government attempts to regulate the operation of the Internet through legislation, treaties or regulations could negatively impact our business.

Global climate change regulations could adversely impact our business.

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

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

We derive revenues from contracts with the U.S. government, as well as foreign, state and local governments and their respective agencies. Such government entities often have the right to terminate these contracts at any time, without cause. There is increased pressure for governments and their agencies, both domestically and internationally, to reduce spending. Most of our government contracts are subject to legislative approval of appropriations to fund the expenditures under these contracts. If the U.S. government fails to reach a budget compromise in 2013, automatic spending cuts could reduce the budgets of agencies that buy our services. These factors may join to limit the revenues we derive from government contracts in the future. Additionally, government contracts are generally subject to audits and investigations which could result in various civil and criminal penalties and administrative sanctions, including termination of contracts, refund of a portion of fees received, forfeiture of profits, suspension of payments, fines and suspensions or debarment from future government business.

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

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

- A classified board structure so that only approximately one-third of our board of directors is up for re-election in any one year;
- Our board of directors has the right to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- Stockholders must provide advance notice to nominate individuals for election to the board of directors or to propose matters that can be acted upon at a stockholders' meeting; such provisions may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company; and
- Our board of directors may issue, without stockholder approval, shares of undesignated preferred stock; the ability to issue undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

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

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

We lease approximately 270,000 square feet of property for our headquarters in Cambridge, Massachusetts; the leases for such space are scheduled to expire in December 2019. Of this space, we have subleased approximately 34,000 square feet to other companies. Our primary west coast office is located in approximately 84,000 square feet of leased office space in San Mateo, California; the lease for such space is scheduled to expire in October 2018. We maintain offices in several other locations in the United States, including in or near each of Los Angeles and San Diego, California; Atlanta, Georgia; Chicago, Illinois; New York, New York; Dallas, Texas; Reston,Virginia and Seattle, Washington. We also maintain offices in or near the following cities: Bangalore and Mumbai, India; Beijing and Hong Kong, China; Munich, Germany; Paris, France; London, England; Tokyo and Osaka, Japan; Singapore; Madrid, Spain; Sydney, Australia; Netanya, Israel; Ottawa, Canada; San Jose, Costa Rica; Milan, Italy; Stockholm, Sweden; Seoul, South Korea; Zurich, Switzerland; Taipei, Taiwan; Amsterdam, the Netherlands; Prague, Czech Republic; and Krakow, Poland. All of our facilities are leased. The square footage amounts above are as of March 1, 2013. 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 adverse effect on our business, results of operations or financial condition.

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 sale price per share of the common stock on The NASDAQ Global Select Market:

	High	Low
Fiscal 2012:		
First Quarter	$39.14	$31.01
Second Quarter	$39.09	$25.90
Third Quarter	$39.67	$27.86
Fourth Quarter	$41.88	$34.09
Fiscal 2011:		
First Quarter	$52.72	$34.60
Second Quarter	$41.25	$28.69
Third Quarter	$31.92	$19.50
Fourth Quarter	$32.56	$18.25

As of February 26, 2013, there were 488 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 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 2012 (in thousands except average price paid per share data):

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Period(1)	(a) Total Number of Shares Purchased(2)	(b) Average Price Paid per Share(3)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(4)	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under Plans or Programs(5)
October 1, 2012 – October 31, 2012	184,700	$ 38.14	184,700	$61,305,634
November 1, 2012 – November 30, 2012	350,685	$ 36.64	350,685	$48,455,758
December 1, 2012 – December 31, 2012	259,231	$ 38.28	259,231	$38,531,241
Total	794,616		794,616	

(1) Information is based on settlement dates of repurchase transactions.
(2) Consists of shares of our common stock, par value $.01 per share.
(3) Includes commissions paid.
(4) In April 2012, the Board of Directors authorized a $150.0 million stock repurchase program covering a twelve-month period commencing May 1, 2012. See Note 14 to our consolidated financial statements included elsewhere in this annual report on Form 10-K.
(5) Dollar amounts represented reflect $150.0 million minus the total aggregate amount purchased in such month and all prior months during which the repurchase program and its extension were in effect and aggregate commissions paid in connections therewith.

During the year ended December 31, 2012, we repurchased approximately 4.4 million shares of our common stock for an aggregate $141.5 million.

Item 6. Selected Consolidated 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 statement of operations 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 annual reports on Form 10-K for prior years on file with the Commission.

The following table summarizes the acquisitions of aCerno Inc., or aCerno, Velocitude LLC, or Velocitude, Blaze Software, Inc., or Blaze, Cotendo, Inc., or Cotendo, FastSoft, Inc., or FastSoft, and Verivue Inc., or Verivue (in millions):

	Acquisition Date	Purchase Price	Goodwill and Other Intangible Assets	Amortization Included in Net Income for the Year Ended December 31, [3]				
				2012	2011	2010	2009	2008
aCerno	November 2008	90.8 [2]	100.3	3.9	4.1	3.4	3.1	0.5
Velocitude	June 2010	12.0 [2]	14.4	1.2	0.7	0.3	—	—
Blaze	February 2012	19.3 [2]	20.2	0.7	—	—	—	—
Cotendo	March 2012	278.9 [2]	277.6	3.7	—	—	—	—
FastSoft	September 2012	14.4 [2]	12.5	—	—	—	—	—
Verivue	December 2012	30.9 [2]	28.2	—	—	—	—	—

1. Amounts represent purchase price comprised primarily of our common stock.

2. Amounts represent purchase price cash payment.
3. Amortization is recognized in proportion to the expected future net cash flows from the intangible assets.

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In April 2011, our Board of Directors authorized a one-year $150.0 million stock repurchase program that began in May 2011. On August 8, 2011, our Board of Directors authorized an additional $250.0 million of stock repurchases under the previously-approved program so that the total authorized funding for stock repurchases over the twelve-month period ended April 2012 was $400.0 million. In April 2012, the Board of Directors authorized a new $150.0 million stock repurchase program covering a twelve month period commencing on May 1, 2012. Unused amounts from the 2011 authorization were not carried over to the new program. The timing and amount of any future share repurchases will be determined by our management based on its evaluation of market conditions and other factors. Repurchases may also be made under a Rule 10b5-1 plan, which would permit us to repurchase shares when we might otherwise be precluded from doing so under insider trading laws. We may choose to suspend or discontinue the repurchase program at any time. Any purchases made under the program will be reflected as an increase in cash used for financing activities.

For the year ended December 31, 2012, we repurchased 4.4 million shares of our common stock for $141.5 million. For the year ended December 31, 2011, we repurchased 12.3 million shares of our common stock for $324.7 million. As of December 31, 2012, we had $38.5 million remaining available for future purchases of shares under the current repurchase program.

