

Aon plc
Form DEF 14A
April 27, 2018

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE

SECURITIES EXCHANGE ACT OF 1934

(AMENDMENT NO.)

Filed by the registrant

Filed by a Party other than the registrant

Check the appropriate box:

Preliminary proxy statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive proxy statement

Definitive additional materials

Soliciting material pursuant to Rule 14a-12

Aon plc

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- (3) Filing party:

- (4) Date filed:

Notice of Annual General

Meeting of Shareholders

Friday, June 22, 2018

at 8:00 a.m., British Summer Time.

Registration begins at 7:00 a.m.

8 Northumberland

8 Northumberland Avenue

London WC2N 5BY

United Kingdom

We are pleased to invite you to join our Board of Directors, senior leadership and other associates at the Aon plc Annual General Meeting of Shareholders.

Items of Business:

1. Re-election and election (as appropriate) of 11 directors.
2. Advisory resolution on the compensation of our named executive officers (NEOs).
3. Advisory resolution on the directors' remuneration report contained in Appendix A to this proxy statement.
4. Receipt of our U.K. audited annual report and accounts and related directors' and auditor's reports for the year ended December 31, 2017 (the Annual Report).
5. Ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm (Ernst & Young US).
6. Re-appoint Ernst & Young LLP as our U.K. statutory auditor (Ernst & Young UK).
7. Authorize the directors to determine the remuneration of Ernst & Young UK, in its capacity as our U.K. statutory auditor.
8. Approval of form of share repurchase contracts and repurchase counterparties.

9. Authorize our directors, in accordance with section 551 of the U.K. Companies Act 2006 (the Act), to exercise all powers of Aon plc (the Company or Aon) to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company.
10. Authorize our directors, in accordance with section 570 of the Act, to allot equity securities (as defined in section 560 of the Act) for cash without the rights of pre-emption provided by section 561 of the Act.
11. Authorize the Company and its subsidiaries, in accordance with sections 366 and 367 of the Act, to make political donations and expenditures.

Who Can Vote:

Holders of Class A Ordinary Shares as at the close of business on April 24, 2018 can vote at the Aon plc Annual General Meeting of Shareholders scheduled for June 22, 2018 (the Annual Meeting). Your vote is important. Please vote your shares by mail, over the Internet, or by telephone as soon as possible, or in person at the Annual Meeting.

How to Vote:

Holders of Class A Ordinary Shares may vote by mail, over the Internet, by telephone, or in person at the Annual Meeting. See Questions and Answers About the 2018 Annual General Meeting and Voting How do I vote? on page 91 of the proxy statement.

Attending the Annual Meeting:

Shareholders who wish to attend the Annual Meeting in person should review page 94.

Date of Mailing:

This notice and proxy statement is being mailed or made available to shareholders on or about May 4, 2018.

We urge you to read the attached proxy statement for additional information concerning the matters to be considered at the Annual Meeting.

By Order of the Board of Directors,

Peter Lieb

Company Secretary

April 27, 2018

Proxy Summary

The following summary highlights information contained elsewhere in this proxy statement. This summary does not contain all of the information that you should consider, and you should read the entire proxy statement before voting. For more complete information regarding the Company's 2017 performance, please review the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Voting Matters

Shareholders are being asked to vote on the following matters at the Annual Meeting:

**Our Board's
Recommendation**

Proposal 1. Resolutions Regarding the Re-election and election of Directors (page 95) FOR each nominee

The Board of Directors (the Board) and the Governance/Nominating Committee of the Board believe that the eleven nominees possess the necessary qualifications to provide effective oversight of the business and quality advice and counsel to the Company's management.

Proposal 2. Advisory Resolution on Executive Compensation (page 95) FOR

The Company seeks a non-binding advisory vote from its shareholders to approve the compensation of its NEOs as described in this proxy statement. The Board values shareholders' opinions, and the Organization and Compensation Committee of the Board will take into account the outcome of the advisory vote when considering future executive compensation.

Proposal 3. Advisory Resolution on Directors' Remuneration Report (page 95) FOR

The Company seeks a non-binding advisory vote from its shareholders to approve the directors' remuneration report as set forth in Appendix A to this proxy statement. The Board values shareholders' opinions, and the Organization and Compensation Committee of the Board will take into account the outcome of the advisory vote when considering future management director and non-management director compensation.

Proposal 4. Resolution to Receive the Company's Annual Report (page 95) FOR

The Board is required to present the Company's Annual Report at the Annual Meeting.

Proposal 5. Resolution Ratifying the Appointment of Independent Registered Public Accounting Firm (page 95)

FOR

The Board and the Audit Committee of the Board believe that the continued retention of Ernst & Young US to serve as our independent registered accounting firm for the fiscal year ending December 31, 2018 is in the best interests of the Company and its shareholders. As a matter of good corporate governance, shareholders are being asked to ratify the Audit Committee's selection of Ernst & Young US as the Company's independent registered accounting firm.

Proposal 6. Resolution Re-Appointing Ernst & Young UK as the Company's U.K. Statutory Auditor Under the Act (page 95)

FOR

The Board and the Audit Committee of the Board believe that the continued retention of Ernst & Young UK to serve as our U.K. statutory auditor for the fiscal year ending December 31, 2018 and until the conclusion of the next annual general meeting of the Company at which accounts are laid, is in the best interests of the Company and its shareholders. If this proposal does not receive the affirmative vote of the holders of a majority of the shares entitled to vote and present in person or represented by proxy at the Annual Meeting, the Board may appoint an auditor to fill the vacancy.

Proposal 7. Resolution to Authorize the Directors to Determine the Company's U.K. Statutory Auditor's Remuneration (page 96)

FOR

The remuneration of our U.K. statutory auditor must be fixed in a general meeting or in such manner as may be determined in a general meeting. We are asking our shareholders to authorize the Board to determine Ernst & Young UK's remuneration as our U.K. statutory auditor. It is proposed that the Board would delegate the authority to determine the remuneration of the U.K. statutory auditor to the Audit Committee of the Board in accordance with the Board's procedures and applicable law.

**Our Board's
Recommendation****Proposal 8. Resolution to Approve Form of Share Repurchase Contracts and Repurchase Counterparties (page 96)****FOR**

Under the Act, we may only repurchase our Class A Ordinary Shares in accordance with specific procedures for off market purchases of such shares. This is because, and solely for the purposes of the Act, any repurchase of our Class A Ordinary Shares through the New York Stock Exchange (the NYSE) constitutes an off market transaction. As such, these repurchases may only be made pursuant to a form of share repurchase contract that has been approved by our shareholders. In addition, we must only conduct share repurchases through counterparties approved by our shareholders. The Company seeks the approval for two forms of share repurchase contract as set forth in Appendix B and Appendix C to this proxy statement.

Proposal 9. Resolution to Authorize the Board to Allot Equity Securities (page 96)**FOR**

This ordinary resolution is required periodically under the Act and is customary for public limited companies incorporated under the laws of England and Wales. We propose that our shareholders authorize our directors to generally and unconditionally, subject to the provisions of our Articles of Association (the Articles) and the Act, exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company (1) up to an aggregate nominal amount of US\$808,000; and (2) up to a further aggregate nominal amount of US\$808,000 of equity securities by way of a rights issue, provided that our directors shall be authorized to make an offer or agreement which would or might require shares to be allotted, or rights to subscribe for or convert any security into shares in the Company to be granted, after expiry of this authority and the directors may allot shares and grant rights in pursuance of that offer or agreement as if this authority had not expired.

Proposal 10. Special Resolution to Authorize the Board to Allot Equity Securities Without Pre-emptive Rights (page 97)**FOR**

This special resolution is required periodically under the Act and is customary for public limited companies incorporated under the laws of England and Wales. The Company proposes that, subject to the passing of the resolution included in Proposal 9, our directors be generally empowered to allot equity securities pursuant to the authority conferred by Proposal 9 for cash, free of the restrictions in section 561 of the Act. This resolution would

give the directors the ability to raise additional capital by selling Class A Ordinary Shares for cash or conduct a rights issue without first offering them to existing shareholders in proportion to their existing shareholdings.

Proposal 11. Resolution to Authorize the Company and Its Subsidiaries to Make Political Donations and Expenditures (page 97)

FOR

This resolution is customary for public limited companies incorporated under the laws of England and Wales. The Company proposes that the Company and all its subsidiaries be generally and unconditionally authorized for the purposes of sections 366 and 367 of the Act, in accordance with section 366 of the Act, to (1) make political donations to political parties or independent election candidates not exceeding \$150,000 in aggregate; (2) make political donations to political organizations other than political parties not exceeding \$150,000 in aggregate; and (3) incur political expenditures not exceeding \$150,000 in aggregate; during the period beginning on the date of the passing of this resolution and expiring at the next annual general meeting of the Company. The Company maintains a policy prohibiting donations to political organizations or from incurring other political expenditures, and our directors have no intention of changing that policy.

Certain Proposals Mandated

by English Law

Certain proposals on which you are being asked to vote are customary or required for public limited companies incorporated in England and Wales to present to shareholders at each annual general meeting. These proposals may be unfamiliar to shareholders accustomed to proxy statements for companies organized in other jurisdictions. Specifically, proposals 3, 4, and 6 through 11, are customary proposals, and may be mandated by English law. Similar proposals were presented to shareholders and approved at prior annual general meetings.

Corporate Governance Highlights

Aon's commitment to good corporate governance is integral to our business. Highlights of our strong corporate governance practices include:

Annual election of directors	Separation of Board Chairman and CEO functions	Strong Board oversight of risk management programs
10 of 11 directors are independent	Directors elected by a majority of votes cast in an uncontested election	Incentive-based compensation programs linked to performance
Regular executive sessions of the Board and its committees	Shareholder ability to call a special meeting	Robust share ownership guidelines for directors and senior executives

Director Nominees

Name	Age	Director Since	Committee Membership(1)						Other Boards(2)
			A	OC	GN	E	F	C	
Lester B. Knight*	59	1999				C	C		0
Gregory C. Case	55	2005					X		1
Jin-Yong Cai*	58	2016		X				X	0
Jeffrey C. Campbell	57	2018	X	X					1
Fulvio Conti*	70	2008	X		X	X	X	C	2
Cheryl A. Francis*	64	2010		X				X	2
J. Michael Losh*	71	2003	C		X	X	X		3
Richard B. Myers*	76	2006	X	X				X	2
	70	1998			C	X	X	X	1

Richard C. Notebaert*

Gloria Santona*	67	2004	X	X	C	0
Carolyn Y. Woo*	64	1998	X	X	X	1

*Independent Director **C** = Chair **X** = Member

1. **A** = Audit Committee; **OC** = Organization and Compensation Committee; **GN** = Governance/Nominating Committee; **E** = Executive Committee; **F** = Finance Committee; **C** = Compliance Sub-Committee

2. Number of other public company boards on which the director sits.

2017 Company Performance Highlights

In 2017, we delivered positive performance across each of our key metrics, highlighted by growth across every major business and record operating margin growth. We continued to execute on our goals of strategically investing in client-serving capability and long-term growth opportunities across our portfolio, managing expenses, and effectively allocating capital to the highest return. Further, we returned approximately \$2.8 billion of capital to shareholders through share repurchases and dividends, with an additional \$1 billion spent on attractive acquisitions, highlighting our strong cash flow generation and effective allocation of capital.

We believe we are strongly positioned for continued long-term value creation through further improvements in operating performance and strong free cash flow generation coupled with significant financial flexibility.

In assessing our performance, we focus on four metrics that are not recognized under the U.S. generally accepted accounting principles (GAAP) that we communicate to shareholders: organic growth, expansion of adjusted operating margins, increase in adjusted diluted earnings per share, and increased free cash flow. These non-GAAP metrics should be viewed in addition to, not instead of, our consolidated financial statements and notes thereto. A reconciliation of these non-GAAP metrics is set forth in Appendix D to this proxy statement.

The following is our measure of 2017 performance against GAAP metrics, as well as the four non-GAAP metrics outlined above:

6% Total Revenue Growth; 4% Organic Revenue Growth

9.8% Operating Margin; 23.4% Adjusted Operating Margin

\$1.53 Earnings Per Share; \$6.52 Adjusted Diluted Earnings Per Share

\$669M Cash flow from Operations; \$486M Free Cash Flow

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2017 Executive

Compensation Highlights

Leadership Performance Program. In early 2018, we settled performance share units granted to our NEOs in 2015 under our tenth Leadership Performance Program (LPP) cycle. The settlement of those units in Class A Ordinary Shares was contingent upon achieving adjusted earnings per share of at least \$17.44 (threshold performance) over the performance period from January 1, 2015 to December 31, 2017, and reflects achievement of adjusted earnings per share of \$19.20 (after permitted adjustments) which exceeded the target earnings per share of \$18.14. Also in 2017, we granted performance share units under the twelfth cycle of our LPP to each of our NEOs, which are expected to be settled in 2020 contingent upon the Company s adjusted earnings per share performance over the January 1, 2017 to December 31, 2019 performance period.

Annual Incentive Compensation. Annual incentive bonuses for 2017 were paid to our NEOs in early 2018 following the Company s achievement of adjusted operating income of \$2,418 million. Actual incentive bonuses paid to our NEOs reflected our application of the incentive pool funding guidelines adopted by the Organization and Compensation Committee of the Board (the Compensation Committee) (which are based on a comparison of current year adjusted operating income results against the prior year), as well as the Compensation Committee s evaluation of each NEO s contributions to our business and financial results, delivery of key strategic initiatives, and personal leadership qualities. Once determined, annual incentives to our NEOs were paid 65% in the form of cash and 35% in the form of time-vested restricted stock units in order to provide value to our executives that is tied to the long-term performance of the Company. The annual incentive awards are described in more detail in the section captioned Compensation Discussion and Analysis below. Stephen McGill and Kristi Savacool did not receive annual incentive awards for 2017 performance under our annual incentive program in connection with their separations from the Company in January 2017 and December 2017, respectively; their separation arrangements are discussed in more detail below under the heading Post-Termination Compensation.

Compensation-Related Corporate

Governance Best Practices

Our compensation philosophy and related governance features are complemented by several policies and practices designed to align our executive compensation program with the long-term interests of our shareholders, including the following:

Robust share ownership guidelines for executive officers and directors	Clawback policy in the event of financial restatements and/or fraud	Annual say-on-pay vote for shareholders

Robust annual risk assessment of executive compensation programs, policies, and practices

Independent compensation consultant advises Organization and Compensation Committee

Prohibition on hedging and pledging transactions by executive officers and directors

Pay for performance philosophy weighted towards variable at-risk performance-based compensation

No dividends or dividend equivalents on unvested performance share awards

Effective balance between differentiated short-term and long-term performance factors and incentives

Proposal 1 Resolutions Regarding the Re-election and Election of Directors

The Board of Directors unanimously recommends that shareholders vote

FOR each nominee to serve as director.

What am I voting on?

Jeffrey C. Campbell, a current member of our Board who was appointed by the Board since the annual general meeting of the Company held in 2017, is standing for election at the Annual Meeting for a one-year term. Robert S. Morrison, who is a current member of the Board, has informed the Company that he will be not stand for re-election at the Annual Meeting and will be retiring when his current term expires on June 22, 2018. The remaining ten current members of the Board are standing for re-election, in each case for a one-year term.

The Governance/Nominating Committee of the Board (the Governance/Nominating Committee) has recommended to the Board that each director be nominated. With respect to Mr. Case, his employment agreement provides that he will be nominated for election as a director at each annual meeting of shareholders during the period of his employment. All nominees for director have consented to be named and have agreed to serve as directors if elected or re-elected (as appropriate). We have no reason to believe that any of the nominees will not be available to serve as a director. However, if any nominee should become unavailable to serve for any reason, the proxies may be voted for such substitute nominees as may be designated by the Board.

The term of each director expires at the next annual general meeting of shareholders, and each director will continue in office until the election and qualification of his or her respective successor or until his or her earlier death, removal or resignation. Consistent with the terms of the Articles, the Board currently is authorized to have up to twenty-one members and the number of directors was most recently set by the Board at twelve.

Each of the eleven nominees for director will be elected by the vote of a majority of the votes cast with respect to such nominee. A shareholder may: (i) vote for the election of a nominee; (ii) vote against the election of a nominee; or (iii) abstain from voting for a nominee. Unless a proxy contains instructions to the contrary, it is assumed that the proxy will be voted FOR the re-election and election (as appropriate) of each nominee named on the following pages. The form of shareholder resolution for this proposal is set forth under the heading Shareholder Resolutions for 2018 Annual General Meeting on page 95 of this proxy statement.

Aon values a number of attributes and criteria when identifying nominees to serve as a director, including professional background, expertise, reputation for integrity, business, financial and management experience, leadership capabilities, and diversity. In addition to the specific experience and qualifications set forth below, we believe all of the nominees are individuals with a reputation for integrity, demonstrate strong leadership capabilities, and are able to work collaboratively to make contributions to the Board and management.

Set forth on the following pages is biographical and other background information concerning each nominee for director. This information includes each nominee's principal occupation as well as a discussion of the specific experience, qualifications, attributes, and skills of each nominee that led to the Board's conclusion that each nominee should serve as a director. In addition, set forth below is the period during which each nominee has served as a director of Aon, including service as a director of Aon plc's predecessor, Aon Corporation. The information presented below has been confirmed by each nominee for purposes of its inclusion in this proxy statement.

Bios

Lester B. Knight

Director since 1999

Age: 59

Committees:

*Executive Committee
(Chair)*

*Governance/Nominating
Committee (Chair)*

Mr. Knight is a Founding Partner of RoundTable Healthcare Partners and the former Vice Chairman and a director of Cardinal Health, Inc., a diversified healthcare service company. Mr. Knight was Chairman of the Board and Chief Executive Officer of Allegiance Corporation from 1996 until February 1999, and had been with Baxter International, Inc. from 1981 until 1996 where he served as Corporate Vice President from 1990, Executive Vice President from 1992, and as a director from 1995. Mr. Knight became Chairman of the Board of Directors of Aon in August 2008. He is a director of NorthShore University HealthSystem and Junior Achievement of Chicago, a Trustee of Northwestern University, and a member of the Civic Committee of The Commercial Club of Chicago.

The Board concluded that Mr. Knight should continue to serve as a director of Aon due to his experience as the founder of a private equity firm focused on investing in the healthcare industry, his executive background at several leading healthcare companies and his financial and investment experience. Mr. Knight's career in positions of executive and management leadership provides the Board and the Company with management expertise and experience in oversight.