	For the Years Ended December 31,				
	2012	2011	2010	2009	2008
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenues	$1,373,947	$1,158,538	$1,023,586	$859,773	$790,924
Total costs and operating expenses	1,059,460	867,889	769,309	636,293	578,660
Operating income	314,487	290,649	254,277	223,480	212,264
Net income	203,989	200,904	171,220	145,913	145,138
Net income per weighted average share:					
Basic	$1.15	$1.09	$0.97	$0.85	$0.87
Diluted	$1.12	$1.07	$0.90	$0.78	$0.79
Weighted average shares used in per share calculation:					
Basic	177,900	183,866	177,309	171,425	167,673
Diluted	181,749	187,556	190,650	188,658	186,685

	As of December 31,				
	2012	2011	2010	2009	2008
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and unrestricted marketable securities	1,094,940	1,229,913	$1,243,085	$1,060,846	$768,014
Restricted cash and marketable securities	300	42	317	638	3,613
Working capital	525,440	973,628	713,316	433,880	401,453
Total assets	2,600,627	2,345,501	2,352,676	2,087,510	1,880,951
Other long-term liabilities	51,929	40,859	29,920	21,495	11,870
	—	—	—	199,755	199,855

1% convertible senior notes, including current portion					
Total stockholders’ equity	$2,345,754	$2,156,250	$2,177,605	$1,738,722	$1,568,770

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

Overview

We provide content delivery and cloud infrastructure services for accelerating and improving the delivery of content and applications over the Internet. We primarily derive revenues from the sale of services to customers executing contracts with terms of one year or longer, which we refer to as recurring revenue contracts or long-term contracts. These contracts generally commit the customer to a minimum monthly level of usage with additional charges applicable for actual usage above the monthly minimum. Alternatively, many of our customer contracts have minimum usage commitments that are based on quarterly, annual or longer periods. Having a consistent and predictable base level of income is important to our financial success. Accordingly, to be successful, we must maintain our base of recurring revenue contracts by eliminating or reducing lost recurring revenue due to price reductions and customer cancellations or terminations and build on that base by adding new customers and increasing the number of services and features that our existing customers purchase. At the same time, we must manage the rate of growth in our expenses as we invest in strategic initiatives that we anticipate will generate future revenue growth. Accomplishing these goals requires that we compete effectively in the marketplace on the basis of quality, price and the attractiveness of our services and technology.

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.

Recent Event

Effective January 1, 2013, F. Thomson Leighton became our new Chief Executive Officer. Dr. Leighton co-founded Akamai and has served as our Chief Scientist and as a director since August 1998.

On January 24, 2013, we announced the acquisition by MediaMath, Inc. of substantially all of the assets used by us in our Advertising Decision Solutions business. Simultaneously with the sale, we entered into a multi-year relationship agreement whereby MediaMath will have exclusive rights to leverage our pixel-free technology for use within digital advertising and marketing applications.

On February 6, 2013, we announced that our Board of Directors authorized a $150 million extension of its share repurchase program, effective for a 12-month period beginning February 1, 2013. As of this date, all prior repurchase authorizations have expired.

Overview of Financial Results

We increased our net income in 2012 to dollar levels that exceeded both 2011 and 2010. The improvement primarily resulted from our efforts to increase our recurring revenues while effectively managing the expenses needed to support that growth. The following sets forth, as a percentage of revenues, consolidated statements of operations data for the years indicated:

	2012		2011		2010	
Revenues	100	%	100	%	100	%
Cost of revenues	31		32		30	
Research and development	5		5		5	
Sales and marketing	22		20		22	
General and administrative	17		17		16	
Amortization of other intangible assets	2		1		2	
Restructuring charge	—		—		—	
Total costs and operating expenses	77		75		75	
Income from operations	23		25		25	
Income expense	—		—		—	
Interest income	1		1		1	

Other income (expense), net	—		—		—	
Loss on early extinguishment of debt	—		—		—	
Income before provision for income taxes	24		26		26	
Provision for income taxes	9		9		9	
Net income	15	%	17	%	17	%

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We were profitable for fiscal years 2012, 2011 and 2010; however, we cannot guarantee continued profitability or profitability at the levels we have recently experienced for any period in the future. We have observed the following trends and events that are likely to have an impact on our financial condition and results of operations in the foreseeable future:

Revenues and Customers

- During 2012, we were able to offset lost committed recurring revenues by adding new customers and increasing sales of incremental services to our existing customers. A continuation of this trend could lead to increased revenues. Overall revenues are also impacted favorably by amounts we are paid for items such as traffic usage in excess of committed amounts and one-time events, but negatively impacted by price declines.
- Our unit prices offered to some customers have declined as a result of increased competition. These price reductions primarily impacted customers for which we deliver high volumes of traffic over our network, such as digital media customers. If we continue to experience decreases in unit prices and are unable to offset such reductions with increased traffic, enhanced efficiencies in our network, lower co-location and bandwidth expenses, or increased sales of incremental services to existing customers, our revenues and profit margins would decrease.
- During 2012, we experienced an increase in the rate of traffic growth in our video and software download solutions as compared to 2011. If this trend does not continue, our ability to generate revenue growth could be adversely impacted.
- We have historically experienced seasonal variations of higher revenues in the fourth quarter of the year and lower revenues during the summer months. We primarily attribute such variations to patterns of usage of e-commerce services by our retail customers. We expect this trend to continue, which could impact our ability to generate quarterly revenue growth on a sequential basis.
- During 2012, revenues derived from customers outside the United States accounted for 28% of our total revenues. For 2013, we anticipate revenues from such customers as a percentage of our total revenues to be consistent with 2012.

Costs and Expenses

- During 2012, we continued to reduce our network bandwidth costs per unit and to invest in internal-use software development to improve the performance and efficiency of our network. Our total bandwidth costs increased during 2012 as compared to 2011 due to traffic growth on our network. We believe that our overall bandwidth costs will continue to increase as a result of expected higher traffic levels, partially offset by anticipated continued reductions in bandwidth costs per unit. If we do not experience lower per unit bandwidth pricing or we are unsuccessful at effectively routing traffic over our network through lower cost providers, total network bandwidth costs could increase more than expected in 2013.
- Co-location costs are a significant percentage of total cost of revenues. By improving our internal-use software and managing our hardware deployments to enable us to use servers more efficiently, we believe we can manage the growth of co-location costs by deploying fewer servers. If we are unable to achieve such cost reductions, our profitability will be negatively impacted.
- Depreciation and amortization expense related to our network equipment and internal-use software development costs increased by $29.4 million during 2012 as compared to 2011. Due to the software and hardware initiatives we have undertaken to manage our global network more efficiently, we expect the useful lives of our network assets to be extended by approximately one year. This change is expected to decrease depreciation expense related to our network equipment during 2013, as compared to 2012. We also expect to continue to enhance and add functionality to our service offerings, which would increase our internal-use software development costs attributable to employees working on such projects. As a result, we believe that the amortization of internal-use software development costs, which we include in cost of revenues, will be higher in 2013 as compared to 2012. Any of these increased costs could negatively affect our profitability.
- We expect to continue to grant restricted stock units, or RSUs, to employees in the future; therefore, we anticipate that stock-based compensation expense will increase compared to 2012 levels. As of December 31, 2012, our total unrecognized compensation costs for stock-based awards were $134.7 million, which we expect to recognize as expense over a weighted average period of 1.2 years. We expect to recognize this expense through 2016.

For fiscal 2012, our effective income tax rate was 36.6%. We expect our annual effective income tax rate in 2013 to decrease slightly as compared to 2012 due to the reinstatement of the federal research and development credit in the beginning of 2013, which is retroactive to 2012; however, this expectation does not take into consideration the effect of discrete items recorded as a result of our compliance with the accounting guidance for stock-based compensation, any tax planning strategies or the effect of changes in tax laws and regulations.

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- During 2012 we increased our headcount from 2,380 to 3,074 employees in support of product development initiatives and our global go-to-market strategy. This resulted in an increase in our operating expenses, as compared to 2011. We expect to continue to invest in these areas, as well as related administrative costs, to support our growth in 2013. If our operating costs grow faster than our revenue growth, our profitability will be negatively impacted.

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

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

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

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 accounting principles generally accepted in the United States of America, or GAAP. These principles require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues 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 investments and marketable securities, capitalized internal-use software costs, goodwill and other intangible assets, tax reserves, impairment and useful lives of long-lived assets, loss contingencies 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 accounting principles generally accepted in the United States of America that require us to make subjective estimates and judgments about matters that are uncertain and are likely to have a material impact on our financial statements as well as the specific manner in which we apply those principles. Our estimates are based upon assumptions and judgments about matters that are highly uncertain at the time the 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:

We recognize 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.