Gregory C. Case

Director since 2005

Age: 55

Committees:

Executive Committee

Mr. Case has served as President, Chief Executive Officer and director of Aon since April 2005. Prior to joining Aon, Mr. Case was with McKinsey & Company, the international management consulting firm, for 17 years where he served on the governing Shareholders Council and as head of the Global Insurance and Financial Services practice. Prior to joining McKinsey, Mr. Case was with the investment banking firm of Piper, Jaffray and Hopwood and the Federal Reserve Bank of Kansas City. Mr. Case is a director of Discover Financial Services.

The Board concluded that Mr. Case should continue to serve as a director of Aon due to his role as President and Chief Executive Officer of Aon, including his day-to-day leadership and intimate knowledge of Aon's business and operations, and his background as a management consultant, including in the global insurance and financial services areas.

Jin-Yong Cai

Director since 2016

Mr. Cai is currently a Partner at TPG Capital, L.P., a global private equity investment firm. Until recently, Mr. Cai was the Chief Executive Officer of the International Finance

Age: 58

Corporation, a member of the World Bank Group and the largest global development institution focused on private sector development. Before the International Finance Corporation, Mr. Cai worked in the financial services industry for nearly two decades, including 12 years with Goldman Sachs Group, as a partner and its top executive in China. He began his career at the World Bank Group.

Committees:

Finance Committee

*Organization and
Compensation
Committee*

The Board concluded that Mr. Cai should continue to serve as a director of Aon due to his experience in global finance and international business, particularly in the Asian Pacific region. Mr. Cai's increased level of financial literacy and extensive background with international finance and global management provide valuable perspective and knowledge relating to financial risk and risks related to the Company's international activities.

Jeffrey C. Campbell

Director since 2018

Age: 57

Mr. Campbell is currently the Executive Vice President and Chief Financial Officer at American Express, a position he has held since July 2013. From 2004 to 2013, Mr. Campbell served as the Executive Vice President and Chief Financial Officer at McKesson Corporation. Prior to his time at McKesson Corporation, Mr. Campbell spent 13 years at AMR Corp and its principal subsidiary, American Airlines, ultimately becoming its Chief Financial Officer in 2002. He serves as a director and chair of the Audit Committee of Hexcel Corporation.

Committees:

Audit Committee

Organization and Compensation Committee

The Board concluded that Mr. Campbell should continue to serve as a director of Aon because of his background as a chief financial officer of a multinational, publicly traded financial services corporation. His significant business experience, deep financial acumen, and leadership capabilities provide the Board and its committees with valuable management perspective, as well as knowledge and experience relating to the financial services sector. This experience has also led the Board to determine that Mr. Campbell is an audit committee financial expert as defined by the SEC.

Fulvio Conti

Director since 2008

Age: 70

Committees:

Finance Committee (Chair)

Audit Committee

Executive Committee

Governance/Nominating Committee

Mr. Conti most recently served as Chief Executive Officer and General Manager of Enel SpA, Italy's largest power company, a position he had held from May 2005 to May 2014. From 1999 until 2005, he served as Chief Financial Officer of Enel. Mr. Conti has a financial and industrial career spanning over 40 years. From 1970 to 1990, he held many roles at Mobil Oil Corporation in Italy and other countries, including as Chief Financial Officer and general manager of Mobil Oil Europe and Chief Operating Officer of Mobil Plastics Europe. From 1991 to 1995, Mr. Conti was Chief Financial Officer of Montedison-Compart, SpA. Prior to joining Enel, SpA, he was the Chief Financial Officer and general manager of Ferrovie dello Stato SpA and Telecom Italia SpA. Mr. Conti currently serves as Chairman of Innova Italy 1 Spa, non-executive director of RBC PSJC Moscow, director of Atlantide SpA, director of Fondo Italiano Efficienza Energetica SGR SpA, director of Unidad Editorial SA, and director of the Italian Institute of Technology. Mr. Conti previously served as a non-executive director of Barclays plc/Barclays Bank plc and RCS Mediagroup. Mr. Conti served as a director of the National Academy of Santa Cecilia for many years and stepped down from his position in 2014. In 2009, he was appointed Cavaliere del Lavoro of the Italian Republic and in December of that year he became Officier de la Légion d'Honneur of the French Republic.

The Board concluded that Mr. Conti should continue to serve as a director of Aon due to his background as a chief executive officer and chief financial officer of a large international energy company, his familiarity with international business and finance activities, particularly in the European Union, and his global financial and management experience. In addition, Mr. Conti's background as a chief financial officer of a

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multinational utility provides a knowledgeable resource on matters relating to financial reporting and treasury. This experience has also led the Board to determine that Mr. Conti is an audit committee financial expert as defined by the SEC.

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Cheryl A. Francis

Director since 2010

Age: 64

Committees:

Finance Committee

*Organization and
Compensation
Committee*

Ms. Francis served as Executive Vice President and Chief Financial Officer of R.R. Donnelley & Sons Co., a publicly traded print media company, from 1995 until 2000. Since 2000, Ms. Francis has served as a business consultant and, since August 2008, as Co-Chairman of the Corporate Leadership Center. From 2002 until August 2008, she served as Vice Chairman of the Corporate Leadership Center. Prior to her role at R.R. Donnelley, Ms. Francis served on the management team of FMC Corporation and its subsidiary, FMC Gold, including serving as Chief Financial Officer of FMC Gold from 1987 through 1991, and Treasurer of FMC Corporation from 1993 through 1995. She was also an adjunct professor for the University of Chicago Graduate School of Business from 1991 through 1993. Ms. Francis currently serves as a director of HNI Corporation and Morningstar, Inc., and previously served as a director of Hewitt Associates, Inc. from 2002 until our acquisition of Hewitt Associates, Inc. on October 1, 2010.

The Board concluded that Ms. Francis should continue to serve as a director of Aon due to her background as a chief financial officer of a large publicly traded company, which provides the Board with an increased level of financial literacy. In addition, her role as a Board member of other public companies provides valuable perspective on matters of risk oversight and executive management.

J. Michael Losh

Director since 2003

Age: 71

Committees:

*Audit Committee
(Chair)*

Executive Committee

Finance Committee

From July 2004 to May 2005, Mr. Losh served as Interim Chief Financial Officer of Cardinal Health, Inc., a diversified healthcare service company. From 1994 until 2000, Mr. Losh served as Chief Financial Officer and Executive Vice President of General Motors Corporation. Mr. Losh spent 36 years in various capacities with General Motors, where he served as Chairman of GMAC, its financial services group, Group Vice President of North American Sales, Service and Marketing, and Vice President and General Manager of both its Oldsmobile Division and Pontiac Division. Mr. Losh currently serves as a director of Prologis, Inc., H.B. Fuller Corporation and Masco Corp., where he serves as non-executive chairman. He previously served as a director of Cardinal Health, Inc., CareFusion Corporation and TRW Automotive Corporation.

The Board concluded that Mr. Losh should continue to serve as a director of Aon due to his background as a chief financial officer of a large international automobile manufacturing company, which provides the Board with an increased level of financial

Governance/Nominating Committee literacy. In addition, his role as a board member of a variety of companies provides valuable perspective on matters of risk oversight and executive management. Mr. Losh's experience has also led the Board to determine that Mr. Losh is an audit committee financial expert as defined by the SEC.

Richard B. Myers

Director since 2006

Age: 76

Committees:

Audit Committee

*Compliance
Sub-Committee*

*Organization and
Compensation
Committee*

General Myers is the President of Kansas State University. He previously served as the fifteenth Chairman of the Joint Chiefs of Staff from October 1, 2001 until his retirement on September 30, 2005. In this capacity, he was the highest ranking officer in the United States military, and served as the principal military advisor to the President, the Secretary of Defense and the National Security Council. Prior to becoming Chairman, General Myers served as Vice Chairman of the Joint Chiefs of Staff from March 2000 to September 2001. From August 1998 to February 2000, General Myers was Commander in Chief, North American Aerospace Defense Command and U.S. Space Command; Commander, Air Force Space Command; and Department of Defense manager, space transportation system contingency support at Peterson Air Force Base, Colorado. Prior to assuming that position, he was Commander, Pacific Air Forces, Hickam Air Force Base, Hawaii, from July 1997 to July 1998. General Myers is a director of Northrop Grumman Corporation and United Technologies Corporation, and previously served as a director of Deere & Company. General Myers also serves as the Colin L. Powell Chair of National Security, Leadership, Character and Ethics at the National Defense University and former Chairman of the Board of Directors of the United Service Organization's World Board of Governors.

The Board concluded that General Myers should continue to serve as a director of Aon due to his background as the former Chairman of the Joint Chiefs of Staff, his strong leadership qualities and consensus building skills, and his related management experience. In addition, General Myers' extensive experience and knowledge of global affairs provides the Board with an invaluable resource regarding conducting business in diverse geo-political environments.

Richard C. Notebaert

Director since 1998

Age: 70

Committees:

*Organization and
Compensation
Committee (Chair)*

Executive Committee

From June 2002 until August 2007, Mr. Notebaert served as Chairman and Chief Executive Officer of Qwest Communications International Inc., a leading provider of broadband Internet based data, voice and image communications. He previously served as President and Chief Executive Officer of Tellabs, Inc., which designs and markets equipment to providers of telecommunications services worldwide, from Augusstems, or caused by our third party storage and system providers could damage our reputation and result in a loss of customers, which would harm our business, financial condition, and operating results.

Finance Committee

*Governance/Nominating
Committee*

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

In addition, while we operate and maintain elements of our websites and network infrastructure, some elements of this complex system are operated by third parties that we do not control and that would require significant time to replace.

We expect this dependence on third parties to increase. In particular, we utilize Amazon Web Services and Google Cloud Storage to provide computing and storage capacity pursuant to agreements that continue until terminated upon written notice by either party. All of these third-party systems are located in data center facilities operated by third parties. Our data center leases expire at various times between 2019 and 2023 with rights of extension. If we are unable to renew these agreements on commercially reasonable terms, we may be required to transfer that portion of our computing and storage capacity to new data center facilities, and we may incur significant costs and possible service interruption in connection with doing so.

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

Interruptions, outages and/or failures in our own systems, the third-party systems and facilities on which we rely, or the use of our data center facilities, whether due to system failures, computer viruses, cybersecurity attacks, physical or electronic break-ins, damage or interruption from human error, power losses, natural disasters or terrorist attacks, hardware failures, systems failures, telecommunications failures or other factors, could affect the security or availability of our websites and infrastructure, prevent us from being able to continuously back up our customers' data or our customers from accessing their stored data, and may damage or delete our customers' stored files. If this were to occur, our reputation could be compromised and we could be subject to liability to the customers that were affected.

Any financial difficulties, such as bankruptcy, faced by our third-party data center operators, our third-party colocation providers, or any of the service providers with whom we or they contract, may have negative effects on our business, the nature and extent of which are difficult to predict. Moreover, if our third-party data center providers or our third-party colocation providers are unable to keep up with our growing needs for capacity, this could have an adverse effect on our business. Interruptions in our services might reduce our revenue, cause us to issue credits or refunds to customers, subject us to potential liability, or harm our renewal rates. In addition, prolonged delays or unforeseen difficulties in connection with adding storage capacity or upgrading our network architecture when required may cause our service quality to suffer. Problems with the reliability or security of our systems could harm our reputation, and the cost of remedying these problems could negatively affect our business, financial condition, and operating results.

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

We rely on third-party providers for a number of critical aspects of our cloud services, and consequently we do not maintain direct control over the security or stability of the associated systems. Furthermore, the firmware, software and/or open source software that our data protection solutions utilize may be susceptible to hacking or misuse. In the event of the discovery of a significant security vulnerability, we would incur additional substantial expenses and our business would be harmed.

Our customers rely on our solutions to store digital copies of their files, including financial records, business information, photos, and other personally meaningful content. We also store credit card information and other personal information about our customers. An actual or perceived breach of our network security and systems or other cybersecurity related events that cause the loss or public disclosure of, or access by third parties to, our customers' stored files could have serious negative consequences for our business, including possible fines, penalties and damages, reduced demand for our solutions, an unwillingness of customers to provide us with their credit card or payment information, an unwillingness of our customers to use our solutions, harm to our reputation and brand, loss of our ability to accept and process customer credit card orders, and time-consuming and expensive litigation. If this occurs, our business and operating results could be adversely affected. Third

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parties may be able to circumvent our security by deploying viruses, worms, and other malicious software programs that are designed to attack or attempt to infiltrate our systems and networks and we may not immediately discover these attacks or attempted infiltrations. Further, outside parties may attempt to fraudulently induce our employees, consultants, or affiliates to disclose sensitive information in order to gain access to our information or our customers' information. The techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, often are not recognized until launched against a target, and may originate from less regulated or remote areas around the world. As a result, we may be unable to proactively address these techniques or to implement adequate preventative or reactionary measures. In addition, employee or consultant error, malfeasance, or other errors in the storage, use, or transmission of personal information could result in a breach of customer or employee privacy. We maintain insurance coverage to mitigate the potential financial impact of these risks; however, our insurance may not cover all such events or may be insufficient to compensate us for the potentially significant losses, including the potential damage to the future growth of our business, that may result from the breach of customer or employee privacy. If we or our third-party providers are unable to successfully prevent breaches of security relating to our solutions or customer private information, it could result in litigation and potential liability for us, cause damage to our brand and reputation, or otherwise harm our business and our stock price.

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

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

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

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

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

If our efforts to satisfy our existing customers are not successful, we may not be able to retain them, and as a result, our revenue and ability to grow would be adversely affected. We may not be able to accurately predict future trends in customer renewals. Customers choose not to renew their subscriptions for many reasons, including if customer service

issues are not satisfactorily resolved, a desire to reduce discretionary spending, or a perception that they do not use the service sufficiently, that the solution is a poor value, or that competitive services provide a better value or experience. If our retention rate decreases, we may need to increase the rate at which we add new customers in order to maintain and grow our revenue, which may require us to incur significantly higher advertising and marketing expenses than we currently anticipate, or our revenue may decline. A significant decrease in our retention rate would therefore have an adverse effect on our business, financial condition, and operating results.

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A decline in demand for our solutions or for cloud solutions in general would cause our revenue to decline. We derive, and expect to continue to derive, substantially all of our revenue from the sale of data protection solutions including our backup and restore, DRaaS and email archiving offerings. Our introduction of "hybrid" solutions (cloud and on-premise) provides a broader offering for customers who may not want cloud only solutions, but the market for cloud solutions remains dynamic and subject to rapidly changing customer demands and trends in preferences. Some of the potential factors that could affect interest in and demand for cloud solutions include:

- awareness of our brand and the cloud and hybrid backup solutions category generally;
- the appeal and reliability of our solutions;
- the price, performance, features, and availability of competing solutions and services;
- public concern regarding privacy and data security;
- our ability to maintain high levels of customer satisfaction; and
- the rate of growth in cloud solutions generally.

In addition, substantially all of our revenue is currently derived from customers in the U.S. Consequently, a decrease of interest in and demand for cloud backup solutions in the U.S. could have a disproportionately greater impact on us than if our geographic mix of revenue was less concentrated.

Our relationships with our partners and distributors may be terminated or may not continue to be beneficial in generating new customers, which could adversely affect our ability to increase our customer base. We maintain a network of active partners and distributors, which refer customers to us through links on their websites or outbound promotion to their customers. The number of customers that we are able to add through these relationships is dependent on the marketing efforts of our partners and distributors, over which we have little control.

If we are unable to maintain our relationships, or renew contracts on favorable terms, with existing partners and distributors or establish new contractual relationships with potential partners and distributors, we may experience delays and increased costs in adding customers, which could have a material adverse effect on us. If we are unable to expand our base of small and medium business customers, our future growth and operating results could be adversely affected.

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

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

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

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

Given our market focus, maintaining and enhancing the Carbonite brand is critical to our success. We believe that the importance of brand recognition and loyalty will increase in light of increasing competition in our markets. We plan to continue investing substantial resources to promote our brand, both domestically and internationally, but there is no guarantee that our

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brand development strategies will enhance the recognition of our brand. Some of our existing and potential competitors have well-established brands with greater recognition than we have. If our efforts to promote and maintain our brand are not successful, our operating results and our ability to attract and retain customers may be adversely affected. In addition, even if our brand recognition and loyalty increases, this may not result in increased use of our solutions or higher revenue.

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

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

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

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

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

effect on our business. Any significant change to applicable laws, regulations, or industry practices regarding the use or disclosure of our customers' data, or regarding the manner in which the express or implied consent of customers for the use and disclosure of such data is obtained, could require us to modify our solutions and features, possibly in a material manner, and may limit our ability to develop new services and features that make use of the data that our customers voluntarily share with us.

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

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

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Portability and Accountability Act of 1996, or HIPAA, and the Health Information Technology for Economic and Clinical Health Act, or HITECH, include privacy standards that protect individual privacy by limiting the uses and disclosures of individually identifiable health information and implementing data security standards. Because our solutions may backup individually identifiable health information for our customers, our customers are mandated by HIPAA to enter into written agreements with us known as business associate agreements that require us to safeguard individually identifiable health information. Business associate agreements typically include:

- a description of our permitted uses of individually identifiable health information;
- a covenant not to disclose that information except as permitted under the agreement and to make our subcontractors, if any, subject to the same restrictions;
- assurances that appropriate administrative, physical, and technical safeguards are in place to prevent misuse of that information;
- an obligation to report to our customers any use or disclosure of that information other than as provided for in the agreement;
- a prohibition against our use or disclosure of that information if a similar use or disclosure by our customers would violate the HIPAA standards;
- the ability of our customers to terminate their subscription to our solution if we breach a material term of the business associate agreement and are unable to cure the breach;
- the requirement to return or destroy all individually identifiable health information at the end of the customer's subscription; and
- access by the Department of Health and Human Services to our internal practices, books, and records to validate that we are safeguarding individually identifiable health information.

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

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

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

licensing, which could cause us to lose existing or potential customers and could adversely affect our operating results.

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

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

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

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

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

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

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

We also anticipate that our efforts to expand internationally will entail the marketing and advertising of our services and brand and the development of localized websites. We do not have substantial experience in selling our solutions in international markets or in conforming to the local cultures, standards, or policies necessary to successfully compete in those markets, and we must invest significant resources in order to do so. We may not succeed in these efforts or achieve our customer acquisition or other goals. For some international markets, customer preferences and buying behaviors may be different, and we may use business or pricing models that are different from our traditional subscription model to provide cloud backup and related services to customers. Our revenue from new foreign markets may not exceed the costs of establishing, marketing, and maintaining our international solutions, and therefore may not be profitable on a sustained basis, if at all.