We primarily derive revenues from the sale 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 these services, 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 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 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 customer on a stand-alone basis in that they can be sold separately by another vendor. Additionally, there is not generally a 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 ("BESP"), to determine the fair value of the separate deliverables. We estimate BESP based upon a management-approved product price list and pre-established discount levels for each product that takes 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 expenses. Increases in the reserve for cash-basis customers are recorded as 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 on-going credit evaluations of our customers. If such an evaluation indicates that payment is no longer reasonably

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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 Investments and 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 accessible active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are based on unobservable data points for the asset or liability.

Investments and 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 investments and 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 fixed assets and 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 Other Intangible Assets:

We test goodwill for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the asset might be impaired. As of December 31, 2012 and 2011, we concluded that we had one reporting unit and assigned the entire balance of goodwill to this reporting unit. The fair value of the reporting unit was determined using our market capitalization as of each of December 31, 2012 and 2011. We performed an impairment test of goodwill as of those dates, and the tests did not indicate an impairment of goodwill. Other intangible assets consist of completed technologies, customer relationships, trademarks and non-compete agreements arising from acquisitions of businesses 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. Purchased intangible assets, other than goodwill, are amortized over their estimated useful lives based upon the estimated economic value derived from the related intangible assets. Goodwill is carried at its historical cost.

Loss Contingencies:

We define a loss contingency as a condition involving uncertainty as to a possible loss related to a previous event that will not be resolved until one or more future events occur or fail to occur. Our primary loss contingencies relate to pending or threatened litigation. We record a liability for a loss contingency when we believe that it is probable that a loss will be incurred and the amount of the loss can be reasonably estimated. When we believe the likelihood of a loss is less than probable and more than remote, we do not record a liability, but we disclose the nature of material loss contingencies in the notes to our consolidated financial statements.

Tax Reserves:

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 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.
We have recorded certain tax reserves to address potential exposures involving our income tax and sales and use tax positions. These potential tax liabilities result from the varying application of statutes, rules, regulations and interpretations by different taxing jurisdictions. Our estimate of the value of 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 materially more or less than the amount that we estimated.
Uncertainty in income taxes is recognized in our financial statements under guidance that prescribes 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, 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 percent likelihood of being realized upon ultimate settlement. As of December 31, 2012, we had unrecognized tax benefits of $26.9 million, including accrued interest and penalties.
Accounting for Stock-Based Compensation:
We issue stock-based compensation awards including stock options, RSUs 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. 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 amount of stock options 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 recorded and could materially impact our result of operations.
For stock options, RSUs and deferred stock units that contain only a service-based vesting feature, we recognize compensation cost on a straight-line basis over the award's vesting period. For awards with a performance condition-based vesting feature, we recognize compensation cost on a graded-vesting basis over the awards' expected vesting period, commencing when achievement of the performance condition is deemed probable.
Capitalized Internal-Use Software Costs:
We capitalize the salaries and payroll-related costs, as well as stock-based compensation expense, of employees and consultants who devote time to the development of internal-use software projects. If a project constitutes an enhancement to previously-developed software, we assess whether the enhancement is significant and creates additional functionality to the software, thus qualifying the work incurred for capitalization. Once the project is complete, we estimate the useful life of the internal-use software, and we periodically assess whether the software is impaired. Changes in our estimates related to internal-use software would increase or decrease operating expenses or amortization recorded during the period.

Results of Operations
Revenues. Total revenues increased 19%, or $215.4 million, to $1,373.9 million for the year ended December 31, 2012 as compared to $1,158.5 million for the year ended December 31, 2011. Total revenues increased 13%, or $135.0 million, to $1,158.5 million for the year ended December 31, 2011 as compared to $1,023.6 million for the year ended December 31, 2010. The following table quantifies the increase in revenues attributable to the different

industry verticals in which we sell our services (in millions):

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	For the year ended December 31, 2012 as compared to 2011	For the year ended December 31, 2011 as compared to 2010
Media & Entertainment	$90.7	$45.7
Commerce	50.4	46.1
Enterprise	32.9	33.5
High Tech	31.2	4.9
Public Sector	10.2	4.8
Total net increase	$215.4	$135.0

We believe that the continued growth in use of the Internet by businesses and consumers was the principal factor driving increased purchases of our services during each of the last several years. We expect this trend to continue in 2013, but our revenue may increase at a lower rate due to competitive factors, general economic conditions and the impact of the sale of our Advertising Decisions Solutions, or ADS, business in early 2013. Our growth rate in 2012 benefited from revenues from acquisitions; we may not experience such benefits in 2013.

Revenues from our media and entertainment vertical increased due to traffic growth stemming from increased online media consumption. Revenues from our commerce and enterprise verticals for 2012 as compared to 2011, as well as 2011 as compared to 2010, increased due to growth in application and cloud performance solutions, particularly security-related solutions, sold to customers in these verticals. Revenues from our high tech vertical increased in 2012 as compared to 2011 due to increased demand for cloud performance solutions and higher software download volumes. Revenues from the public sector increased in 2012 as compared to 2011 due to the timing of completion of certain elements of government agency contracts. Our 2011 revenues from the public sector and high tech verticals did not materially change as compared to 2010.

For 2012, 2011 and 2010, 28%, 29% and 28%, respectively, of our total revenues were derived from our operations located outside of the United States. Revenue from our operations in Europe represented 17%, 18% and 17% of total revenues for 2012, 2011 and 2010, respectively. Other than the United States, no single country accounted for 10% or more of our total revenues during these periods. We expect international sales as a percentage of our total sales in 2013 to remain consistent as compared to 2012.
Resellers accounted for 22% of total revenues in 2012, 19% in 2011 and 18% in 2010. Approximately 1% of the increase in 2012 was attributable to a change in classification of certain direct customers to resellers. For 2012, 2011 and 2010, no single customer accounted for 10% or more of total revenues.
Cost of Revenues. Cost of revenues includes fees paid to network providers for bandwidth and co-location of our network equipment. Cost of revenues also includes payroll and related costs and stock-based compensation expense for network operations personnel, cost of software licenses, depreciation of network equipment used to deliver our services and amortization of internal-use software.
Cost of revenues was comprised of the following (in millions):

	For the Years Ended December 31,		
	2012	2011	2010
Bandwidth and service-related fees	$114.5	$92.0	$79.9
Co-location fees	132.0	130.8	96.1
Payroll and related costs of network operations personnel	19.3	15.3	14.0
Stock-based compensation, including amortization of prior capitalized amounts	10.3	9.6	10.3
Depreciation of network equipment	118.0	96.8	76.3
Amortization of internal-use software	37.8	30.0	26.8

Total cost of revenues	$431.9	$374.5	$303.4

Cost of revenues increased 15%, or $57.4 million, to $431.9 million for the year ended December 31, 2012 as compared to $374.5 million for the year ended December 31, 2011. Cost of revenues increased 23%, or $71.1 million, to $374.5 million for the year ended December 31, 2011 as compared to $303.4 million for the year ended December 31, 2010.

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For each period, this increase was primarily due to:

- an increase in amounts paid to network providers for bandwidth due to higher traffic levels, partially offset by reduced bandwidth costs per unit; and
- an increase in depreciation expense of network equipment and amortization of internal-use software as we continued to invest in our infrastructure

Additionally, in each of 2012, 2011 and 2010, cost of revenues included stock-based compensation expense and amortization of capitalized stock-based compensation; such expense increased by $0.7 million in 2012 as compared to 2011 and decreased by $0.7 million in 2011 as compared to 2010. Cost of revenues during each of 2012, 2011 and 2010 also included credits received of approximately $10.8 million, $6.9 million and $7.1 million, respectively, from settlements and renegotiations entered into in connection with billing disputes related to bandwidth contracts. Credits of this nature may occur in the future; however, the timing and amount of future credits, if any, are unpredictable.

We have long-term purchase commitments for bandwidth usage and co-location with various networks and Internet service providers. As of December 31, 2012, our current minimum commitments for the years ending December 31, 2013, 2014, 2015, 2016 and 2017 were approximately $98.8 million, $10.0 million, $1.3 million, $0.1 million and $0.1 million, respectively.

We believe cost of revenues will increase in 2013 as compared to 2012. We expect to deploy more servers and to deliver more traffic on our network, which would result in higher expenses associated with the increased traffic; however, such costs are likely to be partially offset by lower bandwidth costs per unit. Additionally, for 2013, we anticipate increases in amortization of internal-use software development costs , along with increased payroll and related costs, as we continue to make investments in our network with the expectation that our customer base will continue to expand.

Due to the software and hardware initiatives we have undertaken to manage our global network more efficiently, we expect the useful lives our of network assets to be extended by approximately one year. This change is expected to decrease depreciation expense related to our network equipment during 2013, as compared to 2012.

Research and Development. Research and development expenses consist primarily of payroll and related costs and stock-based compensation expense for research and development personnel who design, develop, test, deploy and enhance our services and our network. Research and development costs are expensed as incurred, except for certain internal-use software development costs eligible for capitalization. During the years ended December 31, 2012, 2011 and 2010, we capitalized software development costs of $50.6 million, $40.4 million and $31.1 million, respectively. These development costs consisted of external consulting, payroll and payroll-related costs for personnel involved in the development of internal-use software used to deliver our services and operate our network. Additionally, for the years ended December 31, 2012, 2011 and 2010, we capitalized as internal-use software $8.9 million, $7.1 million and $7.6 million, respectively, of non-cash stock-based compensation, net of impairments. We amortize these capitalized internal-use software costs to cost of revenues over their estimated useful lives of two years.

Research and development expenses increased 43%, or $22.4 million, to $74.7 million for the year ended December 31, 2012 as compared to $52.3 million for the year ended December 31, 2011. Research and development expenses decreased 4%, or $2.4 million, to $52.3 million for the year ended December 31, 2011 as compared to $54.8 million for the year ended December 31, 2010. The increase in research and development expenses in 2012 as compared to 2011 was due to increases in payroll and related costs and stock-based compensation as a result of headcount growth, partially offset by capitalized salaries. The decrease in research and development expenses in 2011 as compared to 2010 was due to higher capitalized salaries and a decrease in stock-based compensation, partially offset by increases in payroll and related costs as a result of headcount growth. The following table quantifies the net changes in the various components of our research and development expenses for the periods presented (in millions):

	Increase (Decrease) in Research and Development Expenses

	2012 to 2011	2011 to 2010
Payroll and related costs	$25.8	$9.1
Stock-based compensation	6.1	(3.9)
Capitalized salaries and related costs	(10.9)	(8.0)
Other expenses	1.4	0.4
Total net increase (decrease)	$22.4	$(2.4)

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We believe that research and development expenses will increase in 2013 as compared to 2012 because we expect to continue to hire additional development personnel in order to make improvements in our core technology, develop new services and make refinements to our other service offerings.

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

Sales and marketing expenses increased 34%, or $77.1 million, to $304.4 million for the year ended December 31, 2012 as compared to $227.3 million for the year ended December 31, 2011. Sales and marketing expenses increased $0.6 million, to $227.3 million for the year ended December 31, 2011 as compared to $226.7 million for the year ended December 31, 2010. The increase in sales and marketing expenses during 2012 as compared to 2011 was primarily due to higher payroll and related costs, including commissions for sales and sales support personnel, attributable to revenue growth, an increase in stock-based compensation and higher marketing and related costs and other expenses. The increase in sales and marketing expenses during 2011 as compared to 2010 was primarily due to higher payroll and related costs, including commissions for sales and sales support personnel, attributable to revenue growth, largely offset by a decrease in stock-based compensation, marketing and related costs and other expenses.

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

	Increase (Decrease) in Sales and Marketing Expenses	
	2012 to 2011	2011 to 2010
Payroll and related costs	$49.0	$10.3
Stock-based compensation	14.7	(7.5)
Marketing and related costs	10.3	(0.4)
Other expenses	3.1	(1.8)
Total net increase	$77.1	$0.6

We expect that sales and marketing expenses will increase in 2013 due to an expected increase in commissions on higher forecasted sales of our services and an increase in payroll and related costs due to continued growth in the number of our sales and marketing personnel.

General and Administrative. General and administrative expenses consist primarily of the following components:

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

General and administrative expenses increased 18%, or $35.3 million, to $227.0 million for the year ended December 31, 2012 as compared to $191.7 million for the year ended December 31, 2011. General and administrative expenses increased 14%, or $23.9 million, to $191.7 million for the year ended December 31, 2011 as compared to $167.8 million for the year ended December 31, 2010. The increase in general and administrative expenses during 2012 as compared to 2011, was primarily due to an increase in payroll and related costs as a result of headcount growth, higher stock-based compensation expense, costs related to the acquisitions of four companies in 2012 and an increase in the consulting, advisory and other expenses. These increases were partially offset by a decrease in the legal fees and the provision for doubtful accounts. The increase in general and administrative expenses during 2011 as compared to 2010, was primarily due to an increase in payroll and related costs as a result of headcount growth, an increase in facilities-related costs and other expenses, an increase in the provision for doubtful accounts, and an increase in legal fees. These increases were partially offset by a decrease in stock-based compensation and non-income tax expenses.

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

	Increase (Decrease) in General and Administrative Expenses	
	2012 to 2011	2011 to 2010
Payroll and related costs	$15.9	$11.5
Stock-based compensation	7.9	(3.7)
Non-income taxes	0.4	(0.4)
Facilities-related costs	0.6	7.4
Depreciation and amortization	3.1	0.8
Provision for doubtful accounts	(1.8)	1.8
Legal fees	(1.2)	1.8
Acquisition related costs	5.2	1.0
Consulting, advisory and other expenses	5.2	3.7
Total net increase	$35.3	$23.9

We expect general and administrative expenses to increase in 2013 as compared to 2012 due to increased payroll and related costs attributable to increased hiring.

Amortization of Other Intangible Assets. Amortization of other intangible assets consists of the amortization of intangible assets acquired in business combinations and amortization of acquired license rights. Amortization of other intangible assets increased 23%, or $3.9 million, to $21.0 million for the year ended December 31, 2012 as compared to $17.1 million for the year ended December 31, 2011. Amortization of other intangible assets increased 2%, or $0.4 million, to $17.1 million for the year ended December 31, 2011, as compared to $16.7 million for the year ended December 31, 2010. The increase in amortization of other intangible assets in 2012 as compared to 2011 was due to the completion of acquisitions of four companies in 2012. The increase in amortization of other intangible assets in 2011 as compared to 2010 was due to the acquisition of Velocitude in June 2010. As of December 31, 2012, we anticipate that amortization expense will be approximately $24.3 million, $19.3 million, $16.6 million, $11.7 million and $7.6 million for the years ending December 31, 2013, 2014, 2015, 2016 and 2017, respectively.

Restructuring Charge. We recorded a restructuring charge of $0.4 million for the year ended December 31, 2012 primarily in connection with workforce reductions related to the acquisitions of FastSoft and Verivue during 2012. We recorded a restructuring charge of $4.9 million for the year ended December 31, 2011 primarily in connection with a workforce reduction we implemented in December 2011.This charge included $4.2 million of employee severance benefits and $0.7 million of restructuring charges attributable to vacated facility leases. We did not have any restructuring charges in 2010. Our restructuring liabilities associated with employee severance benefits are expected to be fully paid in 2013. Restructuring liabilities associated with facility leases will be fully paid through December 2019.

Interest Income. Interest income includes interest earned on invested cash balances and marketable securities. Interest income decreased 40%, or $4.3 million, to $6.4 million for the year ended December 31, 2012 as compared to $10.7 million for the year ended December 31, 2011. Interest income decreased 12%, or $1.5 million, to $10.7 million for the year ended December 31, 2011 as compared to $12.2 million for the year ended December 31, 2010. The decreases in 2012 as compared to 2011 and in 2011 as compared to 2010 were primarily due to lower interest rates earned on our investments during the comparable periods.