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

These risks include:

• localization of our solutions, including translation into foreign languages and adaptation for local practices and regulatory requirements;

• lack of experience in other geographic markets;

• strong local competitors;

• cost and burden of complying with, lack of familiarity with, and unexpected changes in foreign legal and regulatory requirements, including consumer and data privacy laws;

• difficulties in managing and staffing international operations;

• potentially adverse tax consequences, including the complexities of transfer pricing, foreign value added or other tax systems, double taxation and restrictions, and/or taxes on the repatriation of earnings;

• dependence on third parties, including channel partners with whom we do not have extensive experience;

• compliance with the Foreign Corrupt Practices Act, economic sanction laws and regulations, export controls, and other U.S. laws and regulations regarding international business operations;

• increased financial accounting and reporting burdens and complexities;

• political, social, and economic instability abroad, terrorist attacks, and security concerns in general; and

• reduced or varied protection for intellectual property rights in some countries.

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

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

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

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

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

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decreasing. If we fail to attract new personnel, or fail to retain and motivate our current personnel, our business and growth prospects could be severely harmed.

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

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

- changes in the valuation of our deferred tax assets and liabilities;
- expected timing and amount of the release of tax valuation allowances;
- expiration of, or detrimental changes in, research and development tax credit laws;
- tax effects of stock-based compensation;
- costs related to intercompany restructurings;

• changes in tax laws, regulations, accounting principles or interpretations thereof; or
• future earnings being lower than anticipated in countries where we have lower statutory tax rates and higher than anticipated earnings in countries where we have higher statutory tax rates.

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

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

As of December 31, 2018, we had federal, state, and foreign net operating loss carryforwards, or NOLs, of \$110.0 million, \$75.9 million, and \$2.3 million, respectively, available to offset future taxable income, which expire in various years through 2038 if not utilized. A lack of future taxable income would adversely affect our ability to utilize these NOLs before they expire. Under the provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, substantial changes in our ownership may limit the amount of pre-change NOLs that can be utilized annually in the future to offset taxable income. Section 382 of the Internal Revenue Code, or Section 382, imposes limitations on a company's ability to use NOLs if a company experiences a more-than-50-percent ownership change over a three-year testing period. Based upon our analysis as of December 31, 2018, there was no ownership change experienced during 2018. If changes in our ownership occur in the future, our ability to use NOLs may be further limited. For these reasons, we may not be able to utilize a material portion of the NOLs, even if we achieve profitability. If we are limited in our ability to use our NOLs in future years in which we have taxable income, we will pay more taxes than if we were able to fully utilize our NOLs. This could adversely affect our operating results and the market price of our common stock.

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

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

Risks Related to Intellectual Property

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

There is frequent litigation in the software and technology industries based on allegations of infringement or other violations of intellectual property rights. Any such claims or litigation may be time-consuming and costly, divert management resources, require us to change our services, require us to credit or refund subscription fees, or have other adverse effects on our

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business. Many companies are devoting significant resources to obtaining patents that could affect many aspects of our business. Third parties may claim that our technologies or solutions infringe or otherwise violate their patents or other intellectual property rights.

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

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

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

Our future success and competitive position depend in large part on our ability to protect our intellectual property and proprietary technologies. We rely on a combination of trademark, patent, copyright, and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection and may not now or in the future provide us with a competitive advantage. We cannot be assured that any such protective measures will give us the full protection that we seek, or that any such items will not be challenged, invalidated, or circumvented. To counter infringement or unauthorized use, we may be required to file infringement claims, which can be expensive and time-consuming to litigate. In addition, in an infringement proceeding, a court may decide that a patent or other proprietary right of ours is not valid or is unenforceable, or may refuse to stop others from using the technology at issue on the grounds that our patent(s) or other proprietary rights do not cover such technology. An adverse determination of any litigation or defense proceedings could put one or more of our intellectual properties and proprietary technologies at risk of being invalidated or interpreted narrowly and could put our patent applications at risk of not being issued.

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

We also rely in part on trade secret laws and confidentiality agreements with our employees, licensees, independent contractors, and other advisors. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover our trade secrets, in which case we would not be able to assert trade secret rights, or develop similar technologies and processes. Further, laws in certain jurisdictions may afford little or no trade secret protection, and any changes in, or unexpected interpretations of, the intellectual property laws in any country in which we operate may compromise our ability to enforce our intellectual property rights. Costly and

time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure or inability to obtain or maintain trade secret protection or otherwise protect our proprietary rights could adversely affect our business.

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

A portion of the technologies licensed by us to our customers incorporates so-called “open source” software, and we may incorporate open source software in the future. Such open source software is generally licensed by its authors or other third parties under open source licenses. These licenses may subject us to certain unfavorable conditions, including requirements that we offer our solutions that incorporate the open source software for no cost, that we make publicly available source code for

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modifications or derivative works we create based upon, incorporating, or using the open source software, and/or that we license such modifications or derivative works under the terms of the particular open source license. Additionally, if a third-party software provider has incorporated open source software into software that we license from such provider, we could be required to disclose any of our source code that incorporates or is a modification of such licensed software. If an author or other third party that distributes open source software that we use or license were to allege that we had not complied with the conditions of the applicable license, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, enjoined from the sale of our solutions that contained the open source software, and required to comply with the foregoing conditions. Any of the foregoing could disrupt the distribution and sale of our solutions and harm our business.

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

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

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

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

Risks Related to Ownership of our Common Stock

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

The market price for shares of our common stock could be subject to significant fluctuations in response to various factors, most of which are beyond our control. Some of the factors that may cause the market price for shares of our common stock to fluctuate include:

- price and volume fluctuations in the overall stock market from time to time;

fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;

- actual or anticipated fluctuations in our key operating metrics, financial condition, and operating results;

- loss of existing customers or inability to attract new customers;

- actual or anticipated changes in our growth rate;

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- announcements of technological innovations or new offerings by us or our competitors;
- our announcement of actual results for a fiscal period that are lower than projected or expected or our announcement of revenue or earnings guidance that is lower than expected;
- changes in estimates of our financial results or recommendations by securities analysts;
- failure of any of our solutions to achieve or maintain market acceptance;
- changes in market valuations of similar companies;
- success of competitive solutions or services;
- changes in our capital structure, such as future issuances of securities or the incurrence of debt;
- announcements by us or our competitors of significant solutions or services, contracts, acquisitions, or strategic alliances;
- regulatory developments in the U.S. or foreign countries;
- actual or threatened litigation involving us or our industry;
- additions or departures of key personnel;
- general perception of the future of the cloud backup market or our solutions;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- sales of our shares of common stock by our existing stockholders;
- changes in general economic, industry, and market conditions; and
- major changes in our Board of Directors or management or departures of key personnel.

Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. Such litigation, if instituted against us, could result in very substantial costs, divert our management's attention and resources, and harm our business, financial condition, and operating results. In addition, recent fluctuations in the financial and capital markets have resulted in volatility in securities prices.

We cannot predict our future capital needs and we may be unable to obtain financing, which could have a material adverse effect on our business, results of operations and financial condition.

We may need to raise additional funds in the future in order to acquire complementary businesses, technologies, products or services. Any required financing may not be available on terms acceptable to us, or at all. If we raise additional funds by issuing equity securities, you may experience significant dilution of your ownership interest, and the newly-issued securities may have rights senior to those of the holders of our common stock. If we raise additional funds by obtaining loans from third parties, the terms of those financing arrangements may include negative covenants or other restrictions on our business that could impair our operational flexibility, and would also require us to fund additional interest expense. If additional financing is not available when required or is not available on acceptable terms, we may be unable to successfully develop or enhance our software and services through acquisitions in order to take advantage of business opportunities or respond to competitive pressures, which could have a material adverse effect on our software and services offerings, revenues, results of operations and financial condition.

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

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

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

We have never declared or paid any cash dividends on our common stock and do not intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth and continuing operations. Therefore, you are not likely to receive any dividends on your shares of common stock for the foreseeable future and the success of an

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investment in shares of our common stock will depend upon any future appreciation in their value. Our common stock may not appreciate in value or even maintain the price at which our stockholders have purchased their shares.

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

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

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

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

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

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

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

future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Convertible Notes, then our diluted earnings per share would be adversely affected.

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

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

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

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

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Principal Office Locations

Our corporate headquarters and executive offices are located in Boston, Massachusetts, in a 52,588 square-foot facility under a lease expiring on December 31, 2024. In addition, we operate a 26,019 square-foot facility in Salt Lake City, Utah under a lease expiring on December 31, 2024, a 22,685 square-foot facility in Indianapolis, Indiana under a lease expiring on June 30, 2025 and a 20,659 square-foot facility in Mississauga, Ontario under a lease expiring on March 31, 2029. We also have additional offices throughout the United States and in various international locations. These additional office leases expire between 2019 and 2029.

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

Data Centers

Our principal data centers are located in Ashburn, Virginia; Chandler, Arizona; and St. George, Utah. We have additional data centers throughout the United States and in various international locations. Our data center leases expire between 2019 and 2023. We have capacity headroom built into our primary leases to accommodate infrastructure growth within the lease periods should we need to add more space or power to our existing footprint.

ITEM 3. LEGAL PROCEEDINGS

See Note 13 - Commitments and Contingencies – Litigation to our consolidated financial statements included in this Annual Report for information concerning litigation. In addition to the lawsuit involving Realtime Data LLC, from time to time, we have been and may become involved in legal proceedings arising in the ordinary course of our business. Although the results of litigation and claims cannot be predicted with certainty, we are not presently involved in any other legal proceeding in which the outcome, if determined adversely to us, would be expected to have a material adverse effect on our business, operating results, or financial condition. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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PART II

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

Market Information

Our common stock is traded on The NASDAQ Global Market under the symbol "CARB."

Holders

As of February 22, 2019, we had approximately 20 holders of record of our common stock. This does not include the number of persons whose stock is held in nominee or "street" name accounts through brokers.

Dividends

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

Securities Authorized for Issuance under Equity Compensation Plans

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

Recent Sales of Unregistered Securities

Not applicable.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs (3)
October 1, 2018 - October 31, 2018	6,626	\$ 33.16	—	\$—
November 1, 2018 - November 30, 2018	813,120	\$ 26.55	809,921	\$ 28,498,742
December 1, 2018 - December 31, 2018	14,311	\$ 27.86	—	\$ 28,498,742
Total	834,057		809,921	

In October, November, and December 2018 shares were withheld to satisfy tax withholding obligations in (1) connection with the vesting of restricted stock units. In November, we also repurchased 809,921 shares of our common stock pursuant to our new share repurchase program.

The average price per share for each of the months in the fiscal quarter was calculated by dividing (a) the sum for (2) the aggregate value of the tax withholding obligations and the aggregate amount we paid for shares acquired under our share repurchase program, by (b) the sum of the number of shares withheld and the number of shares acquired under our share repurchase program.

(3) On November 19, 2018, our Board of Directors authorized a new share repurchase program for up to an aggregate of \$50.0 million of our outstanding common stock.

Performance Graph

The following performance graph compares the cumulative total return to stockholders on our common stock for the period from December 31, 2013 through December 31, 2018 against the cumulative total return of The NASDAQ Composite Index and The NASDAQ-100 Technology Sector Index. The comparison assumes \$100 was invested in our common stock and each of the indices upon the closing of trading on December 31, 2013 and assuming the reinvestment of dividends, if any. We have never declared or paid any cash dividends on our common stock and does

not anticipate paying any cash dividends in the foreseeable future.

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

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

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ITEM 6. SELECTED FINANCIAL DATA

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

The consolidated statements of operations data for the years ended December 31, 2018, 2017, and 2016 and the consolidated balance sheets data as of December 31, 2018 and 2017 are derived from our audited consolidated financial statements included elsewhere in this Annual Report. The consolidated statements of operations data for the years ended December 31, 2015 and 2014 and the consolidated balance sheets data as of December 31, 2016, 2015 and 2014 are derived from our audited consolidated financial statements not included in this Annual Report. Historical results are not necessarily indicative of the results to be expected in the future.

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands, except share and per share data)				
Consolidated statements of operations data: ¹					
Revenue	\$296,408	\$239,462	\$206,986	\$136,616	\$122,620
Net income (loss)	7,562	(4,002)	(4,099)	(21,615)	(9,350)
Basic net income (loss) per share attributable to common stockholders	\$0.24	\$(0.14)	\$(0.15)	\$(0.80)	\$(0.35)
Diluted net income (loss) per share attributable to common stockholders	\$0.22	\$(0.14)	\$(0.15)	\$(0.80)	\$(0.35)
Consolidated balance sheets: ¹					
Total assets	\$561,091	\$312,819	\$144,759	\$125,990	\$131,754
Long-term obligations	152,750	141,796	27,027	24,705	23,870
Shareholders' equity	257,210	38,265	5,384	1,073	14,538
Consolidated statements of cash flows: ²					
Operating activities	\$53,590	\$31,195	\$13,165	\$13,196	\$22,678
Investing activities	(160,030)	(91,655)	(16,275)	7,630	(30,298)
Financing activities	176,830	127,622	(1,404)	(3,417)	4,239
Key metrics:					
Bookings	\$307,040	\$245,864	\$209,284	\$144,106	\$128,183
Annual retention rate	86	% 87	% 86	% 84	% 83
Renewal rate	84	% 85	% 84	% 82	% 80
Adjusted free cash flow	\$50,105	\$20,098	\$18,180	\$14,274	\$15,072

(1) As of January 1, 2018 we adopted Topic 606 under the modified retrospective adoption method and therefore the fiscal years prior have not been adjusted.

(2) The results for all fiscal years presented above incorporate the retrospective impact of the adoption of ASU 2016-18, Statement of Cash Flows - Restricted Cash.

Refer to Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations - Key Business Metrics below for the definitions of these key metrics. Bookings and adjusted free cash flow are financial data that are not calculated in accordance with GAAP. The tables below provide reconciliations of bookings and adjusted free cash flow to revenue and cash provided by operating activities, respectively, the most directly comparable financial measures calculated and presented in accordance with GAAP. The presentation of non-GAAP financial information should not be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. The metrics management uses to evaluate performance are subject to change based on an ongoing analysis of the business and the environment in which it operates.

Our management uses annual retention rate to determine the stability of our customer base and to evaluate the lifetime value of our customer relationships. As customers' annual and multi-year subscriptions come up for renewal throughout the

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calendar year based on the dates of their original subscriptions, measuring retention on a trailing twelve-month basis at the end of each quarter provides our management with useful and timely information about the stability of our customer base. Management uses renewal rate to monitor trends in customer renewal activity.

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

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

- bookings do not reflect our receipt of payment from customers;
- adjusted free cash flow does not reflect our future requirements for contractual commitments to vendors;
- adjusted free cash flow does not reflect the non-cash component of employee compensation or depreciation and amortization of property and equipment; and
- other companies in our industry may calculate bookings or free cash flow or similarly titled measures differently than we do, limiting their usefulness as comparative measures.

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

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Revenue	\$296,408	\$239,462	\$206,986	\$136,616	\$122,620
Add change in deferred revenue, net of foreign exchange and the change in unbilled revenue (excluding acquired and divested deferred revenue and the adoption impact of Topic 606)	10,632	6,402	2,298	7,490	5,563
Bookings	\$307,040	\$245,864	\$209,284	\$144,106	\$128,183

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	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Cash provided by operating activities	\$53,590	\$31,195	\$13,165	\$13,196	\$22,678
Subtract capital expenditures	(13,132)	(17,351)	(6,582)	(9,730)	(14,495)
Free cash flow	40,458	13,844	6,583	3,466	8,183
Add payments related to corporate headquarter relocation		—	—	1,309	3,872
Add acquisition-related payments	7,438	5,707	9,989	1,406	2,053
Add hostile takeover-related payments	—	—	—	1,791	100
Add CEO transition payments	—	—	—	29	634
Add restructuring-related payments	1,927	359	341	—	—
Add cash portion of lease exit charge	—	—	343	887	230
Add litigation-related payments	282	188	924	5,385	—
Adjusted free cash flow	\$50,105	\$20,098	\$18,180	\$14,273	\$15,072

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

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

Overview

We are a leading provider of robust backup, disaster recovery, high availability and workload migration solutions (the "Carbonite Data Protection Platform"). The Carbonite Data Protection Platform supports businesses on a global scale with secure cloud infrastructure. We continue to invest in strategic acquisitions and integrate these acquisitions into our portfolio of technology solutions, in order to expand our addressable market and increase our strategic importance to customers.

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

We invest in customer acquisition because the market for our solutions is highly competitive. We support our sales network with a marketing approach that leverages our growing brand awareness to generate broad market demand.

Our marketing efforts are designed to attract prospective customers and enroll them as paying customers, either through immediate sales, free trials or communication of the benefits of our solutions and development of ongoing relationships.

On March 19, 2018, we acquired all of the issued and outstanding capital stock of Mozy Inc. and certain related business assets owned by EMC Corporation for a purchase price of \$144.6 million in cash, net of cash acquired. On February 7, 2019, we entered into an agreement to acquire all of the issued and outstanding capital stock of Webroot, a leading cybersecurity company, for \$618.5 million in cash, which will be adjusted with respect to cash, debt, transaction expenses and working capital. We believe these acquisitions strengthen our overall technology portfolio and position us as a leader in the endpoint and data protection markets.

On July 23, 2018, we issued and sold 4,765,157 shares of common stock in a public offering. An additional 819,485 shares were issued and sold pursuant to the underwriters' 30-day option on August 16, 2018. Aggregate proceeds of \$199.3 million were recognized, net of underwriting discounts, commissions and offering expenses paid.

Our operating costs continue to grow as we invest in strategic acquisitions, new customer acquisition, cross-sell efforts, and research and development. We expect to continue to devote substantial resources to integration, global expansion, customer acquisition, and product innovation. In October 2017, we initiated a restructuring program ("2017 Plan") to streamline operations and reduce operating costs. Since October 2017, we have recorded restructuring charges of \$1.8 million for employee severance related to the reduction of our workforce. The 2017 Plan was completed in the fourth quarter of 2018 and no additional charges are expected.

For the majority of our business, we defer revenue over our customers' subscription periods but expense marketing costs as incurred. Effective January 1, 2018, we adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) ("Topic 606") which impacts the recognition of costs incurred in obtaining contracts with customers. Under Topic 606, we amortize these costs, which primarily relate to commissions, over the period of benefit. While we have experienced periods of GAAP operating income, we may continue to incur GAAP operating losses in future

periods.

Our Business Model

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

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commitments of our customers enhance management's visibility into revenue, and charging customers at the beginning of the subscription period provides working capital.

Key Business Metrics

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

Bookings. We calculate bookings as revenue recognized during a particular period plus the change in total deferred revenue, excluding deferred revenue recorded in connection with acquisitions, divestitures and the adoption impact of Topic 606, net of foreign exchange and the change in unbilled revenue during the same period. Our management uses this measure as a proxy for cash receipts. Bookings represent the aggregate dollar value of customer subscriptions and software arrangements, which may include multiple revenue elements, such as software licenses, hardware, professional services and post-contractual support, received by us during a period. We initially record a subscription fee as deferred revenue and then recognize it ratably, on a daily basis, over the subscription period.

Annual retention rate. We calculate annual retention rate as the percentage of subscription customers on the last day of the prior year who remain customers on the last day of the current year. Our management uses these measures to determine the stability of our customer base and to evaluate the lifetime value of our customer relationships.

Renewal rate. We define renewal rate for a period as the percentage of customers who renew annual or multi-year subscriptions that expire during the period presented. Our management uses this measure to monitor trends in customer renewal activity.

Adjusted free cash flow. We calculate adjusted free cash flow by subtracting the cash paid for the purchase of property and equipment and adding the payments related to corporate headquarter relocation, acquisitions, hostile takeover, CEO transition, restructuring, the cash portion of lease exit charges and litigation from net cash provided by operating activities. Our management uses adjusted free cash flow to assess our business performance and evaluate the amount of cash generated by our business.

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

Performance Highlights

For the years ended December 31, 2018, 2017 and 2016, we had the following results:

We generated revenue of \$296.4 million, \$239.5 million, and \$207.0 million, respectively. Revenue increased by \$56.9 million, or 24%, for the year ended December 31, 2018, as compared to the year ended December 31, 2017, and \$32.5 million, or 16%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016.

Cash flow from operations was \$53.6 million, \$31.2 million, and \$13.2 million, respectively.

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

Key metrics (1):	Years Ended December 31,		
	2018	2017	2016
	(in thousands, except percentage data)		
Bookings	\$307,040	\$245,864	\$209,284
Annual retention rate	86	% 87	% 86
Renewal rate	84	% 85	% 84
Adjusted free cash flow	\$50,105	\$20,098	\$18,180

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

Adjusted free cash flow for the year ended December 31, 2018 increased by \$30.0 million compared to the year ended December 31, 2017, primarily due to an increase in net income adjusted for non-cash charges.

Adjusted free cash flow for the year ended December 31, 2017 increased by \$1.9 million compared to the year ended December 31, 2016, primarily due to the timing of payments, partially offset by an increase in purchases of property, plant and equipment related to the capital investments in our data centers.

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

	Years Ended December 31,			2018	2017
	2018	2017	2016	Versus 2017	Versus 2016
	(in thousands)			%	%
Business	\$208,742	\$164,051	\$124,363	27 %	32 %
Consumer	98,298	81,813	84,921	20 %	(4) %
Total bookings	\$307,040	\$245,864	\$209,284	25 %	17 %

Our bookings increased by \$61.2 million for the year ended December 31, 2018, compared to the corresponding period in 2017, primarily due to the inclusion of bookings from the acquisition of Mozy of \$49.6 million, which does not include bookings from Mozy customers that have transitioned to Carbonite branded offerings. Bookings also increased \$6.2 million related to a pricing increase on our subscription offerings. Our bookings increased by \$36.6 million for the year ended December 31, 2017, compared to the corresponding period in 2016 primarily due to the inclusion of bookings from the acquisition of DoubleTake during 2017. We expect total bookings to increase primarily driven by growth in bookings from our business customers.

Key Components of our Consolidated Statements of Operations Revenue

Services. Services revenues consist of "Software-as-a-Service" ("SaaS") and "Hardware-as-a-Service" ("HaaS") offerings, maintenance and support ("M&S") services and professional services. Revenues related to the SaaS and HaaS offerings are recorded over the performance period of the services. M&S services generally consist of telephone, email, or live chat support, as well as updates and upgrades to the software licenses on an if and when available basis. Revenues from M&S are recorded ratably over the time of performance. Professional service revenue is recognized over time as services are delivered.

Product. Product revenues consist of different types of on-premise data protection and migration software, licensed on a time or perpetual basis, and as royalty arrangements. Revenues from product licenses are recorded when control of the product has been transferred to the customer. We also offer hardware on a standalone basis or in conjunction with our software. Hardware sales are recorded as revenue when control is transferred to the customer.

Cost of revenue

Services. Cost of services revenue consists primarily of costs associated with our data center operations and customer support centers, including wages and benefits for personnel, depreciation of equipment, rent, utilities and broadband, equipment maintenance, hosting fees, software license fees, and allocated overhead. The expenses associated with hosting our services and supporting our customers are related to the number of customers and the complexity of our services and hosting

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infrastructure. Our cost of storage, on a per gigabyte (GB) basis has decreased over time due to decreases in storage prices and realizing greater efficiency in our data center operations. We have also experienced a downward trend in the cost of storage equipment and broadband service, which we expect will continue into the future. Over the long term, we expect these expenses to increase in absolute dollars, but decrease as a percentage of revenue due to improved efficiencies in supporting customers.

Products. Cost of product revenue consists primarily of hardware costs and royalty costs associated with licensing software from third-parties.

Amortization of intangible assets. Amortization of acquired technologies and licenses are included in cost of revenues.

Intangibles are amortized over their estimated useful lives based on the pattern of consumption of the economic benefits or, if that pattern cannot be readily determined, on a straight-line basis.

Gross profit and gross margin

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

Operating expenses

Research and development. Research and development expenses consist primarily of wages and benefits for development personnel, third-party outsourcing costs, hosting fees, consulting fees, rent, and depreciation. We focus our research and development efforts on the development of new products and enhancements and improved ease of use of our existing solutions. These efforts result in updated versions of products, while not changing the underlying technology. The majority of our research and development employees are located at our corporate headquarters in the U.S. and at our office in Canada. We expect that research and development expenses will increase in absolute dollars on an annual basis as we continue to enhance and expand our services.

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

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

Restructuring charges. Restructuring charges consist of charges related to the Company's restructuring efforts associated with the reorganization and consolidation of certain operations as well as disposal of certain assets.

See Note 14 - Restructuring to our consolidated financial statements included in this Annual Report for additional information.

Results of Operations

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

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	Years Ended December 31,		
	2018	2017	2016
	(% of revenue)		
Consolidated statements of operations data:			
Revenue:			
Services	88.8 %	86.6 %	89.9 %
Product	11.2	13.4	10.1
Total revenue	100.0	100.0	100.0
Cost of revenue:			
Services	22.9	24.7	26.8
Product	0.6	1.1	1.3
Amortization of intangible assets	5.3	3.5	1.3
Total cost of revenue	28.8	29.3	29.4
Gross profit	71.2	70.7	70.6
Operating expenses:			
Research and development	19.4	19.3	16.1
General and administrative	17.1	17.9	19.8
Sales and marketing	28.9	37.3	35.0
Amortization of intangible assets	4.2	0.9	0.6
Restructuring charges	0.4	0.3	0.4
Total operating expenses	70.0	75.7	71.9
Income (loss) from operations	1.2	(5.0)	(1.3)
Interest expense	(3.9)	(3.1)	(0.1)
Interest income	0.6	0.2	—
Other income (expense), net	0.1	0.5	0.1
Loss before income taxes	(2.0)	(7.4)	(1.3)
(Benefit) provision for income taxes	(4.6)	(5.7)	0.7
Net income (loss)	2.6 %	(1.7)%	(2.0)%

Comparison of Years Ended December 31, 2018, 2017, and 2016

Revenue

	Years Ended December 31,			2018 Versus		2017 Versus	
	2018	2017	2016	2017		2016	
	(in thousands, except percentage data)			Amount	%	Amount	%
Revenue:							
Services	\$263,084	\$207,403	\$186,087	\$55,681	26.8 %	\$21,316	11.5 %
As a % of total revenue	88.8 %	86.6 %	89.9 %				
Product	33,324	32,059	20,899	1,265	3.9 %	11,160	53.4 %
As a % of total revenue	11.2 %	13.4 %	10.1 %				
Total revenue	\$296,408	\$239,462	\$206,986	\$56,946	23.8 %	\$32,476	15.7 %

Services revenue increased for the year ended December 31, 2018, as compared to the year ended December 31, 2017 primarily due to an increase in revenue from our acquired Mozy offerings of \$48.5 million, which does not include revenue from Mozy customers that have transitioned to Carbonite branded offerings. Sales from our other subscription offerings also increased \$7.2 million over the comparative period. Services revenue increased for the year ended December 31, 2017, as compared to the year ended December 31, 2016 primarily due to an increase in revenue from our acquired DoubleTake offerings.

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Product revenue increased for the year ended December 31, 2018, as compared to the year ended December 31, 2017 primarily due to increased sales of our license offerings of \$4.1 million, partially offset by lower hardware sales of \$1.5 million and divestitures of product brands of \$1.3 million. Product revenue increased for the year ended December 31, 2017, as compared to the year ended December 31, 2016 primarily due to an increase in revenue from our acquired DoubleTake offerings.

Cost of revenue, gross profit, and gross margin

	Years Ended December 31,			2018 Versus 2017		2017 Versus 2016	
	2018	2017	2016	Amount	%	Amount	%
(in thousands, except percentage data)							
Cost of revenue:							
Services	\$68,024	\$59,212	\$55,512	\$8,812	14.9 %	\$3,700	6.7 %
Product	1,730	2,676	2,793	(946)	(35.4)%	(117)	(4.2)%
Amortization of intangible assets	15,629	8,179	2,632	7,450	91.1 %	5,547	210.8 %
Total cost of revenue	\$85,383	\$70,067	\$60,937	\$15,316	21.9 %	\$9,130	15.0 %
As a % of total revenue	28.8 %	29.3 %	29.4 %				
Gross profit	\$211,025	\$169,395	\$146,049	\$41,630	24.6 %	\$23,346	16.0 %
Gross margin	71.2 %	70.7 %	70.6 %				

Our gross margin increased for the year ended December 31, 2018 as compared to the year ended December 31, 2017, driven principally by a decrease in cost of service revenue as a percentage of revenue.

Our gross margin increased for the year ended December 31, 2017, as compared to the year ended December 31, 2016, driven principally by an increased percentage of our revenues derived from higher margin business solutions.

Cost of services revenue

	Years Ended December 31,			2018 Versus 2017		2017 Versus 2016	
	2018	2017	2016	Amount	%	Amount	%
(in thousands, except percentage data)							
Cost of services revenue	\$68,024	\$59,212	\$55,512	\$8,812	14.9 %	\$3,700	6.7 %
As a % of services revenue	25.9 %	28.5 %	29.8 %				
As a % of total revenue	22.9 %	24.7 %	26.8 %				
Components of cost of services revenue:							
Personnel-related costs	\$28,420	\$25,992	\$23,513	\$2,428	9.3 %	\$2,479	10.5 %
Hosting, depreciation and facilities costs	27,053	21,078	22,353	5,975	28.3 %	(1,275)	(5.7)%
Software, consulting and other	12,551	12,142	9,646	409	3.4 %	2,496	25.9 %
Total cost of services revenue:	\$68,024	\$59,212	\$55,512	\$8,812	14.9 %	\$3,700	6.7 %

Cost of services revenue increased for the year ended December 31, 2018 as compared to the year ended December 31, 2017, driven largely by an increase in personnel-related costs associated increased salaries and benefits. There was also an increase of \$2.6 million in depreciation of data center equipment resulting from our acquisition of Mozy and \$1.9 million in hosted solutions costs related to higher costs associated with supporting our customers included within hosting, depreciation and facilities costs.

Cost of services revenue increased for the year ended December 31, 2017, as compared to the year ended December 31, 2016, driven largely by an increase in personnel-related costs associated with supporting our customers. Software, consulting and other costs increased \$2.5 million associated with an increase of \$1.8 million for software and support contracts and a \$0.7 million increase in consulting expenses. These increases were partially offset by a decrease in hosting and depreciation costs associated with efficiencies realized in our data centers.

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Cost of product revenue

	Years Ended December 31,			2018 Versus	2017 Versus
	2018	2017	2016	2017	2016
	(in thousands, except percentage data)			Amount	Amount
Cost of product revenue	\$ 1,730	\$ 2,676	\$ 2,793	\$(946)	\$(117)
As a % of product revenue	5.2	% 8.3	% 13.4	%	%
As a % of total revenue	0.6	% 1.1	% 1.3	%	%

Cost of product revenue decreased for the year ended December 31, 2018 as compared to the year ended December 31, 2017, and for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to a decrease in hardware sales.

Amortization of intangible assets

	Years Ended December 31,			2018 Versus	2017 Versus
	2018	2017	2016	2017	2016
	(in thousands, except percentage data)			Amount	Amount
Amortization of intangible assets	\$ 15,629	\$ 8,179	\$ 2,632	\$ 7,450	\$ 5,547
As a % of total revenue	5.3	% 3.5	% 1.3	%	%

Amortization of intangible assets increased for the year ended December 31, 2018 as compared to the year ended December 31, 2017, and the year ended December 31, 2017, as compared to the year ended December 31, 2016, driven largely by additional developed technology amortization associated with the acquisitions of Mozy in March 2018 and DoubleTake in January 2017, respectively.

Operating expenses

Research and development

	Years Ended December 31,			2018 Versus 2017		2017 Versus 2016	
	2018	2017	2016	Amount	%	Amount	%
	(in thousands, except percentage data)						
Research and development	\$ 57,467	\$ 46,160	\$ 33,298	\$ 11,307	24.5	\$ 12,862	38.6
Percent of revenue	19.4	% 19.3	% 16.1	%	%	%	%
Components of research and development:							
Personnel-related costs	\$ 41,197	\$ 34,207	\$ 25,418	\$ 6,990	20.4	\$ 8,789	34.6
Outside services and consulting costs	8,514	3,876	2,443	4,638	119.7	1,433	58.7
Hosting and other	7,756	8,077	5,437	(321)	(4.0)	2,640	48.6
Total research and development	\$ 57,467	\$ 46,160	\$ 33,298	\$ 11,307	24.5	\$ 12,862	38.6

Research and development expenses increased for the year ended December 31, 2018 as compared to the year ended December 31, 2017, driven largely by an increase in personnel-related costs associated with additional research and development headcount and an increase in outside services and consulting costs associated with the maintenance and integration of our solutions.

Research and development expenses increased for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to an increase of personnel-related costs of \$7.7 million associated with additional research and development headcount driven by the inclusion of acquired DoubleTake and Datacastle research and development employees and an increase of \$1.1 million in stock-based compensation expense associated with new grants. Further, there was an increase in outside services and consulting costs associated with enhancing the functionality and ease of use of our solutions. Hosting and other costs increased \$2.6 million driven largely by \$0.8 million of acquisition and integration-related expenses associated with the acquisition of DoubleTake.

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	General and administrative			2018 Versus		2017 Versus	
	Years Ended December 31,			2017		2016	
	2018	2017	2016	Amount	%	Amount	%
General and administrative	\$ 50,547	\$ 42,862	\$ 41,070	\$ 7,685	17.9%	\$ 1,792	4.4 %
Percent of revenue	17.1 %	17.9 %	19.8 %				
Components of general and administrative:							
Personnel-related costs	\$ 28,077	\$ 24,515	\$ 21,471	\$ 3,562	14.5%	\$ 3,044	14.2 %
Professional fees	12,408	11,503	11,255	905	7.9 %	248	2.2 %
Consulting, taxes and other	10,062	6,844	8,344	3,218	47.0%	(1,500)	(18.0)%
Total general and administrative	\$ 50,547	\$ 42,862	\$ 41,070	\$ 7,685	17.9%	\$ 1,792	4.4 %

General and administrative expenses increased for the year ended December 31, 2018 as compared to the year ended

December 31, 2017, driven largely by a \$1.9 million increase in stock-based compensation expense primarily associated with the achievement of performance goals and new grants and a \$1.7 million increase in salaries and benefits included within personnel-related costs. The increase in these costs is driven by investment required to support our growth and operations as a public company. Further, there was a \$1.1 million increase in hardware and software costs driven by recent acquisitions, a \$0.7 million loss recorded on the sale of business, a \$0.6 million increase in bad debt expense, and a \$0.6 million increase in transactional tax expense owed to foreign tax authorities included within consulting, taxes and other.

General and administrative expenses increased for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily as a result of increased personnel-related costs associated with additional headcount to support our overall growth and an increase of \$1.7 million in stock-based compensation expense associated with new grants. The decrease in consulting, taxes and other expenses was driven by a decrease of \$1.7 million in one-time transactional tax expense owed to foreign tax authorities, offset by an increase in hosting costs of \$0.2 million.

Sales and marketing

	Years Ended December 31,			2018 Versus		2017 Versus	
	2016			2017		2016	
	2018	2017	2016	Amount	%	Amount	%
Sales and marketing	\$ 85,637	\$ 89,298	\$ 72,371	\$(3,661)	(4.1)%	\$ 16,927	23.4 %
Percent of revenue	28.9 %	37.3 %	35.0 %				
Components of sales and marketing:							
Personnel-related costs	\$ 39,006	\$ 42,350	\$ 31,828	\$(3,344)	(7.9)%	\$ 10,522	33.1 %
Advertising costs	16,959	16,416	17,833	543	3.3 %	(1,417)	(7.9)%
Costs of credit card transactions and offering free trials	8,786	7,275	6,508	1,511	20.8 %	767	11.8 %
Marketing programs, consulting and other	20,886	23,257	16,202	(2,371)	(10.2)%	7,055	43.5 %
Total sales and marketing	\$ 85,637	\$ 89,298	\$ 72,371	\$(3,661)	(4.1)%	\$ 16,927	23.4 %

Sales and marketing expenses decreased for the year ended December 31, 2018 as compared to the year ended December 31, 2017, driven largely by a decrease of \$3.8 million in personnel-related costs and \$0.7 million in marketing programs related to the adoption of Topic 606, as we now capitalize certain costs to obtain contracts with customers and amortize the costs over the period of benefit. There was a further decrease of \$1.2 million in marketing program expenses as we focus on promoting our expanded set of business offerings through more efficient programs. These decreases were offset by increased credit card processing fees of \$1.5 million associated with the acquisition of Mozy.

Sales and marketing expenses increased for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to an increase in personnel-related costs associated with additional sales and marketing headcount driven by the inclusion of acquired DoubleTake sales and marketing employees. Additionally,

marketing programs, consulting and other costs increased by \$7.1 million associated with promoting our expanded set of offerings and the inclusion of the DoubleTake business in our consolidated results. This increase was driven by an increase in consulting and independent contractor expenses of \$1.8 million, travel and entertainment expenses of \$1.3 million, software and hosted solutions expenses

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of \$1.1 million, and integration and acquisition expenses of \$1.0 million. Advertising costs declined related to a reduction in our traditional radio media spend compared to the year ended December 31, 2016.

Amortization of intangible assets

	Years Ended December 31,			2018 Versus	2017
	2018	2017	2016	2017	Versus
				Amount	Amount
				%	%
	(in thousands, except percentage data)				
Amortization of intangible assets	\$ 12,437	\$ 2,093	\$ 1,238	\$ 10,344	\$ 855
As a % of total revenue	4.2	% 0.9	% 0.6	494.2 %	69.1 %

Amortization of intangible assets increased for the year ended December 31, 2018 as compared to the year ended December 31, 2017, and the year ended December 31, 2017 as compared to the year ended December 31, 2016, driven largely by an increase in amortization expense related to customer relationship and trade name assets associated with the acquisitions of Mozy in March 2018 and DoubleTake in January 2017, respectively.