Interest Expense. Interest expense includes interest that was paid on our former debt obligations as well as amortization of deferred financing costs. During the year ended December 31, 2012 and 2011, we had no outstanding interest-bearing indebtedness requiring the payment of interest and therefore had no interest expense. During the year ended December 31, 2010 we had $1.7 million of interest expense, primarily attributable to interest payable on the outstanding amount of our 1% convertible senior notes. During 2010 we converted into common stock an aggregate of

$199.8 million in principal amount of our 1% convertible note during that year.

Other Income (Expense), net. Other income (expense) , net primarily represents net foreign exchange gains and losses incurred, gains and losses from legal settlements, and other non-operating income (expense) items. Other income (expense), net decreased $5.5 million to $0.6 million of income for the year ended December 31, 2012 as compared to $6.1 million of income for the year ended December 31, 2011. Other income (expense), net increased $8.6 million to $6.1 million of income for the year ended December 31, 2011 as compared to $2.5 million of expense for the year ended December 31, 2010. The increase in other income (expense), net for the period ended December 31, 2012 as compared to the period ended December 31, 2011 was primarily due

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to foreign exchange rate fluctuations on inter-company and other transactions denominated in nonfunctional currencies. Other income (expense), net for the year ended December 31, 2011 consisted of foreign exchange losses and net funds received and paid as part of litigation settlements. Other income (expense), net for the year ended December 31, 2010 consisted of foreign exchange losses. Other income (expense), net may fluctuate in the future based upon changes in foreign exchange rates, the outcome of legal proceedings or other events.

Gain (Loss) on Investments, net. During the year ended December 31, 2012, we recorded a small net gain on investments of primarily related to the sale of marketable securities. During the year ended December 31, 2011, we recorded a net loss on investments of $0.2 million related to a write-off of an equity investment and partially offset by gains from the sale of marketable securities. During the year ended December 31, 2010, we recorded a net gain on investments of $0.4 million primarily related to the sale of marketable securities. Additionally, during 2010 we recorded a gain of $9.6 million due to a decrease in the other-than-temporary impaiment of certain auction rate securities, or ARS, offset by a loss of $9.6 million on a put option related to our ARS holdings.

Provision for Income Taxes. For the year ended December 31, 2012, our effective tax rate of 36.6% was higher than the 35% statutory federal income tax rate applicable to corporations due primarily to state income taxes and the effect of non-deductible stock based compensation, partially offset by benefits recorded for state research and development tax credits and the tax rate differential on foreign earnings. For the year ended December 31, 2011, our effective tax rate of 34.6% was lower than the 35% statutory federal income tax rate applicable to corporations due primarily to benefits recorded for research and development tax credits and the tax rate differential on foreign earnings, partially offset by state income taxes. For the year ended December 31, 2010, our effective tax rate of 34.7% was lower than the 35% statutory federal income tax rate applicable to corporations due primarily to benefits recorded for research and development tax credits partially offset by state income taxes. Provision for income taxes increased 11%, or $11.3 million, to $117.6 million for the year ended December 31, 2012 as compared to $106.3 million for the year ended December 31, 2011. Provision for income taxes increased 17%, or $15.1 million, to $106.3 million for the year ended December 31, 2011 as compared to $91.2 million for the year ended December 31, 2010. The increase from 2011 to 2012 was primarily due to an increase in operating income, as well as the expiration of the federal research and development credit at the end of 2011. The increase from 2010 to 2011 was primarily due to an increase in operating income.

On January 2, 2013, the President signed into law The American Taxpayer Relief Act of 2012. Under prior law, a taxpayer was entitled to a research tax credit for qualifying amounts paid or incurred on or before December 31, 2011. The 2012 Taxpayer Relief Act extends the research credit for two years to December 31, 2013. The extension of the research credit is retroactive and includes amounts paid or incurred after December 31, 2011. As a result of the retroactive extension, we expect to recognize a benefit of approximately $4.8 million for qualifying amounts incurred in 2012. The benefit will be recognized in the period of enactment, which is the first quarter of 2013.

We expect our consolidated annualized effective tax rate in 2013 to decrease due to the reinstatement of the federal research and development credit at the beginning of 2013, as well as the change in mix of income in various jurisdictions; this expectation does not take into consideration the effect of discrete items recorded as a result of stock-based compensation or any potential tax planning strategies. Our effective tax rate could be materially different depending on the nature and timing of the disposition of incentive and other employee stock options. Further, our effective tax rate may fluctuate within a fiscal year and from quarter to quarter due to items arising from discrete events, including settlements of tax audits and assessments, the resolution or identification of tax position uncertainties and acquisitions of other companies.

In determining our net deferred tax assets and valuation allowances, annualized effective tax rates, and cash paid for income taxes, management is required to make judgments and estimates about domestic and foreign profitability, the timing and extent of the utilization of 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 and sales and use tax positions. These potential tax liabilities result from the varying application of statutes, rules, regulations and interpretations by different taxing jurisdictions. Our estimate of the value of these tax reserves reflects assumptions based on past experiences and judgments about the interpretation of statutes, rules and regulations by taxing jurisdictions. It is possible that the ultimate tax liability or benefit from these matters may be materially greater or less than the amount that we have estimated.

Non-GAAP Financial Measures

In addition to the financial measures reflected in our financial statements that have been prepared in accordance with GAAP, we also compile and monitor certain non-GAAP financial measures related to the performance of our business. We have discussed the non-GAAP financial measures described below on our quarterly public earnings release calls and in other investor presentations. A “non-GAAP financial measure” is a numerical measure of a company's historical or future financial performance, financial

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position or cash flows that excludes amounts that are included in the most directly comparable measure calculated and presented in the GAAP statement of operations or includes amounts that are excluded from the most directly comparable measure so calculated and presented.

We believe that making available non-GAAP financial measures may be helpful to investors as they examine our past performance and future prospects, especially when comparing such results to previous periods. Our management uses some of these non-GAAP financial measures, in addition to GAAP financial measures, as the basis for measuring our core operating performance and comparing such performance to that of prior periods. Some of these financial measures are also used by management in its financial and operational decision-making.

These non-GAAP financial measures should only be used as a supplement to results presented in accordance with GAAP.

In the periods presented, we calculated normalized net income by adding the following items on a non-tax-effected basis to net income calculated in accordance with GAAP: amortization of other acquired intangible assets; stock-based compensation expense; stock-based compensation reflected as a component of amortization of capitalized internal-use software; restructuring charges and benefits; acquisition-related costs and benefits; certain gains and losses on investments; loss on early extinguishment of debt; gains and losses on legal settlements and other non-recurring or unusual items that may arise from time to time.

The following table reconciles GAAP net income to normalized net income and normalized net income per diluted share for the years ended December 31, 2012, 2011 and 2010:

	Unaudited For the Years Ended December 31,		
	2012	2011	2010
	(in thousands)		
Net income	$203,989	$200,904	$171,220
Amortization of other acquired intangible assets	20,962	17,070	16,657
Stock-based compensation	90,585	61,305	76,468
Amortization of capitalized stock-based compensation	7,680	7,308	7,509
Loss (gain) on investments, net	—	500	—
Loss on early extinguishment of debt	—	—	299
Acquisition related costs (benefits)	5,787	580	(415)
Restructuring charge	406	4,886	—
Legal settlements, net	—	(8,043)	—
Total normalized net income	$329,409	$284,510	$271,738
Normalized net income per diluted share	$1.81	$1.52	$1.43
Shares used in normalized net income per diluted share calculation	181,749	187,556	190,650

As indicated in the text and reconciliation above, we have historically reported normalized net income by adding the items above on a non-tax-effected basis to GAAP net income. If we were to tax-effect the above items in our calculation of normalized net income, normalized net income for the years ended December 31, 2012, 2011 and 2010 would have been $291 million, or $1.60 per share; $256 million, or $1.37 per share; and $234 million, or $1.23 per share, respectively.