Restructuring charges

	Years Ended December 31,			2018	2017
	2018	2017	2016	Versus	Versus
				2017	2016
				Amount	Amount
				%	%
	(in thousands, except percentage data)				
Restructuring	\$ 1,270	\$ 1,047	\$ 856	\$ 223	\$ 191
As a % of total revenue	0.4	% 0.3	% 0.4	21.3 %	22.3 %

Restructuring expenses remained consistent for both the year ended December 31, 2018 as compared to the year ended December 31, 2017, and the year ended December 31, 2017, as compared to the year ended December 31, 2016.

Income (loss) from operations

Operating income for the year ended December 31, 2018 was \$3.7 million, compared to an operating loss of \$(12.1) million for the year ended December 31, 2017. The increase in operating income is primarily a result of an increase in revenue and a decrease in sales and marketing expenses.

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

Non-operating income (expense)

	Years Ended December 31,			2018 Versus	2017	2017 Versus	2016
	2018	2017	2016	2017	2016	2016	2016
				Amount	Amount	Amount	Amount
				%	%	%	%
	(in thousands, except percentage data)						
Interest expense	\$(11,556)	\$(7,447)	\$(147)	\$(4,109)	55.2 %	\$(7,300)	4,966.0 %
As a % of total revenue	(3.9))%	(3.1))%	(0.1))%	
Interest income	\$ 1,877	\$ 581	\$ 25	\$ 1,296	223.1 %	\$ 556	2,224.0 %
As a % of total revenue	0.6	% 0.2	% —	%			
Other income (expense), net	\$ 227	\$ 1,252	\$ 190	\$(1,025)	(81.9)%	\$ 1,062	558.9 %
As a % of total revenue	0.1	% 0.5	% 0.1	%			

Interest expense increased for the year ended December 31, 2018 as compared to the year ended December 31, 2017, primarily due to an increase in interest expense of \$2.9 million related to our Convertible Notes issued in April 2017 and \$1.2 million of interest expense related to our Revolving Credit Facility entered into in March 2018.

Interest expense increased for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to interest expense of \$7.2 million related to our Convertible Notes issued in April 2017.

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Interest income increased for the years ended December 31, 2018 and 2017 compared to the years ended December 31, 2017 and 2016, respectively, driven largely by interest income related to our highly liquid investments.

Other income (expense), net primarily represents net foreign exchange gains and losses and other non-operating expense and income items. Other income (expense), net decreased for the year ended December 31, 2018 as compared to the year ended December 31, 2017, and increased for the year ended December 31, 2017 as compared to the year ended December 31, 2016, primarily due to a gain on the sale of businesses of \$0.8 million, which took place in 2017.

(Benefit) provision for income taxes

	Years Ended December 31,			2018 Versus	2017 Versus
	2018	2017	2016	2017	2016
				Amount	Amount %
	(in thousands, except percentage data)				
(Benefit) provision for income taxes	\$(13,347)	\$(13,677)	\$1,383	\$330(2.4)%	\$(15,060)(1,088.9)%
As a % of total revenue	(4.6))%	(5.7))%	0.7 %

For the year ended December 31, 2018, our tax benefit was primarily driven by the recognition of a discrete tax benefit of \$16.2 million due to the release of the U.S. valuation allowance as a result of the Mozy acquisition. For the year ended December 31, 2017, our tax benefit was primarily driven by a tax benefit for a U.S. valuation allowance release and refundable Federal Alternative Minimum Tax (“AMT”), partially offset by foreign income taxes. For the year ended December 31, 2016, our tax provision was primarily driven by foreign income taxes, Federal AMT, and state income taxes.

Liquidity and Capital Resources

As of December 31, 2018, we had cash and cash equivalents of \$198.1 million, \$172.0 million of which was held in the United States and \$26.1 million of which was held by our international subsidiaries outside of the United States. If the undistributed earnings of our foreign subsidiaries are needed for our operations in the United States, we would be required to accrue and pay non-U.S. withholding taxes upon repatriation in certain non-U.S. jurisdictions. Our current plans are not expected to require repatriation of cash and investments to fund our U.S. operations and, as a result, we intend to permanently reinvest our foreign earnings to fund our foreign subsidiaries. Determination of the unrecognized deferred tax liability on unremitted earnings is not practical due to uncertainty regarding the remittance structure, the mix of earnings and earnings for profit pools in the year of remittance, and overall complexity of the calculation.

Source of funds

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

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

At December 31, 2018, the Convertible Notes are not convertible.

In connection with the acquisition of Mozy, Inc., on March 19, 2018, we entered into a Revolving Credit Facility, which provides revolving credit financing of up to \$130.0 million, including a \$10.0 million sub-limit for letters of credit. The commitments under the Revolving Credit Facility may be increased by up to an additional \$100.0 million plus an additional unlimited amount so long as the Company does not exceed a specified pro forma secured net leverage ratio, in either case provided the existing or additional lenders are willing to make such increased commitments and subject to other terms and conditions. The Revolving Credit Facility matures on the earlier of March 20, 2023 or 91 days prior to the maturity of the Company’s outstanding Convertible Notes. As of December 31, 2018, we had no outstanding borrowings under the Revolving Credit Facility. We intend to terminate the Revolving Credit Facility upon the execution of the Revolving Facility discussed below.

On February 7, 2019, we entered into an agreement and plan of merger to acquire Webroot for \$618.5 million in cash to be adjusted with respect to cash, debt, transaction expenses and working capital. Concurrently with the execution of

the merger agreement, we entered into a financing commitment letter (the “Commitment Letter”) for (i) a seven-year senior secured term loan facility of \$550.0 million (the “Term Loan Facility”) and (ii) a five-year senior secured revolving credit facility (the “Revolving Facility” and, together with the Term Loan Facility, the “Facilities”). Upon execution of the Revolving Facility, we intend to terminate our previously executed Revolving Credit Facility entered into on March 19, 2018. We will fund the

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transaction with existing cash and the Term Loan Facility. The Facilities will be subject to certain customary representations, warranties and covenants. The funding of the Facilities is subject to our compliance with customary terms and conditions precedent as set forth in the Commitment Letter, including the execution and delivery of definitive documentation consistent with the Commitment Letter and the substantially simultaneous consummation of the merger on terms consistent with the merger agreement.

On July 23, 2018, we issued and sold 4,765,157 shares of common stock in a public offering. An additional 819,485 shares were issued and sold pursuant to the underwriters' 30-day option on August 16, 2018. Proceeds of \$199.3 million were recognized, net of underwriting discounts, commissions and offering expenses paid.

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

Uses of funds

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

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

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

Cash flows

The following table provides a summary and description of our net cash inflows (outflows) for 2018, 2017, and 2016.

	Years Ended December 31,		
	2018	2017	2016
	(in thousands)		
Net cash provided by operating activities	53,590	31,195	13,165
Net cash (used in) investing activities	(160,030)	(91,655)	(16,275)
Net cash provided by (used in) financing activities	176,830	127,622	(1,404)

Operating activities

Our cash flows from operating activities are significantly influenced by the amount of our net loss, growth in sales and customer growth, changes in working capital accounts, the timing of prepayments and payments to vendors, add-backs of non-cash expense items such as depreciation and amortization, and stock-based compensation expense. In the year ended December 31, 2018 cash provided by operating activities was \$53.6 million, which was driven by an increase in deferred revenue of \$11.3 million, net income of \$7.6 million and adjustments for non-cash charges of \$51.6 million, primarily comprised of \$41.8 million of depreciation and amortization, \$17.6 million of stock-based compensation,

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\$6.3 million of interest expense related to the non-cash interest expense related to the amortization of debt discount, \$2.2 million of amortization of deferred costs, \$0.6 million of impairment charges, partially offset by benefit for deferred income taxes of \$16.6 million and a gain on disposal of equipment of \$0.2 million, and other non-cash items of \$0.1 million. These cash inflows were partially offset by a change in working capital items totaling \$11.4 million, and a decrease in other assets and liabilities of \$5.5 million.

In the year ended December 31, 2017, cash provided by operating activities was \$31.2 million, which was driven by an increase in deferred revenue of \$6.2 million, change in working capital items totaling \$6.1 million and a net adjustment for non-cash charges of \$23.5 million, primarily comprised of \$21.7 million of depreciation and amortization, \$12.7 million of stock-based compensation expense, \$4.4 million of interest expense related to the non-cash interest expense related to the amortization of debt discount, \$1.4 million of impairment charges, partially offset by a gain on disposal of equipment of \$0.9 million, benefit for deferred income taxes of \$15.4 million and other non-cash items of \$0.5 million. These cash inflows were partially offset by our net loss of \$4.0 million and a decrease in other assets and liabilities of \$0.5 million.

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

Investing activities

In the year ended December 31, 2018, cash used in investing activities was \$160.0 million, which was primarily driven by our payment of \$144.6 million in connection with the acquisition of Mozy, capital expenditures of \$13.1 million, payments for intangible assets of \$5.8 million, and purchases of derivatives of \$1.4 million, partially offset by proceeds from maturities of derivatives of \$4.0 million, and proceeds from the sale of property and equipment of \$0.9 million.

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

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

Financing activities

In the year ended December 31, 2018 cash provided by financing activities was \$176.8 million, which was primarily driven by \$199.3 million in proceeds from the issuance of common shares related to our secondary offering, \$88.1 million in proceeds from long-term borrowing, net of debt issuance costs, \$2.6 million in proceeds from the issuance of treasury stock under our employee stock purchase plan, \$1.3 million in proceeds from the exercise of stock options, partially offset by \$90.0 million in payments on long-term borrowings, \$21.5 million in repurchases of common stock and \$2.9 million in payments of withholding taxes in connection with restricted stock unit vesting.

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

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

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Contractual obligations

The following table summarizes our contractual obligations at December 31, 2018 (in thousands):

	Payment Due by Period (1)				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(in thousands)				
Convertible notes principal	\$143,750	\$—	\$—	\$143,750	\$—
Convertible notes interest	12,579	3,594	7,188	1,797	—
Office lease obligations	24,608	4,194	7,863	7,368	5,183
Data center lease obligations (2)	12,303	4,833	6,567	903	—
Hosted software obligations	4,256	3,269	987	—	—
Consulting obligations	1,925	1,925	—	—	—
Other purchase commitments	13,082	12,875	207	—	—
Total	\$212,503	\$30,690	\$22,812	\$153,818	\$5,183

(1) See Note 12—Income Taxes to the consolidated financial statements included in this Annual Report for information related to our uncertain tax positions. The future payments related to uncertain tax positions have not been presented in the table above due to the uncertainty of the amounts and timing of cash settlement with the taxing authorities.

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

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

Commitments under our data center lease obligations included above consist primarily of Ashburn, Virginia; Chandler, Arizona; and St. George, Utah data centers. We also have data center colocation agreements in place to rent colocation space.

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

Off-balance sheet arrangements

As of December 31, 2018, we did not have any off-balance sheet arrangements.

Critical Accounting Policies

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

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

Revenue Recognition

We generate substantially all of our revenues from contracts with customers. We derive our revenue from cloud-hosted subscription services, software licenses, customer support services and software enhancements (i.e. maintenance), implementation and training services, and sales of hardware. We recognize revenue when we transfer control of the promised

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goods or services to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those products or services. We initially assess each contract to identify any and all goods or services within, and then evaluate whether those goods and services are distinct, or capable of being distinct within the context of the contract. A good or service that is promised to a customer is distinct if the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer, and a company's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. Goods and services that are identified as being distinct are identified as contractual performance obligations. Goods and services that are not both capable of being distinct and distinct within the context of the contract are combined and treated as a single performance obligation in determining the allocation and recognition of revenue. We allocate the transaction price to each distinct performance obligation based on the standalone selling price ("SSP") of each good or service.

The SSP is the price at which we would sell a promised product or service separately to the customer. For the majority of our cloud-hosted subscription services and maintenance offerings, we use the observable price when we sell that support and service and cloud-hosted subscription separately to similar customers. If the SSP for a performance obligation is not directly observable, we estimate it. We estimate the SSP by taking into consideration market conditions, economics of the offering and customers' behavior. We maximize the use of observable inputs and apply estimation methods consistently in similar circumstances. We allocate the transaction price to each distinct performance obligation on a relative standalone selling price basis. Refer to Note 2—Summary of Significant Accounting Policies to our consolidated financial statements for further information on our revenue recognition.

Costs to Obtain a Contract with a Customer

Sales commissions earned by our sales teams are considered incremental, recoverable costs of obtaining a contract with a customer. Sales commissions for initial contracts are deferred and then amortized on a straight-line basis over a period of benefit that we have determined to be approximately six years. The six year period has been determined by taking into consideration the type of product sold, the commitment term of the customer contract, the nature of our technology development life-cycle, and an estimated customer relationship period. Sales commissions for upgrade and renewal contracts are expensed in the period incurred. While we do not anticipate any significant changes to the six year amortization period, if a change did occur it could produce a material impact on our financial statements.

Business Combinations

In accordance with ASC 805, Business Combinations ("ASC 805"), we recognize identifiable assets acquired and liabilities assumed at their acquisition date fair value. Fair value determinations involve significant estimates and assumptions about several highly subjective variables, including future cash flows, discount rates, and expected business performance. There are also different valuation models and inputs for each component, the selection of which requires considerable judgment. These determinations will affect the amount of amortization expense recognized in future periods. While we use our best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill to the extent that we identify adjustments to the preliminary purchase price allocation. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations.

Goodwill and acquired intangible assets

We record goodwill when consideration paid in a business acquisition exceeds the value of the net assets acquired. Our estimates of fair value are based upon assumptions believed to be reasonable at that time, but that are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events or circumstances may occur, which may affect the accuracy or validity of such assumptions, estimates or actual results. Goodwill is not amortized, but rather is tested for impairment annually or more frequently at the reporting unit level if facts and circumstances warrant a review. We have determined that there is a single reporting unit for the purpose of conducting this goodwill impairment assessment. We estimate the fair value of the reporting unit (based on our market capitalization) and compare this amount to the carrying value of the reporting unit (as reflected by our total

stockholders' equity). If we determine that the carrying value of the reporting unit exceeds its fair value, an impairment charge would be required. Our annual goodwill impairment test is performed at November 30 of each year. To date, we have not identified any impairment to goodwill.

Intangible assets acquired in a business combination are recorded at their estimated fair values at the date of acquisition. We amortize acquired intangible assets over their estimated useful lives based on the pattern of consumption of the economic

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benefits or, if that pattern cannot be readily determined, on a straight-line basis. We review our intangible assets with definite lives for impairment when events or changes in circumstances indicate that the related carrying amount of any of these assets may not be recoverable. The details of our intangible asset impairment assessment are included in Note 5 - Fair Value of Financial Instruments.

Income taxes

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

Due to a history of losses, we have provided a full valuation allowance against our deferred tax assets in the U.S. and in certain foreign jurisdictions that are in a deferred tax asset position for which we are uncertain as to their ultimate realization. This is more fully described in Note 12 - Income Taxes to our consolidated financial statements, included in the Annual Report. The ability to utilize these deferred tax assets may be restricted or eliminated by changes in our ownership, changes in legislation, and other rules affecting the ability to offset future taxable income with losses or other tax attributes from prior periods. Future determinations on the need for a valuation allowance on our net deferred tax assets will be made on an annual basis.

Stock-based compensation

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

Recent Accounting Pronouncements

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

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currency Exchange Risk

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

We routinely enter into short-term foreign currency forward contracts to offset foreign exchange gains and losses generated by the remeasurement of certain intercompany loans denominated in non-functional currencies. These contracts are not designated as cash flow or fair value hedges and have historically been for periods of less than one year. Changes in the fair value of these derivatives, as well as remeasurement gains and losses on the underlying intercompany assets and liabilities, are recognized in our consolidated statements of operations within "other income (expense), net". At December 31, 2018 and 2017, we had outstanding contracts with a total notional value of \$43.8 million and \$47.8 million, respectively.

We have performed a sensitivity analysis as of December 31, 2018, using a modeling technique that measures hypothetical gains and losses for a one-year period, from a 10% movement in foreign currency exchange rates relative to the U.S. dollar and applicable functional currencies of our subsidiaries that hold assets and/or liabilities in non-functional currencies. The foreign currency exchange rates we used were based on market rates in effect on December 31, 2018. We estimate that a hypothetical 10% adverse change in foreign currency exchange rates, based upon our market risk as it existed as of December 31, 2018 would result in an immaterial adverse impact on income (loss) from operations in our consolidated statements of operations.

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

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

Interest Rate Risk

We are exposed to interest rate risk as a result of our cash and cash equivalents. Our cash equivalents consist of cash and money market funds. The money market funds are invested solely in U.S. agency and treasury securities. As of December 31, 2018, the carrying amount of our cash equivalents reasonably approximates fair value and have a constant \$1 net asset value ("NAV") with daily liquidity. The primary objective of our investment policy is to preserve principal, while maximizing income and minimizing risk. Accordingly, due to the nature of our cash equivalents, they are relatively insensitive to interest rate changes. We have conducted a rate sensitivity analysis of our interest rate fluctuation, and have determined that the risk of a 10% increase or decrease in interest rates would not have a material effect on the fair market value of our portfolio.

Our Convertible Notes have a fixed annual interest rate of 2.5%, and, therefore, we do not have interest rate exposure on the Convertible Notes. On March 19, 2018, we entered into a Revolving Credit Facility which provides revolving credit financing of up to \$130.0 million, including a \$10.0 million sub-limit for letters of credit and a \$10.0 million sub-limit for swingline loans. As of December 31, 2018, we had no outstanding borrowings under the Revolving Credit Facility and therefore no interest rate exposure.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Carbonite, Inc.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Carbonite, Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for the years ended December 31, 2018 and 2017 and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the two years ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for revenue from contracts with customers and costs to obtain a contract, using the modified retrospective approach, upon the adoption of Accounting Standards Update 2014-09, Revenue from Contracts with Customers as of January 1, 2018.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

February 28, 2019

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
Carbonite, Inc.