We calculate Adjusted EBITDA in the same way that we calculate normalized net income except that we also add interest income, income taxes and depreciation and amortization of tangible and intangible assets.

The following table reconciles GAAP net income to Adjusted EBITDA for the years ended December 31, 2012, 2011 and 2010:

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	Unaudited For the Years Ended December 31,		
	2012	2011	2010
	(in thousands)		
Net income	$203,989	$200,904	$171,220
Amortization of other acquired intangible assets	20,962	17,070	16,657
Stock-based compensation	90,585	61,305	76,468
Amortization of capitalized stock-based compensation	7,680	7,308	7,509
Loss (gain) on investments, net	—	500	—
Loss on early extinguishment of debt	—	—	299
Acquisition related costs (benefits)	5,787	580	(415)
Restructuring charge	406	4,886	—
Legal settlements, net	—	(8,043)	—
Interest income, net of interest expense	(6,455)	(10,921)	(10,862)
Provision for income taxes	117,602	106,291	91,152
Depreciation and amortization	175,521	143,500	119,076
Other (income) loss, net	(649)	1,918	2,468
Adjusted EBITDA	$615,428	$525,298	$473,572

Liquidity and Capital Resources

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

As of December 31, 2012, our cash, cash equivalents and marketable securities, which consisted of corporate debt securities, United States treasury and government agency securities, commercial paper and money market funds, totaled $1,095.2 million, the majority of which is located in the United States. We place our cash investments in instruments that meet high credit quality standards, as specified in our investment policy. Our investment policy also limits our credit exposure to any one issue or issuer and seeks to manage these assets to achieve our goals of preserving principal, maintaining adequate liquidity at all times, and maximizing returns subject to our investment policy.

Net cash provided by operating activities increased by $77.9 million to $530.4 million for the year ended December 31, 2012 as compared to $452.6 million for the year ended December 31, 2011. The change in net cash provided by operating activities for the year ended December 31, 2012 as compared to the year ended December 31, 2011 was primarily due to increases in receipts from customers which were partially offset by increases in payments to vendors as well as increases in payments for employee payroll. The increases in accounts payable, accrued expenses and other current liabilities were primarily driven by the timing of payments in the normal business cycle. These increases were offset by a decrease in our provision for deferred income taxes. Net cash provided by operating activities increased by $50.1 million to $452.6 million for the year ended December 31, 2011 as compared to $402.5 million for the year ended December 31, 2010. The change in net cash provided by operating activities for the year ended December 31, 2011 as compared to the year ended December 31, 2010 was primarily due to an increase in net income and depreciation and amortization expense and a decrease in our excess tax benefits from stock-based compensation, offset by a decrease in our provision for deferred income taxes. We expect that cash provided by operating activities will increase in 2013 as a result of an expected increase in cash collections related to higher revenues, partially offset by an expected increase in operating expenses that require cash outlays such as salaries and higher commissions. Current economic conditions could negatively impact our cash provided by operating activities if we are unable to manage our days sales outstanding or our business otherwise deteriorates.

Net cash used in investing activities was $779.0 million for the year ended December 31, 2012 as compared to $171.1 million of net cash provided by investing activities for the year ended December 31, 2011. Net cash used in investing activities was $335.4 million for the year ended December 31, 2010. Cash used in investing activities for 2012 reflects purchases of short- and long-term marketable securities of $752.3 million, purchases of property and equipment of

$219.8 million, including the capitalization of internal-use software development costs and cash paid for the acquisition of four companies in 2012 for $336.7 million in the aggregate. Amounts attributable to these purchases and investments were offset, in part, by proceeds from sales and maturities of short- and long-term marketable securities of $530.1 million. During 2011, we had a significant increase in cash provided by investing activities due to investments maturing that we did not reinvest in short- and long-term marketable securities. Cash provided by investing activities for 2011 reflects proceeds from sales and redemptions of short- and long-term marketable securities

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of $701.3 million, proceeds from maturities of short- and long-term marketable securities of $532.9 million, proceeds from the sale of property and equipment of $0.2 million and a decrease in cash investments held for security deposits of $0.3 million. This was offset in part by purchases of short- and long-term marketable securities of $880.1 million, purchases of property and equipment of $182.9 million, including the capitalization of internal-use software development costs and earn out payments related to our acquisition of substantially all of the assets of Velocitude LLC, or Velocitude, of $0.6 million. Cash used in investing activities for 2010 reflects purchases of short- and long-term marketable securities of $1,146.5 million, purchases of property and equipment of $192.0 million, including the capitalization of internal-use software development costs, cash paid for the acquisition of substantially all of the assets of Velocitude of $12.7 million, and an increase in other investments of $0.5 million. Amounts attributable to these purchases and investments were offset, in part, by proceeds from sales and maturities of short- and long-term marketable securities of $1,015.8 million. For 2013, we expect total capital expenditures, a component of cash used in investing activities, to remain consistent with 2012 as a percentage of total revenue for the year. We expect to fund such capital expenditures through cash generated from operations.

Cash used in financing activities decreased $185.6 million to $108.5 million for the year ended December 31, 2012 as compared to $294.1 million used in financing activities for the year ended December 31, 2011. Cash used in financing activities was $17.7 million for the year ended December 31, 2010. Cash used in financing activities for the year-ended December 31, 2012 consisted of $141.5 million related to our 2012 common stock repurchase programs, as well as $34.7 million used to pay taxes related to net share settlements of employee equity awards. This amount was offset by cash provided by financing activities for the year ended December 31, 2012, which included proceeds of $44.7 million from the issuance of common stock upon exercises of stock options and sales of shares under our employee stock purchase plan and $23.0 million related to excess tax benefits from stock-based compensation. Cash used in financing activities for the year ended December 31, 2011 consisted of $324.1 million related to our 2011 common stock repurchase programs, as well as $8.4 million used to pay taxes related to the net share settlement of employee equity awards. This amount was offset by cash provided by financing activities for the year ended December 31, 2011, which included proceeds of $25.3 million from the issuance of common stock upon exercises of stock options and sales of shares under our employee stock purchase plan and $13.1 million related to excess tax benefits from stock-based compensation. Cash used in financing activities for the year-ended December 31, 2010 consisted of $92.4 million related to our 2010 common stock repurchase programs. This amount was offset by cash provided by financing activities for the year ended December 31, 2010, which included proceeds of $45.8 million from the issuance of common stock upon exercises of stock options and sales of shares under our employee stock purchase plan and $29.0 million related to excess tax benefits from stock-based compensation.

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

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

	For the Years Ended December 31,		
	2012	2011	2010
Cash, cash equivalents and marketable securities balance at the beginning of the period	$1,230.0	$1,243.4	$1,061.5
Changes in cash, cash equivalents and marketable securities:			
Receipts from customers	1,422.9	1,160.8	1,027.7
Payments to vendors	(786.3)	(619.3)	(556.4)
Payments for employee payroll	(330.3)	(291.3)	(247.3)
Common stock repurchases	(141.5)	(324.1)	(92.4)
Realized and unrealized gains (losses) on marketable investments and other investment-related assets, net	1.0	12.8	6.5
Debt interest and premium payments	—	—	(1.3)
Stock option exercises and employee stock purchase plan issuances	44.7	25.3	45.8
Cash used in business acquisitions	(336.7)	(0.6)	(12.7)
Employee taxes paid related to net share settlement of equity awards	(34.7)	(8.4)	—
Legal settlements, net	—	8.0	—
Interest income	6.4	10.7	12.2
Other	19.7	12.7	(0.2)
Net (decrease) increase	(134.8)	(13.4)	181.9
Cash, cash equivalents and marketable securities balance at the end of the period	$1,095.2	$1,230.0	$1,243.4

We believe, based on our present business plan, that our current cash, cash equivalents and marketable securities and forecasted cash flows from operations will be sufficient to meet our cash needs for working capital and capital expenditures for at least the next 24 months.