We have audited the accompanying consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for the year ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

/s/ Ernst & Young LLP

Boston, Massachusetts

March 16, 2017,

except for the effects of the adoption of ASU 2016-09 as discussed in Note 2, as to which the date is March 12, 2018 and for the effects of the adoption of ASU 2016-18 as discussed in Note 2 and for the effects of the revision of prior period amounts as discussed in Note 3, as to which the date is February 28, 2019

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Consolidated Balance Sheets

	December 31,	
	2018	2017
	(In thousands, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 198,087	\$ 128,231
Trade accounts receivable, less allowances of \$892 and \$994	31,569	22,219
Prepaid expenses and other current assets	10,409	6,823
Total current assets	240,065	157,273
Property and equipment, net	34,101	28,790
Other assets	13,876	804
Acquired intangible assets, net	117,963	44,994
Goodwill	155,086	80,958
Total assets	\$ 561,091	\$ 312,819
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,114	\$ 10,842
Accrued compensation	11,620	9,892
Accrued expenses and other current liabilities	15,844	11,783
Current portion of deferred revenue	121,553	100,241
Total current liabilities	151,131	132,758
Long-term debt	118,305	111,819
Deferred revenue, net of current portion	29,151	24,273
Other long-term liabilities	5,294	5,704
Total liabilities	303,881	274,554
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 6,000,000 shares authorized; no shares issued	—	—
Common stock, \$0.01 par value; 45,000,000 shares authorized; 36,641,317 shares issued and 33,923,135 shares outstanding at December 31, 2018; 30,130,856 shares issued and 28,182,094 shares outstanding at December 31, 2017	366	301
Additional paid-in capital	451,618	233,343
Treasury stock, at cost (2,718,182 and 1,948,762 shares as of December 31, 2018 and 2017, respectively)	(48,522)	(26,616)
Accumulated other comprehensive income	1,650	581
Accumulated deficit	(147,902)	(169,344)
Total stockholders' equity	257,210	38,265
Total liabilities and stockholders' equity	\$ 561,091	\$ 312,819

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

Table of ContentsCarbonite, Inc.
Consolidated Statements of Operations

	Years Ended December 31,		
	2018	2017	2016
	(In thousands, except share and per share data)		
Revenue:			
Services	\$263,084	\$207,403	\$186,087
Product	33,324	32,059	20,899
Total revenue	296,408	239,462	206,986
Cost of revenue:			
Services	68,024	59,212	55,512
Product	1,730	2,676	2,793
Amortization of intangible assets	15,629	8,179	2,632
Total cost of revenue	85,383	70,067	60,937
Gross profit	211,025	169,395	146,049
Operating expenses:			
Research and development	57,467	46,160	33,298
General and administrative	50,547	42,862	41,070
Sales and marketing	85,637	89,298	72,371
Amortization of intangible assets	12,437	2,093	1,238
Restructuring charges	1,270	1,047	856
Total operating expenses	207,358	181,460	148,833
Income (loss) from operations	3,667	(12,065)	(2,784)
Interest expense	(11,556)	(7,447)	(147)
Interest income	1,877	581	25
Other income (expense), net	227	1,252	190
Loss before income taxes	(5,785)	(17,679)	(2,716)
(Benefit) provision for income taxes	(13,347)	(13,677)	1,383
Net income (loss)	\$7,562	\$(4,002)	\$(4,099)
Basic net income (loss) per share attributable to common stockholders	\$0.24	\$(0.14)	\$(0.15)
Diluted net income (loss) per share attributable to common stockholders	\$0.22	\$(0.14)	\$(0.15)
Weighted-average number of common shares used in computing basic net income (loss) per share	31,036,237	27,779,098	27,028,636
Weighted-average number of common shares used in computing diluted net income (loss) per share	33,672,686	27,779,098	27,028,636

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

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Carbonite, Inc.
Consolidated Statements of Comprehensive Income (Loss)

	Years Ended December		
	31,		
	2018	2017	2016
	(In thousands)		
Net income (loss)	\$7,562	\$(4,002)	\$(4,099)
Other comprehensive income (loss):			
Foreign currency translation adjustments	1,069	(2,736)	1,277
Total other comprehensive income (loss)	1,069	(2,736)	1,277
Total comprehensive income (loss)	\$8,631	\$(6,738)	\$(2,822)

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

Table of ContentsCarbonite, Inc.
Consolidated Statements of Stockholders' Equity

	Common Stock		Additional	Accumulated	Treasury	Accumulated	Total
	Number of	Amount	Paid-in	Deficit	Stock	Other	Stockholders'
	Shares		Capital			Comprehensive	Equity
						Income	
in thousands, except share data							
Balance at December 31, 2015	27,756,799	\$ 278	\$ 165,391	\$(160,943)	\$(5,693)	\$ 2,040	\$ 1,073
Stock options exercised and vesting of restricted stock units	788,290	7	3,553				3,560
Stock-based compensation expense			8,983				8,983
Tax benefits relating to share-based payments			4				4
Acquisition of treasury stock					(4,481)		(4,481)
Payments of withholding taxes in connection with restricted stock unit vesting					(483)		(483)
Other comprehensive income						1,277	1,277
Net loss				(4,099)			(4,099)
Balance at December 31, 2016	28,545,089	285	177,931	(165,042)	(10,657)	3,317	5,834
Stock options exercised and vesting of restricted stock units	1,253,441	13	4,974				4,987
Issuance of common stock related to business combinations	332,326	3	5,730				5,733
Stock-based compensation expense			12,841		119		12,960
Issuance of treasury stock in connection with employee stock purchase plan			116		936		1,052
Acquisition of treasury stock					(14,964)		(14,964)
Payments of withholding taxes in connection with restricted stock unit vesting					(2,050)		(2,050)
Allocation of equity component related to Convertible Notes			31,451				31,451
Adjustment resulting from the adoption of ASU 2016-09			300	(300)			—
Other comprehensive loss						(2,736)	(2,736)
Net loss				(4,002)			(4,002)
Balance at December 31, 2017	30,130,856	301	233,343	(169,344)	(26,616)	581	38,265
Stock options exercised and vesting of restricted stock units	925,819	9	1,251				1,260
Issuance of common stock associated with secondary offering	5,584,642	56	199,223				199,279
Stock-based compensation expense			17,518		154		17,672

Issuance of treasury stock in connection with employee stock purchase plan	283	2,303	2,586
Acquisition of treasury stock		(21,501)	(21,501)
Payments of withholding taxes in connection with restricted stock unit vesting		(2,862)	(2,862)
Adjustment resulting from the adoption of Topic 606	13,880		13,880
Other comprehensive income		1,069	1,069
Net income	7,562		7,562
Balance at December 31, 2018	36,641,317 \$ 366 \$ 451,618	\$(147,902) \$(48,522)	\$ 1,650 \$ 257,210

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

Table of ContentsCarbonite, Inc.
Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Operating activities			
Net income (loss)	\$7,562	\$(4,002)	\$(4,099)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	41,786	21,731	15,869
Amortization of deferred costs	2,166	—	—
(Gain) loss on disposal of equipment	(191)	(907)	748
Intangible asset impairment charges	—	352	—
Impairment of capitalized software	653	1,048	—
Stock-based compensation expense	17,607	12,742	8,900
Benefit for deferred income taxes	(16,625)	(15,392)	(15)
Non-cash interest expense related to amortization of debt discount	6,340	4,434	—
Other non-cash items, net	(139)	(533)	68
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	(5,996)	1,786	(13,412)
Prepaid expenses and other current assets	(3,718)	254	(1,547)
Other assets	(5,241)	(580)	17
Accounts payable	(7,359)	5,035	(3,345)
Accrued expenses	5,636	(995)	8,183
Other long-term liabilities	(236)	53	(586)
Deferred revenue	11,345	6,169	2,384
Net cash provided by operating activities	53,590	31,195	13,165
Investing activities			
Purchases of property and equipment	(13,132)	(17,351)	(6,582)
Proceeds from sale of property and equipment and businesses	860	1,250	13
Proceeds from maturities of marketable securities and derivatives	4,017	534	3,395
Purchases of derivatives	(1,428)	(5,040)	(1,476)
Payment for intangibles	(5,750)	(1,250)	—
Payment for acquisitions, net of cash acquired	(144,597)	(69,798)	(11,625)
Net cash used in investing activities	(160,030)	(91,655)	(16,275)
Financing activities			
Proceeds from exercise of stock options	1,260	4,987	3,560
Proceeds from issuance of common shares for secondary offering	199,279	—	—
Proceeds from issuance of treasury stock under employee stock purchase plan	2,586	1,052	—
Payments of withholding taxes in connection with restricted stock unit vesting	(2,862)	(2,050)	(483)
Proceeds from long-term borrowing, net of debt issuance costs	88,068	177,797	—
Payments on long-term borrowings	(90,000)	(39,200)	—
Repurchase of common stock	(21,501)	(14,964)	(4,481)
Net cash provided by (used in) financing activities	176,830	127,622	(1,404)
Effect of currency exchange rate changes on cash	(534)	1,782	(270)
Net increase (decrease) in cash, cash equivalents and restricted cash	69,856	68,944	(4,784)
Cash, cash equivalents and restricted cash, beginning of period	128,231	59,287	64,071

Cash, cash equivalents and restricted cash, end of period \$198,087 \$128,231 \$59,287

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

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Carbonite, Inc.

Consolidated Statements of Cash Flows (continued)

Supplemental disclosure of cash flow information

Cash paid for income taxes	\$542	\$820	\$1,160
Cash paid for interest	\$4,762	\$1,767	\$—
Supplemental disclosure of non-cash investing and financing activities			
Capitalization of stock-based compensation	\$65	\$218	\$83
Acquisition of property and equipment included in accounts payable and accrued expenses	\$(146)	\$(641)	\$894
Issuance of common stock for acquisition	\$—	\$5,733	\$—

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

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Carbonite, Inc.

Notes to Consolidated Financial Statements

1. Nature of Business

The Company was incorporated in the State of Delaware on February 10, 2005 and provides robust backup, disaster recovery, high availability and workload migration solutions (the "Carbonite Data Protection Platform"). The Carbonite Data Protection Platform supports businesses on a global scale with secure cloud infrastructure.

The Company views its operations and manages its business as one operating segment.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions between the Company and its subsidiaries have been eliminated in consolidation.

During 2016, the Company recorded an adjustment for payments owed to foreign tax authorities inclusive of any interest and penalties that were not accrued for in prior fiscal years. This adjustment was recorded as an increase to accrued liabilities for approximately \$1.2 million with a corresponding expense recorded in general and administrative expenses in the condensed consolidated statements of operations. Of this \$1.2 million adjustment, approximately \$0.2 million related to the year ended December 31, 2015 and \$1.0 million related to prior years. The Company concluded the effect of these adjustments were not material to its consolidated financial statements for the current period or any of the prior periods.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Although the Company regularly assesses these estimates, actual results could differ materially from these estimates. Changes in estimates are recorded in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances. Actual results may differ from management's estimates if past experience or other assumptions do not turn out to be substantially accurate, even if such assumptions are reasonable when made.

Translation of Foreign Currencies

The functional currency of the Company's foreign subsidiaries is generally the local currency in which they operate. The Company translates foreign subsidiaries' assets and liabilities at the exchange rates in effect at period-end and revenues and expenses at the average exchange rates in effect during the period. Gains and losses from foreign currency translation are recorded as a component of other comprehensive income (loss).

Foreign currency transaction gains and losses are included in other income (expense), net in the consolidated statements of operations, net of losses and gains from any related derivative financial instruments. Transaction (losses) gains were \$(2.7) million, \$5.1 million and \$(0.8) million during the years ended December 31, 2018, 2017, and 2016, respectively.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk primarily consist of cash and cash equivalents, derivatives, and accounts receivable. The Company maintains its cash and cash equivalents and derivatives with high-quality financial institutions and, consequently, the Company believes that such funds are subject to minimal credit risk. Cash equivalents consist of investment grade debt securities or money market funds investing in such securities.

The Company regularly reviews its accounts receivable related to customers billed on traditional credit terms and provides an allowance for expected credit losses. Due to these factors, no additional credit risk beyond amounts provided for collection losses is believed by management to be probable in the Company's accounts receivable. No customer represented 10% or more of the Company's accounts receivable balance as of December 31, 2018 and 2017. Further, no customer represented 10% or more of the Company's revenue for the years ended December 31, 2018,

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Revenue Recognition

The Company primarily sells products and services as discussed below. Each category contains one or more performance obligation that is either (i) capable of being distinct (i.e., the customer can benefit from the good or service on its own or together with readily available resources, including those purchased separately from the Company) and distinct within the context of the contract (i.e., separately identifiable from other promises in the contract), or (ii) a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Aside from software licenses and hardware, which are delivered at a point in time, the majority of the Company's other services are delivered over time.

Under ASU 2014-09, Revenue from Contracts with Customers (Topic 606) ("Topic 606"), the Company recognizes revenue following a five step model, as outlined below:

- Identify the contract.
- Identify the performance obligations.
- Determine the transaction price.
- Allocate the transaction price.
- Recognize revenue.

Identifying the Contract

The Company considers itself to have a contract with a customer when all of the following are met:

- The parties have approved the contract;
 - The Company can identify each party's rights regarding the goods or services to be transferred;
 - The Company can identify the payment terms;
 - The contract has commercial substance; and
- It is probable that the Company will collect substantially all of the consideration to which it will be entitled.

Performance Obligations and Timing of Revenue Recognition

Service Revenue

The Company offers SaaS and HaaS offerings. Most notably, the Company offers the customer the right to access its software through its SaaS offering, where the Company hosts the software and the customer is granted access via the web. Control of the software does not transfer in these types of arrangements and is therefore not considered a distinct performance obligation. Revenues related to the SaaS and HaaS offerings are recorded over the performance period of the services.

The Company also offers M&S services for its licenses. M&S services generally consist of telephone, email, or live chat support, as well as updates and upgrades to the software licenses on an if and when available basis. All M&S obligations are considered distinct performance obligations that are of substantially the same duration and measure of progress and are therefore combined into a single performance obligation. As such, revenues from M&S are recorded ratably over the time of performance.

The Company also offers professional services to customers consisting of implementation, training, migration and protection services, and consulting. Professional services are regularly sold in conjunction with other products or services, as well as on a standalone basis and either (i) prepaid upfront or (ii) sold on a time and materials basis.

Professional service revenue is recognized over time as services are delivered. For time and materials-based consulting arrangements, the Company has elected the practical expedient of recognizing revenue upon invoicing since the invoiced amount corresponds directly to the value of the Company's service to date.

Product Revenue

The Company sells different types of on-premise data protection and migration software, licensed on a term or perpetual basis, and as royalty arrangements. License arrangements generally include maintenance and support services, but the software is fully functional upon delivery and is considered to be a distinct performance obligation.

Revenues from product licenses are recorded when control of the product has been transferred to the customer. The Company also offers hardware on a standalone basis or in conjunction with the Company's software. Hardware sales are recorded as revenue when control is transferred to the customer.

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Determining the Transaction Price

To determine the transaction price, the Company considers both fixed and variable consideration. The majority of the Company's contracts contain fixed consideration that is paid up-front. Variable consideration is included in the transaction price to the extent it is probable that a significant reversal will not occur. The Company has the following sources of variable consideration:

Performance penalties - Subscription services and product support arrangements generally contain performance response time guarantees. For subscription services arrangements, the Company estimates variable consideration using a portfolio approach because performance penalties are tied to standard response time requirements. For product support arrangements, the Company estimates variable consideration on a contract basis because such arrangements are customer-specific. For both subscription services and product support arrangements, the Company uses an expected value approach to estimate variable consideration based on historical business practices and current and future performance expectations to determine the likelihood of incurring penalties.

Extended payment terms - The Company's standard payment terms are generally within 90 days of invoicing. If extended payment terms are granted to customers, those terms generally do not exceed one year. For contracts with extended payment terms, the Company estimates variable consideration on a contract basis because such estimates are customer-specific, and uses an expected value approach to analyze historical business experience on a customer-by-customer basis to determine the likelihood that extended payment terms lead to an implied price concession.

Sales and usage-based royalties - Certain product license arrangements include sales or usage-based royalties, covering both the software license and product support. Typically, the arrangements consist of a minimum commitment as well as usage based "overage" fees. The Company includes the minimum commitments in determining the transaction price, however, excludes an estimate of sales or usage based "overages".

The Company has elected to exclude taxes assessed by government authorities in determining the transaction price, and therefore revenue is recognized net of taxes collected from customers.

Allocating the Transaction Price

The Company allocates the transaction price to each performance obligation based on the standard selling price ("SSP"), which is the price the Company regularly sells the product or service on a standalone basis. For certain products or services, a readily identifiable SSP is not available. In such cases, the Company estimates the SSP using the following methodologies:

Product licenses - Product licenses are not sold on a standalone basis. The Company establishes the SSP of product licenses using a residual approach after first establishing the SSP of the associated maintenance and support.

Maintenance and support is sold on a standalone basis as annual renewals, and because an economic relationship exists between product licenses and maintenance and support, the Company has concluded that the residual method to estimate the SSP of product licenses sold on both a perpetual and term basis is an appropriate allocation of the transaction price.

Maintenance and Support (time-based licenses) - The Company establishes the SSP of maintenance and support included in time-based licenses based on similar percentages charged for maintenance and support of perpetual licenses because time-based licenses, when renewed, are renewed for the right to use the license as well as the ongoing maintenance and support. The Company believes this method is an appropriate allocation of maintenance and support in time-based license arrangements.

The Company infrequently provides options to purchase future products or services at a discount. The Company analyzes the option price against the SSP of the previously established goods or services to determine if the options represent material rights that should be accounted for as separate performance obligations. In general, options sold at or above the SSP are not considered separate performance obligations because the customer could have received that right without entering into the contract. If a material right exists, revenue associated with the option is recognized when the future goods or services are transferred, or when the option expires.

Cash and Cash Equivalents

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

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Property and Equipment

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

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

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

Impairment of Long-Lived Assets

The Company reviews property and equipment and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the recoverability of these assets is considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds their estimated fair value. The details of the Company's impairment assessment are included in Note 5 - Fair Value of Financial Instruments.

Business Combinations

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

The Company recognizes identifiable assets acquired and liabilities assumed at their acquisition date fair value.

Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair value of the assets acquired and the liabilities assumed and represents the expected future economic benefits arising from other assets acquired that are not individually identified and separately recognized.

While the Company uses its best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, its estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill to the extent that it identifies adjustments to the preliminary purchase price allocation. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations.

Goodwill and Acquired Intangible Assets

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

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

to goodwill.

Intangible assets acquired in a business combination are recorded at their estimated fair values at the date of acquisition. The Company amortizes acquired intangible assets over their estimated useful lives based on the pattern of consumption of the

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economic benefits or, if that pattern cannot be readily determined, on a straight-line basis. The Company reviews its intangible assets with definite lives for impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable. The details of the Company's intangible asset impairment assessment are included in Note 5 - Fair Value of Financial Instruments.