Contractual Obligations, Contingent Liabilities and Commercial Commitments

The following table presents our contractual obligations and commercial commitments, as of December 31, 2012, for the next five years and thereafter (in millions):

	Payments Due by Period				
Contractual Obligations	Total	Less than 12 Months	12 to 36 Months	36 to 60 Months	More than 60 Months
Real estate operating leases	$155.1	$33.2	$58.8	$33.4	$29.7
Bandwidth and co-location agreements	110.4	98.8	11.3	0.2	0.1
Open vendor purchase orders	54.3	48.6	5.7	—	—
Total contractual obligations	$319.8	$180.6	$75.8	$33.6	$29.8

In accordance with the authoritative guidance for accounting for uncertainty in income taxes, as of December 31, 2012, we had unrecognized tax benefits of $26.9 million, which included $5.9 million of accrued interest and penalties. As of December 31, 2012, we believe that it is reasonably possible that approximately $3.7 million of our unrecognized tax benefits, each of which are individually insignificant and include research and development credits and transfer pricing adjustments, may be recognized by the end of 2013 as a result of ongoing audits.

Letters of Credit

As of December 31, 2012, we had outstanding $6.2 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 are unsecured and are expected to remain in effect until December 2019.

Off-Balance Sheet Arrangements

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We have entered into various indemnification arrangements with third parties, including vendors, customers, landlords, our officers and directors, shareholders of acquired companies and third party licensees of our technology. Generally, these indemnification agreements require us to reimburse losses suffered by third parties 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. To date, we have not encountered material costs as a result of such obligations and have not accrued any significant liabilities related to such indemnification obligations in our financial statements. See Note 11 to our consolidated financial statements included elsewhere in this annual report on Form 10-K for further discussion of these indemnification agreements.

Litigation

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

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued amended guidance and disclosure requirements for fair value measurements. This guidance provides a consistent definition of fair value and ensures that the fair value measurement and disclosure requirements are similar between U.S. GAAP and international financial reporting standards. The guidance changes certain fair value measurement principles and enhances the disclosure requirements, particularly for Level 3 fair value measurements. We adopted this guidance during the first quarter of 2012. The adoption of the guidance did not have a material impact on our consolidated financial statements.

In June 2011, the FASB issued amended disclosure requirements for the presentation of comprehensive income. The amended guidance eliminates the option to present components of other comprehensive income ("OCI") as part of the statement of changes in equity. Under the amended guidance, all changes in OCI are to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive financial statements. We adopted this guidance during the first quarter of 2012. There is no impact to our consolidated financial results as the amendments relate only to changes in financial statement presentation.

In September 2011, the FASB issued amended guidance that simplifies how entities test goodwill for impairment. Under the amended guidance, after assessment of certain qualitative factors, if an entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the entity must perform the quantitative analysis of the goodwill impairment test. Otherwise, the quantitative test(s) are optional. We adopted this guidance during the first quarter of 2012. The adoption of the guidance did not have a material impact on our consolidated financial statements.

In July 2012, the FASB issued amended guidance on the periodic testing of indefinite-lived intangible assets for impairment. This guidance allows companies to assess qualitative factors to determine if it is more likely than not that the indefinite-lived intangible asset might be impaired and whether it is necessary to perform the quantitative impairment test required under current accounting standards. The updated accounting guidance is effective for interim and annual periods beginning after September 15, 2012 with early adoption permitted. We adopted the updated guidance in the fourth quarter of fiscal year 2012. The adoption of the guidance did not have a material impact on our consolidated financial statements.

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

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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 government agency obligations, high quality corporate bonds and money market funds. Investments are classified as available-for-sale securities and carried at their fair market value with cumulative unrealized gains or losses recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity. A sharp rise in interest rates could have an adverse impact on the fair market value of certain securities in our portfolio. We do not currently hedge our interest rate exposure and do not enter into financial instruments for trading or speculative purposes.

Foreign Currency Risk

Growth in our international operations will incrementally increase our exposure to foreign currency fluctuations as well as other risks typical of international operations, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures and other regulations and restrictions. Foreign exchange rate fluctuations may adversely impact our consolidated results of operations as exchange rate fluctuations on transactions denominated in currencies other than our functional currencies result in gains and losses that are reflected in our consolidated statements of operations. To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency-denominated transactions will result in increased net revenues and operating expenses. Conversely, our net revenues and operating expenses will decrease when the U.S. dollar strengthens against foreign currencies. We do not enter into financial instruments for trading or speculative purposes.

Transaction Exposure

The Company enters into short-term foreign currency forward contracts to offset foreign exchange gains and losses generated by the re-measurement of certain assets and liabilities recorded in non-functional currencies. Changes in the fair value of these derivatives, as well as re-measurement gains and losses, are recognized in other income (expense), net. Foreign currency transaction gains and losses were determined to be immaterial during the year ended December 31, 2012.

Translation Exposure

Foreign exchange rate fluctuations may adversely impact our consolidated financial position as the assets and liabilities of our foreign operations are translated into U.S. dollars in preparing our consolidated balance sheet. These gains or losses are recognized as an adjustment to stockholders' equity which is reflected in our balance sheet under accumulated other comprehensive income (loss).

Credit Risk

Concentrations of credit risk with respect to accounts receivable are limited to certain customers to which we make substantial sales. Our customer base consists of a large number of geographically dispersed customers diversified across numerous industries. To reduce risk, we routinely assess the financial strength of our customers. As of December 31, 2012 and 2011, one customer had an account receivable balance greater than 10% of our accounts receivable. We believe that, at December 31, 2012, concentration of credit risk related to accounts receivable was not significant.

Item 8. Financial Statements and Supplementary Data
AKAMAI TECHNOLOGIES, INC.
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Note: All other financial statement schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Akamai Technologies, Inc. and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, 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 Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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.

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, 2013

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AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2012	2011
	(in thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents (including restricted cash of $200 at December 31, 2012)	$201,989	$559,197
Marketable securities (including restricted securities of $57 at December 31, 2012)	235,592	290,029
Accounts receivable, net of reserves of $3,807 and $4,555 at December 31, 2012 and 2011, respectively	218,777	210,936
Prepaid expenses and other current assets	51,604	55,414
Deferred income tax assets	20,422	6,444
Total current assets	728,384	1,122,020
Property and equipment, net	345,091	293,043
Marketable securities (including restricted securities of $43 and $42 at December 31, 2012 and 2011, respectively)	657,659	380,729
Goodwill	731,325	452,914
Other intangible assets, net	84,554	45,386
Deferred income tax assets	13,803	43,485
Other assets	39,811	7,924
Total assets	$2,600,627	$2,345,501
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$43,291	$38,247
Accrued expenses and other current liabilities	133,087	85,371
Deferred revenue	26,291	21,344
Accrued restructuring	275	3,430
Total current liabilities	202,944	148,392
Deferred revenue	2,565	2,470
Other liabilities	49,364	38,389
Total liabilities	254,873	189,251
Commitments, contingencies and guarantees (Note 11)		
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; 200,199,536 shares issued and 177,782,814 shares outstanding at December 31, 2012; 195,561,243 shares issued and 177,504,624 shares outstanding at December 31, 2011	2,015	1,959
Additional paid-in capital	5,195,543	5,068,235
Treasury stock, at cost, 22,416,722 shares at December 31, 2012 and 18,056,619 shares at December 31, 2011	(624,462)	(482,994)
Accumulated other comprehensive loss	(1,640)	(1,259)
Accumulated deficit	(2,225,702)	(2,429,691)
Total stockholders' equity	2,345,754	2,156,250
Total liabilities and stockholders' equity	$2,600,627	$2,345,501