Software Development Costs

The Company accounts for its software and website development costs in accordance with the guidance in ASC 350-40, Internal-Use Software and ASC 350-50, Website Development Costs. The costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the application is substantially complete and ready for its intended use, at which point such costs are amortized over the estimated useful life of the software. As of December 31, 2018 and December 31, 2017, the Company had capitalized \$7.7 million and \$6.8 million of costs associated with internal-use software, respectively. For the years ended December 31, 2018, 2017, and 2016, the Company recorded \$1.1 million, \$0.5 million, and \$0.4 million of amortization expense related to capitalized internal-use software, respectively.

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

Advertising Expenses

The Company expenses advertising costs as incurred. During the years ended December 31, 2018, 2017, and 2016, the Company incurred approximately \$17.0 million, \$16.4 million, and \$17.8 million of advertising expense, respectively, which is included in sales and marketing expense in the accompanying statements of operations.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount. The allowance for doubtful accounts reflects the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company specifically analyzes historical bad debts, the aging of the accounts receivable, creditworthiness, and current economic trends to evaluate the allowance for doubtful accounts. Past due balances are reviewed individually for collectability.

Account balances are charged against the allowance for doubtful accounts after all means of collection have been exhausted, and the potential for recovery is considered remote. The allowance for doubtful accounts is recorded as a reduction in accounts receivable. The Company also maintains an allowance for sales returns and credits to customers for which the Company has the ability to estimate based upon historical experience. The allowance for sales returns and credits is recorded as a reduction in revenue.

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

	Balance Beginning of Period	Charged to Statement of Operations	Deductions (1)	Balance End of Period
Year ended December 31, 2018	\$ 994	\$ 227	\$ (329)	\$ 892
Year ended December 31, 2017	\$ 1,587	\$ (444)	\$ (149)	\$ 994
Year ended December 31, 2016	\$ 139	\$ 1,462	\$ (14)	\$ 1,587

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

Income Taxes

The Company provides for income taxes under the liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the

enacted tax rates in effect when the differences are expected to reverse. In certain jurisdictions, deferred tax assets are reduced by a valuation allowance to reflect the uncertainty associated with their ultimate realization. The Company accounts for uncertain tax positions recognized in the consolidated financial statements by prescribing a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Due to a history of losses, the Company has provided a full valuation allowance against its deferred tax assets in the U.S. and in certain foreign jurisdictions that are in a deferred tax asset position for which the Company is uncertain as to their

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ultimate realization. This is more fully described in Note 12- Income Taxes. The ability to utilize these deferred tax assets may be restricted or eliminated by changes in the Company's ownership, changes in legislation, and other rules affecting the ability to offset future taxable income with losses or other tax attributes from prior periods. Future determinations on the need for a valuation allowance on the Company's net deferred tax assets will be made on a quarterly basis.

Segment Information

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

Stock-Based Compensation

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

Costs Associated with Exit Activities

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

Reclassifications

The Company adopted Accounting Standard Update ("ASU") 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"), effective January 1, 2018. Restricted cash is defined as cash and cash equivalents subject to contractual restrictions and not readily available for use. The Company applied this standard retrospectively by reclassifying restricted cash to be presented with cash and cash equivalents on the consolidated statement of cash flows. As of December 31, 2016, the restricted cash balance of \$0.1 million related to a security deposit maintained for certain office space that was subleased to third parties. For the year ended December 31, 2018 and 2017, the Company did not have a restricted cash balance reported within the consolidated balance sheets. The Company has reclassified certain prior period amounts in its consolidated statements of operations to conform to the current period presentation. The reclassification relates to separately presenting amortization of intangible assets previously included within general and administrative and sales and marketing. For the year ended December 31, 2017, the Company reclassified \$0.5 million from general and administrative and \$1.6 million from sales and marketing into the amortization of intangible assets caption within operating expenses. For the year ended December 31, 2016, the Company reclassified \$0.3 million from general and administrative and \$1.0 million from sales and marketing into the amortization of intangible assets caption within operating expenses. The Company has reclassified certain prior period amounts in its consolidated balance sheets to conform to the current period presentation. The reclassification relates to separately presenting accrued compensation which was previously included in the accrued expenses and other current liabilities caption. As of December 31, 2017, the Company reclassified \$9.9 million from accrued expenses and other current liabilities into the accrued compensation caption.

Recently Adopted Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Topic 606, which updated guidance and disclosure requirements for recognizing revenue. The new revenue recognition standard provides a five-step analysis of

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transactions to determine when and how revenue is recognized. The revenue standard is based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted this standard effective January 1, 2018 using the modified retrospective transition method. The Company recognized the cumulative effect of applying the new standard as an adjustment to the opening balance of retained earnings at the beginning of 2018. The comparative information for 2017 has not been restated and continues to be reported under the accounting standards in effect for the period presented. Refer to Note 3 - Revenue Recognition for the required disclosures related to the impact of adopting this standard and accounting for costs to obtain and fulfill a customer contract.

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

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16"). The purpose of ASU 2016-16 is to simplify the income tax accounting of an intra-entity transfer of an asset other than inventory and to record its effect when the transfer occurs. The guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods and early adoption is permitted. The Company adopted ASU 2016-16 effective January 1, 2018, which did not have a material impact on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. The guidance is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those fiscal years. The Company adopted ASU 2016-18 effective January 1, 2018, which did not have a material impact on the consolidated financial statements. The Company applied this standard retrospectively by reclassifying restricted cash to be presented with cash and cash equivalents on the consolidated statement of cash flows.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). The standard eliminates the second step in the goodwill impairment test which requires an entity to determine the implied fair value of the reporting unit's goodwill. The standard is effective for annual and interim goodwill impairment tests conducted in fiscal years beginning after December 15, 2019, with early adoption permitted. The Company elected to early adopt ASU 2017-04 effective January 1, 2018, which did not have a material impact on the consolidated financial statements.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize the assets and liabilities on their balance sheet for the rights and obligations created by most leases and continue to recognize expenses on their income statements over the lease term. It will also require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. The guidance is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption permitted. The Company will adopt the new standard effective January 1, 2019 on a modified retrospective basis and will not restate comparative periods. The Company is currently evaluating the effect of the standard on its consolidated financial statements and expects that upon adoption a material lease obligation and right to use asset will be recognized on its consolidated balance sheets. The Company's leases

primarily relate to office and data center space. Refer to Note 13 - Commitments and Contingencies for additional information related to the Company's lease obligations.

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract. This standard aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

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3. Revenue Recognition

On January 1, 2018, the Company adopted Topic 606 applying the modified retrospective method to all contracts that were not completed as of January 1, 2018. Where applicable, the Company utilized the practical expedient and reflected the aggregate effect of all contract modifications that occurred prior to adoption as they related to performance obligations (both satisfied and remaining) and determination and allocation of the transaction price. Under the modified retrospective method, results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the applicable accounting in effect for those periods. The adoption of Topic 606 did not significantly impact the majority of the Company's offerings. Under the new guidance, the Company's revenue recognition associated with term licenses and software contracts with a minimum monthly royalty commitment is accelerated. Further, the Company has begun capitalizing certain incremental costs incurred in obtaining contracts with customers as an asset on the consolidated balance sheets. These costs were previously expensed in the period they were incurred. The Company recorded a \$13.9 million increase to retained earnings as of January 1, 2018, due to the cumulative impact of adopting Topic 606 on revenue from contracts with customers. Upon adoption, trade accounts receivable, net increased \$2.2 million and deferred revenue decreased \$4.0 million. Prepaid expenses and other current assets increased \$1.5 million and other assets increased by \$6.6 million primarily related to the capitalization of sales commissions. Deferred tax liabilities increased by \$0.4 million due to temporary differences between the accounting and tax carrying values of the capitalized commissions. The impact of adopting Topic 606 to revenues was an increase of \$1.1 million for the year ended December 31, 2018.

Disaggregation of Revenue

The following table depicts disaggregated revenue for the year ended December 31, 2018, by type, customer type, sales channel, timing of revenue recognition, and geography (in thousands):

	Year Ended December 31, 2018		
	Products	Services	Total
Customer type			
Consumer	\$—	\$95,185	\$95,185
Business	33,324	167,899	201,223
Total	\$33,324	\$263,084	\$296,408
Sales channel			
Direct	\$4,193	\$181,122	\$185,315
Indirect	29,131	81,962	111,093
Total	\$33,324	\$263,084	\$296,408
Timing of revenue recognition			
Transferred at a point in time	\$33,324	\$—	\$33,324
Transferred over time	—	263,084	263,084
Total	\$33,324	\$263,084	\$296,408
Geography			
United States	\$14,741	\$234,474	\$249,215
Other	18,583	28,610	47,193
Total	\$33,324	\$263,084	\$296,408

Contract Assets and Liabilities

Contract assets are rights to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditional on something other than the passage of time. Contract assets are transferred to

accounts receivable once the rights become unconditional. The Company did not have contract assets as of December 31, 2018.

Contract liabilities (deferred revenue) primarily consist of billings and payments received in advance of revenue recognition. The Company primarily bills and collects payments from customers for its services in advance on a monthly and annual basis. The Company initially records fees associated with performance obligations delivered over time as deferred revenue and then recognizes revenue as performance obligations are satisfied. The Company classifies deferred revenue as

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current or noncurrent based on the timing revenue recognition. Changes in contract liabilities for the year ended December 31, 2018 are as follows (in thousands):

	Deferred Revenue (Short-term)	Deferred Revenue (Long-term)
Balance as of January 1, 2018	\$ 96,243	\$ 24,273
Increase, net	25,310	4,878
Balance as of December 31, 2018	\$ 121,553	\$ 29,151

For the year ended December 31, 2018, revenue recognized related to deferred revenue at January 1, 2018 was approximately \$93.7 million. Additionally, for the year ended December 31, 2018, the Company recognized \$14.0 million of revenue from deferred revenue related to the acquisition of Mozy on March 19, 2018.

On December 31, 2018, the Company had \$160.5 million of remaining performance obligations. This amount does not include any variable consideration for sales or usage-based royalties. The Company expects to recognize 80.0% of its remaining performance obligations as revenue in the year ended December 31, 2019, 15.0% in the year ended December 31, 2020, and the remaining balance thereafter.

Accounts Receivable, Net

Accounts receivable, net, are amounts due from customers where there is an unconditional right to consideration.

Unbilled receivables of \$3.6 million and \$3.9 million are included in this balance at January 1, 2018 and December 31, 2018, respectively. The payment of consideration related to these unbilled receivables is subjected only to the passage of time.

Contract Costs

The Company also considered Topic 606 subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers (“subtopic 340-40”). Prior to adoption of Topic 606, the Company expensed costs to obtain and fulfill contracts with customers as incurred. Under subtopic 340-40, the Company capitalizes incremental costs incurred in obtaining contracts with customers if the amortization period is greater than one year. For costs that the Company would have capitalized and amortized over one year or less, the Company has elected to apply the practical expedient and expense these contract costs as incurred. These costs consist primarily of commissions paid when contracts are signed. For the year ended December 31, 2018, the Company capitalized \$7.5 million in costs to obtain contracts with customers, which are amortized on a straight-line basis over the period of benefit. The Company has defined the period of benefit to be the average customer life of six years. For the year ended December 31, 2018, the Company had amortization expense of \$2.2 million related to deferred costs. Amortization expense is included in sales and marketing expense in the consolidated statements of operations. As of December 31, 2018, the Company has \$2.7 million and \$10.6 million in current and non-current deferred costs of obtaining contracts with customers, respectively.

Financial Statement Impact of Adopting Topic 606

The Company adopted Topic 606 using the modified retrospective method. The cumulative effect of applying the new guidance to all contracts with customers that were not completed as of January 1, 2018 was recorded as an adjustment to accumulated deficit as of the adoption date.

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The following table summarizes the effects of adopting Topic 606 on the Company's consolidated balance sheet as of December 31, 2018 (in thousands):

	December 31, 2018		
	As reported under Topic 606	Adjustments	Balances under Prior GAAP
Trade accounts receivable, net	\$31,569	\$ (2,635)	\$28,934
Prepaid expenses and other current assets	10,409	(2,723)	7,686
Other assets	13,876	(10,587)	3,289
Accrued expenses and other current liabilities	15,844	(511)	15,333
Current portion of deferred revenue	121,553	3,434	124,987
Deferred revenue, net of current portion	29,151	495	29,646
Other long-term liabilities	5,294	(343)	4,951
Accumulated other comprehensive income	1,650	203	1,853
Accumulated deficit	(147,902)	(19,223)	(167,125)

The following table summarizes the effects of adopting Topic 606 on the Company's consolidated income statement for the year ended December 31, 2018 (in thousands, except per share amounts):

	Year Ended December 31, 2018		
	As reported under Topic 606	Adjustments	Balances under Prior GAAP
Revenue	\$296,408	\$ (1,122)	\$295,286
General and administrative	50,547	(595)	49,952
Sales and marketing	85,637	5,328	90,965
(Benefit) provision for income taxes	(13,347)	(512)	(13,859)
Net income (loss)	7,562	(5,343)	2,219
Net income (loss) per share - basic	0.24	(0.17)	0.07
Net income (loss) per share - diluted	0.22	(0.15)	0.07

The adjustment to the general and administrative caption above relates to a sale of assets recorded in the twelve months ended December 31, 2018. The deferred revenue divested as part of the sale was \$0.6 million higher under prior GAAP. This resulted in an adjustment between Topic 606 and prior GAAP related to the \$0.6 million change in deferred revenue and gain (loss) on the sale of the assets.

The adoption of ASC 606 did not affect the Company's cash flows.

Revision of Prior Period Amounts

The Company has revised certain prior period amounts in its consolidated statements of operations. In connection with the Company's adoption of Topic 606, the Company determined that product revenue has historically exceeded 10% of total revenue and therefore should have been previously stated separately from services revenue. While the Company believes the effect of this correction is immaterial to previously issued financial statements, the Company has revised the presentation to correctly present the services and products components of revenue and cost of revenue in the consolidated statements of operations for the years ended December 31, 2017 and December 31, 2016. The revision also includes presenting as a separate caption within costs of revenue, the amortization of intangible assets, which was previously included in the total cost of revenue. These revisions did not affect reported total revenue, total cost of revenue, loss from operations, net income or net income per share, the Company's cash flows; or any balance sheet line item.

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The effect of the revisions to the consolidated statements of operations for the year ended December 31, 2017 and December 31, 2016, is as follows (in thousands):

	Year Ended December 31, 2017		Year Ended December 31, 2016	
	As Pre-Adjustments Reported	As Revised	As Pre-Adjustments Reported	As Revised
Revenue:				
Services	\$— 207,403	\$207,403	\$— 186,087	\$186,087
Product	—32,059	32,059	—20,899	20,899
Total revenue	239,462	239,462	206,986	206,986
Cost of revenue:				
Services	—59,212	59,212	—55,512	55,512
Product	—2,676	2,676	—2,793	2,793
Amortization of intangible assets	—8,179	8,179	—2,632	2,632
Total cost of revenue	70,067	70,067	60,937	60,937

4. Net Income (Loss) Per Share

Basic net income (loss) per share is calculated by dividing the net income (loss) by the weighted average number of common shares outstanding during the period. For the periods in which the Company reports net income, diluted net income per share is calculated by dividing net income by the sum of the weighted average number of common shares and potentially dilutive securities outstanding during the period using the treasury stock method. For the periods in which the Company reports a net loss, the dilutive effect of the Company's outstanding common stock equivalents are not included in the calculation of diluted loss per share as they would be anti-dilutive. The following table sets forth the computation of basic and diluted net income (loss) per share:

	Years Ended December 31,		
	2018	2017	2016
	(In thousands, except per share data)		
Numerator:			
Net income (loss)	\$7,562	\$(4,002)	\$(4,099)
Denominator:			
Weighted average common shares outstanding, basic	31,036	27,779	27,029
Effect of potential dilutive common shares	2,636	—	—
Weighted average shares outstanding, diluted	33,673	27,779	27,029
Basic net income (loss) per share	\$0.24	\$(0.14)	\$(0.15)
Diluted net income (loss) per share	\$0.22	\$(0.14)	\$(0.15)

The Company has the ability and intent to settle the principal of the convertible senior notes (the "Convertible Notes"), issued in April 2017, in cash. The Company has included the dilutive effect of the Convertible Notes in the calculation of diluted net income per share for the year ended December 31, 2018, using the treasury stock method.

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The following options to purchase common shares, restricted stock units/awards and shares of common stock purchasable under the Company's 2017 Employee Stock Purchase Plan ("2017 ESPP") have been excluded from the computation of diluted net income (loss) per share because they had an anti-dilutive impact, or because they related to share-based awards that were contingently issuable, for which the applicable vesting conditions had not been satisfied (in thousands):

	Years Ended	
	December 31,	
	2018	2017
Options to purchase common shares (1)	1,148	1,585
Restricted stock units/awards	57	1,853
Total	57	2,844

(1) The balances for the years ended December 31, 2018 and 2017 include shares purchasable under the Company's 2017 ESPP which were determined to be anti-dilutive.

5. Fair Value of Financial Instruments

Derivative Instruments

Non-designated Foreign Currency Contracts

The Company uses foreign currency forward contracts as part of our strategy to manage exposure related to Euro denominated intercompany monetary assets and liabilities. The Company has not designated these forward contracts as hedging instruments. Accordingly, the Company recorded the fair value of these contracts at the end of each reporting period in the consolidated balance sheets, with changes in the fair value recorded in earnings as other income (expense), net in the consolidated statements of operations. Cash flows from the settlement of these non-designated foreign currency contracts are reported in cash flows from investing activities. These currency forward contracts are entered into for periods consistent with currency transaction exposures, generally less than one year. At December 31, 2018 and 2017, we had outstanding contracts with a total notional value of \$43.8 million and \$47.8 million, respectively. The following table provides a quantitative summary of the fair value of derivative instruments not designated as hedging instruments as of December 31, 2018 and 2017 (in thousands):

Description	Balance Sheet Classification	Fair Value	
		December 31, 2018	December 31, 2017
Derivative Liabilities:		(in thousands)	
Non-Designated Hedging Instruments			
Foreign currency contracts	Accrued expenses and other current liabilities	\$ 195	\$ 439
Total Derivative Liabilities		\$ 195	\$ 439

The following tables summarize the gains (losses) related to derivative instruments not designated as hedging instruments for the year ended December 31, 2018, 2017 and 2016 (in thousands):

Description	Location in Statement of Operations	Years Ended December 31,		
		2018	2017	2016
Foreign currency contracts	Other income (expense), net	\$2,832	\$(5,324)	\$1,700

Other Fair Value Measurements

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

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

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

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

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value. The Company's assets and liabilities that are measured at fair value on a recurring basis, by level, within the fair value hierarchy are summarized as follows (in thousands):

	December 31, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash equivalents—money market funds	\$156,200	\$ —	\$ —	—\$156,200	\$96,295	\$ —	\$ —	—\$96,295
Total	\$156,200	\$ —	\$ —	—\$156,200	\$96,295	\$ —	\$ —	—\$96,295
Liabilities:								
Foreign currency exchange contracts	—	195	—	195	—	439	—	439
Total	\$—	\$ 195	\$ —	—\$195	\$—	\$ 439	\$ —	—\$439

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

The Company estimates the fair value of its Convertible Notes using quoted market prices in an inactive market on the last trading day of the reporting period and has been classified as Level 2 within the fair value hierarchy. The principal amount, carrying value of the Convertible Notes (the carrying value excludes the equity component of the Convertible Notes classified in equity) and related estimated fair value of the Company's Convertible Notes reported in the consolidated balance sheet as of December 31, 2018 and 2017 are as follows (in thousands):

	December 31, 2018			December 31, 2017		
	Principal	Carrying Value	Fair Value	Principal	Carrying Value	Fair Value
Convertible Notes	\$143,750	\$118,305	\$168,287	\$143,750	\$111,819	\$174,548

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

Non-Recurring Fair Value Measures

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

During the year ended December 31, 2018, the Company recorded impairment charges totaling \$0.7 million related to internally developed software costs which were no longer recoverable as the project was discontinued. The Company recorded the impairment charge in the cost of revenue, research and development, sales and marketing, and general and administrative captions in the consolidated statements of operations.