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

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AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,		
	2012	2011	2010
	(in thousands, except per share amounts)		
Revenues	$1,373,947	$1,158,538	$1,023,586
Cost and operating expenses:			
Cost of revenues	431,911	374,543	303,403
Research and development	74,744	52,333	54,766
Sales and marketing	304,404	227,331	226,704
General and administrative	227,033	191,726	167,779
Amortization of other intangible assets	20,962	17,070	16,657
Restructuring charge	406	4,886	—
Total cost and operating expenses	1,059,460	867,889	769,309
Income from operations	314,487	290,649	254,277
Interest income	6,412	10,670	12,163
Interest expense	—	—	(1,697)
Other income (expense), net	649	6,125	(2,468)
Gain (loss) on investments, net	43	(249)	396
Loss on early extinguishment of debt	—	—	(299)
Income before provision for income taxes	321,591	307,195	262,372
Provision for income taxes	117,602	106,291	91,152
Net income	$203,989	$200,904	$171,220
Net income per weighted average share:			
Basic	$1.15	$1.09	$0.97
Diluted	$1.12	$1.07	$0.90
Shares used in per share calculations:			
Basic	177,900	183,866	177,309
Diluted	181,749	187,556	190,650

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

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AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
Net income	$ 203,989	$ 200,904	$ 171,220
Other comprehensive income:			
Foreign currency translation adjustments	(904)	(3,553)	1,172
Change in unrealized gain (loss) on investments, net	927	13,053	6,109
Income tax (expense) benefit related to unrealized gain (loss) on investments, net	(404)	(5,018)	(2,340)
Other comprehensive (loss) income	(381)	4,482	4,941
Comprehensive income	$ 203,608	$ 205,386	$ 176,161

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

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AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2012	2011	2010
	(in thousands)		
Cash flows from operating activities:			
Net income	$203,989	$200,904	$171,220
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	204,163	167,878	143,242
Amortization of deferred financing costs	—	—	507
Stock-based compensation expense	90,585	61,305	76,468
Provision for deferred income taxes	(5,819)	53,628	62,462
Provision for doubtful accounts	(316)	2,066	1,546
Excess tax benefits from stock-based compensation	(23,015)	(13,123)	(28,973)
Non-cash portion of loss on early extinguishment of debt	—	—	299
Non-cash portion of restructuring charge	—	412	—
Loss (gain) on investments and disposal of property and equipment, net	3	597	(428)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(2,108)	(37,837)	(23,563)
Prepaid expenses and other current assets	6,066	(7,014)	(12,089)
Accounts payable, accrued expenses and other current liabilities	59,653	15,184	20,529
Deferred revenue	4,552	(3,721)	(9,454)
Accrued restructuring	(3,278)	3,572	(617)
Other non-current assets and liabilities	(4,070)	8,704	1,306
Net cash provided by operating activities	530,405	452,555	402,455
Cash flows from investing activities:			
Cash paid for acquisitions, net of cash acquired	(336,680)	(550)	(12,668)
Purchases of property and equipment	(165,642)	(140,218)	(159,276)
Capitalization of internal-use software costs	(54,204)	(42,644)	(32,769)
Purchases of short- and long-term marketable securities	(752,342)	(880,110)	(1,146,493)
Proceeds from sales and redemptions of short- and long-term marketable securities	214,277	701,313	691,227
Proceeds from maturities of short- and long-term marketable securities	315,788	532,910	324,606
Increase in other investments	(250)	—	(500)
Proceeds from sale of property and equipment	12	150	176
Decrease in restricted investments held for security deposits	—	272	338
Net cash (used in) provided by investing activities	(779,041)	171,123	(335,359)
Cash flows from financing activities:			
Proceeds from the issuance of common stock under stock option and employee stock purchase plans	44,660	25,252	45,776
Excess tax benefits from stock-based compensation	23,015	13,123	28,973
Employee taxes paid related to net share settlement of equity awards	(34,690)	(8,393)	—
Repurchases of common stock	(141,468)	(324,070)	(92,425)
Net cash used in financing activities	(108,483)	(294,088)	(17,676)
Effects of exchange rate changes on cash and cash equivalents	(89)	(2,259)	1,141

Net (decrease) increase in cash and cash equivalents	(357,208)	327,331	50,561
Cash and cash equivalents at beginning of year	559,197	231,866	181,305
Cash and cash equivalents at end of year	$201,989	$559,197	$231,866
Supplemental disclosure of cash flow information:			
Cash paid for interest	$—	$—	$1,258
Cash paid for income taxes	94,833	45,578	26,200
Non-cash financing and investing activities:			
Capitalization of stock-based compensation, net of impairments	$9,276	$7,473	$7,818
Common stock issued upon conversion of 1% convertible senior notes	—	—	199,755
Common stock returned upon settlement of escrow claims related to prior business acquisitions	—	—	(430)

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

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AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2012, 2011 and 2010
(in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stock-holders' Equity
	Shares	Amount					
Balance at December 31, 2009	171,248,356	$1,746	$4,615,774	$(66,301)	$(10,682)	$(2,801,815)	$1,738,722
Comprehensive income:							
Net income						171,220	171,220
Foreign currency translation adjustment					1,172		1,172
Change in unrealized gain (loss) on available-for-sale marketable securities, net of tax					3,769		3,769
Issuance of common stock upon the exercise of stock options and vesting of restricted and deferred stock units	4,413,894	44	33,581				33,625
Issuance of common stock under employee stock purchase plan	474,242	5	12,146				12,151
Stock-based compensation			84,268				84,268
Common stock returned upon settlement of escrow claims related to prior business acquisitions	(9,612)	—	(430)				(430)
Tax benefit from stock-based award activity, net			25,303				25,303
Stock-based compensation from awards issued to non-employees for services rendered			10				10
Issuance of common stock upon conversion	12,929,095	129	199,626				199,755

of 1% convertible senior notes							
Repurchases of common stock	(2,452,595)			(91,960)			(91,960)
Balance at December 31, 2010	186,603,380	1,924	4,970,278	(158,261)	(5,741)	(2,630,595)	2,177,605
Comprehensive income:							
Net income						200,904	200,904
Foreign currency translation adjustment					(3,553)		(3,553)
Change in unrealized gain (loss) on available-for-sale marketable securities, net of tax					8,035		8,035
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	2,686,726	30	4,173				4,203
Issuance of common stock under employee stock purchase plan	491,396	5	12,651				12,656
Stock-based compensation			69,260				69,260
Tax benefit from stock-based award activity, net			11,855				11,855
Stock-based compensation from awards issued to non-employees for services rendered			18				18
Repurchases of common stock	(12,276,878)			(324,733)			(324,733)
Balance at December 31, 2011	177,504,624	1,959	5,068,235	(482,994)	(1,259)	(2,429,691)	2,156,250

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

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AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY—(Continued)
For the Years Ended December 31, 2012, 2011and 2010
(in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stock-holders' Equity
	Shares	Amount					
Balance at December 31, 2011	177,504,624	1,959	5,068,235	(482,994)	(1,259)	(2,429,691)	2,156,250
Comprehensive income:							
Net income						203,989	203,989
Foreign currency translation adjustment					(904)		(904)
Change in unrealized gain (loss) on available-for-sale marketable securities, net of tax					523		523
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	3,961,440	49	(6,902)				(6,853)
Issuance of common stock under employee stock purchase plan	676,853	7	16,816				16,823
Stock-based compensation			99,038				99,038
Tax benefit from stock-based award activity, net			17,533				17,533
Stock-based compensation from awards issued to non-employees for services rendered			823				823
Repurchases of common stock	(4,360,103)			(141,468)			(141,468)
Balance at December 31, 2012	177,782,814	$2,015	$5,195,543	$(624,462)	$ (1,640)	$(2,225,702)	$