During the year ended December 31, 2017, the Company recorded impairment charges totaling \$1.0 million related to capitalized software projects that were discontinued. The Company recorded the impairment charge in the research and development caption in the consolidated statements of operations. Additionally, during the year ended December 31, 2017, the Company recorded impairment charges totaling \$0.4 million related to intangible assets whose carrying values were assessed to be unrecoverable. Of the total impairment charges, \$0.2 million was recorded in the cost of revenue caption in the consolidated statements of operations related to an impairment of developed technology intangible asset, and \$0.2 million was recorded in

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the sales and marketing caption in the consolidated statements of operations related to an impairment of customer relationship intangible asset.

6. Acquisitions

Acquisition-Related Expenses

In the twelve months ended December 31, 2018, 2017 and 2016 acquisition-related expenses were \$6.3 million, \$3.9 million, \$4.5 million, respectively. Acquisition-related expenses have been included primarily in general and administrative expenses in the consolidated statements of operations. The Company's current year acquisition costs relate to the acquisition of Mozy and the prior year acquisition costs primarily relate to the acquisitions of certain assets of Datacastle, DoubleTake, and EVault.

2018 Acquisitions

Mozy

On February 12, 2018, the Company entered into a definitive Master Acquisition Agreement ("Agreement") with EMC Corporation ("EMC"), Mozy and Dell Technologies, Inc. Pursuant to the Agreement, on March 19, 2018, the Company completed the acquisition of all of the issued and outstanding capital stock of Mozy, a cloud backup service for consumers and businesses, and certain related business assets owned by EMC or its affiliates, for a purchase price of \$144.6 million in cash, net of cash acquired. The purchase price was funded with cash on hand and funds available under the Company's Revolving Credit Facility (refer to Note 16 - Borrowings and Credit Arrangements). In connection with the acquisition of Mozy, the Company negotiated a transition services agreement to cover certain consulting, technology and engineering services for up to eighteen months post close. The acquisition of Mozy has been accounted for as a business combination and the Company has recorded the assets acquired and liabilities assumed at their respective fair values as of the acquisition date.

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

Fair value of consideration transferred:	
Cash, net of cash acquired	\$ 144,597
Fair value of total acquisition consideration	\$ 144,597
Fair value of assets acquired and liabilities assumed:	
Accounts receivable	\$ 1,629
Prepaid expenses and other current assets	872
Property and equipment	7,169
Other long-term assets	242
Intangible assets	96,400
Goodwill	74,753
Total assets acquired	181,065
Accounts payable	(141)
Accrued liabilities	(417)
Deferred revenue	(19,740)
Deferred tax liability	(16,170)
Net assets acquired	\$ 144,597

The Company engaged a third-party valuation firm to assist in the valuation of intangible assets consisting of customer relationships, developed technology and the Mozy trade name as well as in the valuation of deferred revenue and property and equipment. The fair values of the remaining Mozy assets and liabilities noted above approximate their carrying values at March 19, 2018.

The Company believes the goodwill related to the acquisition was a result of the ability of the Company to leverage its technology in the broader market, as well as offering cross-selling market exposure opportunities. Goodwill is not deductible for tax purposes as this acquisition was a stock purchase.

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The significant intangible assets identified in the purchase price allocation discussed above include customer relationships, developed technology, and trade names which are amortized over their estimated useful lives based on the pattern of consumption of the economic benefits or, if that pattern cannot be readily determined, on a straight-line basis. Customer relationships represent the underlying relationships with certain customers to provide ongoing services for products sold. To value the customer relationship asset, the Company utilized the income approach, specifically a discounted cash-flow method known as the excess earnings method. Developed technology consists of products that have reached technological feasibility and trade names represent acquired company and product names. The developed technology intangible was valued using a relief from royalty method, which considers both the market approach and the income approach. The trade name intangible was valued using the replacement cost/lost profits methodology. The following table presents the estimated fair values and useful lives of the identifiable intangible assets acquired and risk-adjusted discount rates used in the valuation:

	Amount (in thousands)	Weighted Average Useful Life (in years)	Risk-Adjusted Discount Rates used in Valuation
Developed technology	\$ 8,700	2	12.5%
Customer relationships	87,200	7	16.5 - 17.5%
Trade names	500	2	12.5%
Total identifiable intangible assets	\$ 96,400		

For the year ended December 31, 2018, the operating results of Mozy, which are included in the Company's consolidated statements of operations since the date of acquisition, include \$48.5 million of Mozy subscription revenue. Mozy subscription revenue does not include revenue associated with Mozy customers that have transitioned to Carbonite branded offerings. The Company has determined that disclosing the amount of Mozy related expenses included in the consolidated statements of operations is impracticable, as certain operations of Mozy were integrated into the operations of the Company.

Pro Forma Financial Information (unaudited)

The following unaudited pro forma information presents the consolidated results of operations of the Company and Mozy for the years ended December 31, 2018 and December 31, 2017 as if the acquisition of Mozy had been completed on January 1, 2017. These pro forma consolidated financial results have been prepared for comparative purposes only and include certain adjustments that reflect pro forma results of operations, such as increased amortization for the fair value of acquired intangible assets, fair value adjustment for deferred revenue, additional annual interest expense resulting from interest on the Revolving Credit Facility to finance the acquisition of Mozy, reversal of depreciation expense resulting from the application of fair value measurement to acquired property and equipment and adjustments relating to the tax effect of combining the Carbonite and Mozy businesses. The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings which may result from the consolidation of the operations of the Company and Mozy. Accordingly, these unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of the results of operations that actually would have been achieved had the acquisition occurred as of January 1, 2017 nor are they intended to represent or be indicative of future results of operations (in thousands):

	Years Ended December 31,	
	2018	2017
Pro forma revenue	\$311,416	\$306,567
Pro forma net income (loss)	\$10,700	\$(2,885)
Pro forma net income (loss) per common share:		
Basic	\$0.34	\$(0.10)
Diluted	\$0.32	\$(0.10)

2017 Acquisitions
Datacastle

On August 14, 2017, the Company entered into an asset purchase agreement with Datacastle to purchase all the assets associated with Datacastle's cloud data backup, caching and analytics software and services for data protection purposes, for a

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purchase price of \$9.6 million in cash at closing. The acquisition of Datacastle has been accounted for as a business combination and the Company has recorded the assets acquired and liabilities assumed at their respective fair values as of the acquisition date. Pro forma information has not been presented, as the operating results of Datacastle are not material.

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

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

The Company engaged a third-party valuation firm to assist in the valuation of intangible assets and deferred revenue.

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

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

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

DoubleTake

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

332,326 shares of our common stock with a fair value of \$5.7 million and the working capital payment of \$0.5 million. The working capital settlement was paid in June 2017. DoubleTake develops, sells, and supports affordable software that allows IT organizations of all sizes to move, manage, protect, and recover workloads across any distance and any combination of physical and virtual server environments. DoubleTake's products and services are marketed and sold worldwide through their direct sales force and a network of business partners and distributors. In connection with the acquisition of DoubleTake, the Company negotiated a transition services agreement ("TSA") to cover certain consulting, technology and accounting services for up to nine months post close. The Company incurred \$1.2 million

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under the TSA. The acquisition of DoubleTake has been accounted

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for as a business combination and the Company has recorded the assets acquired and liabilities assumed at their respective fair values as of the acquisition date.

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

Fair value of consideration transferred:	
Cash, net of cash acquired	\$59,740
Fair value of equity instruments	5,733
Working capital payment	458
Fair value of total consideration	\$65,931
Fair value of assets acquired and liabilities assumed:	
Accounts receivable	\$6,058
Prepaid and other current assets	158
Property and equipment	428
Other long-term assets	42
Intangible assets	36,700
Goodwill	49,473
Total assets acquired	92,859
Accounts payable	(636)
Accrued liabilities	(2,156)
Deferred revenues	(9,100)
Deferred tax liability	(14,918)
Other non-current liabilities	(118)
Net assets acquired	\$65,931

The Company engaged a third-party valuation firm to assist in the valuation of intangible assets consisting of developed technology, customer relationships, and the DoubleTake trade name as well as in the valuation of deferred revenue. The fair values of the remaining DoubleTake assets and liabilities noted above approximate their carrying values at January 31, 2017.

In connection with the acquisition of DoubleTake, goodwill of \$49.5 million was recognized for the excess purchase price over the fair value of the net assets acquired. The Company believes the goodwill recorded in connection with this transaction is primarily related to the investment value of the future enhancements of our product offering and solutions offering. Goodwill from the acquisition of DoubleTake is included within the Company's one reporting unit and will be included in the annual review for impairment. Goodwill is not deductible for tax purposes as this acquisition was a stock purchase.

The significant intangible assets identified in the purchase price allocation discussed above include developed technology, trade names and customer relationships, which are amortized over their estimated useful lives based on the pattern of consumption of the economic benefits or, if that pattern cannot be readily determined, on a straight-line basis. To value the developed technology asset, the Company utilized the income approach, specifically a discounted cash-flow method known as the multi-period excess earnings method. The trade name intangible was valued using a relief from royalty method, which considers both the market approach and the income approach. Customer relationships represent the underlying relationships with certain customers to provide ongoing services for products sold. The Company utilized the replacement cost/lost profits methodology to derive the fair value of the customer relationships. The following table presents the fair values and useful lives of the identifiable intangible assets acquired and risk-adjusted discount rates used in the valuation:

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

Total identifiable intangible
assets

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Pro Forma Financial Information (unaudited)

The following unaudited pro forma information presents the consolidated results of operations of the Company and DoubleTake for the year ended December 31, 2017 and 2016 as if the acquisition of DoubleTake had been completed on January 1, 2016. These pro forma consolidated financial results have been prepared for comparative purposes only and include certain adjustments that reflect pro forma results of operations, such as increased amortization for the fair value of acquired intangible assets, fair value adjustment for deferred revenue, elimination of interest expense with a promissory note due to the parent company, and adjustments relating to the tax effect of combining the Carbonite and DoubleTake businesses.

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

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

2016 Acquisition

EVault

On January 13, 2016, the Company completed the acquisition of the North American cloud-based business continuity and disaster recovery assets of EVault and the acquisition of the assets used in the European Union operations of EVault was completed on March 31, 2016. The Company acquired EVault to offer business continuity and disaster recovery solutions designed for SMBs and small enterprises. The acquisition of EVault has been accounted for as a business combination and, in accordance with ASC 805, the Company has recorded the assets acquired and liabilities assumed at their respective fair values as of the acquisition dates.

In connection with the acquisition of EVault, the Company negotiated a transition services agreement ("EVault TSA") that provides a credit to be used against future services provided under the terms of the agreement. The Company estimated the fair value of the EVault TSA credit to be \$2.4 million and accounted for it as a reduction in consideration transferred in the purchase price allocation. The EVault TSA credit was recorded in prepaid expenses and other current assets on the consolidated balance sheet as of the acquisition date. The EVault TSA credit was fully expensed in 2016, and as such, there is no remaining balance of the EVault TSA credit on the consolidated balance sheet as of December 31, 2018. The following tables summarize the final purchase price allocation (in thousands):

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

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Fair value of assets acquired and liabilities assumed:

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

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

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

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

Pro Forma Financial Information (unaudited)

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

The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings which may result from the consolidation of the operations of the Company and EVault.

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Accordingly, these unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of the results of operations that actually would have been achieved had the acquisition occurred as of January 1, 2015, nor are they intended to represent or be indicative of future results of operations (in thousands):

	Year Ended December 31, 2015
Revenue	\$220,403
Net loss	\$(102,376)

Basic and diluted net loss per share	\$(3.77)
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Weighted-average number of common shares used in computing basic and diluted net loss per share	27,187,910
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The pro forma financial information shown above includes a nonrecurring adjustment of \$3.3 million, to eliminate transaction costs directly attributable to the acquisition incurred by the Company for the year ended December 31, 2015, in arriving at the pro forma net loss shown above.

7. Goodwill and Acquired Intangible Assets

The following is a rollforward of our goodwill balance (in thousands):

	December 31,	
	2018	2017
Balance at beginning of fiscal period	\$80,958	\$23,728
Goodwill acquired	74,753	55,740
Goodwill divested	(29)	(27)
Effect of foreign exchange rates	(596)	1,517
Balance at end of fiscal period	\$155,086	\$80,958

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

	December 31, 2018			December 31, 2017			
	Weighted- Average Estimated Useful Life (in years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Technology-related	4.4	\$59,018	\$ 26,551	\$32,467	\$46,833	\$ 12,504	\$34,329
Customer relationships	6.8	96,997	13,398	83,599	11,295	3,361	7,934
Trade names	2.8	3,752	1,855	1,897	3,677	946	2,731
Non-compete agreements	0.0	—	—	—	230	230	—
Total	4.7	\$159,767	\$ 41,804	\$117,963	\$62,035	\$ 17,041	\$44,994

The Company recorded amortization expense of \$28.1 million, \$10.3 million and \$3.9 million for the years ended December 31, 2018, 2017 and 2016, respectively. Technology-related intangible assets consist of developed technology acquired and purchased software, which represents software licenses purchased from third parties.

Amortization relating to technology-related assets is recorded within a separate line within cost of revenue and amortization of customer relationships, trade names and non-compete agreements is recorded within a separate line within operating expenses.

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Future estimated amortization expense of acquired intangibles is as follows (in thousands):

2019	\$27,253
2020	22,406
2021	21,254
2022	15,352
2023	13,919
Thereafter	17,779
Total	\$117,963

On October 3, 2017, the Company entered into a license and distribution agreement to be utilized in future product offerings. As consideration for granting the license, the Company agreed to pay \$7.0 million in three separate milestone payments. The Company paid \$1.25 million upon transfer of all licensed materials in October 2017, \$1.25 million related to progress made in January 2018, and \$4.5 million upon completion and acceptance of certain deliverables in July 2018. Under ASC 985, these costs are capitalized as incurred and amortized over their estimated useful life on a straight-line basis. As the product was released in late September 2018, the amortization of these development costs began in October 2018 on a straight-line basis over the estimated useful life of the software, which was determined to be seven years.

8. Property and Equipment

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

	December 31,	
	2018	2017
Computer equipment	\$56,204	\$46,113
Software	3,668	3,211
Furniture and fixtures	3,013	2,344
Leasehold improvements	14,428	11,163
Internal-use software	7,745	6,793
Appliances	1,731	1,131
Total property and equipment	86,789	70,755
Less accumulated depreciation and amortization	(52,688)	(41,965)
Property and equipment, net	\$34,101	\$28,790

Depreciation and amortization expense was \$13.7 million, \$11.5 million, and \$12.0 million for the years ended December 31, 2018, 2017, and 2016, respectively.

9. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31,	
	2018	2017
Accrued tax liabilities	\$4,588	\$2,280
Accrued consulting and professional fees	3,103	2,162
Accrued sales and marketing	1,606	1,124
Accrued facilities	1,807	1,002
Accrued interest	980	898
Accrued restructuring	—	688
Derivative liability	195	439
Accrued other expenses	3,565	3,190
Total accrued expenses	\$15,844	\$11,783

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Share Repurchase Program

On May 11, 2015, the Company's Board of Directors authorized a \$20.0 million share repurchase program, which was subsequently increased to \$30.0 million, effective from May 15, 2015 through May 15, 2018. On May 15, 2018, the share repurchase program was not renewed by the Company. On November 19, 2018, the Company's Board of Directors authorized a \$50.0 million share repurchase program in lieu of the previously expired program. Share repurchases are made from time-to-time in the open market, in privately negotiated transactions or otherwise, in accordance with applicable securities laws and regulations. The timing and amount of any share repurchases are determined by the Company's management based on an evaluation of market conditions, the trading price of the stock, and other factors.

The Company made the following repurchases under the programs during years ended December 31, 2018, 2017, and 2016:

	December 31,		
	2018	2017	2016
	(total cost, in thousands)		
Number of shares repurchased	809,921	767,400	574,118
Average repurchase price per share	\$26.55	\$19.50	\$7.81
Total cost	\$21,501	\$14,964	\$4,481

At December 31, 2018, approximately \$28.5 million remained available under the Company's share repurchase program.

Secondary Offering

On July 23, 2018, 4,765,157 shares of common stock, with a par value \$0.01 per share, were issued and sold in a public offering by the Company. Additionally, the underwriters exercised their full 30-day option on August 16, 2018 and an additional 819,485 shares were issued and sold. Proceeds of \$199.3 million were recognized by the Company, net of underwriting discounts and commissions and offering expenses paid. The net proceeds recognized less the par value of the shares issued were recorded within additional paid-in capital in the Company's consolidated balance sheets.

11. Stock-based Awards

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

The 2011 Plan provides for the issuance of stock options, restricted stock, restricted stock units, and other stock-based awards to the employees, officers, directors, and consultants of the Company or its subsidiaries. In connection with the approval of the 2011 Plan, the Company reserved 1,662,000 shares of common stock for issuance thereunder. On January 1st of each year, beginning on January 1, 2012, the number of shares reserved under the 2011 Plan increased or will increase by the lesser of 1,500,000 shares, 4.0% of the outstanding shares of common stock and common stock equivalents, or another amount determined by the Company's Board of Directors. As of December 31, 2018, 2,569,335 shares of common stock were available for future grant under the 2011 Plan.

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

Stock Options

The Company generally estimates the fair value of stock options on the date of grant using the Black-Scholes option-pricing model. This model requires the use of highly subjective estimates and assumptions, including expected stock price volatility, expected term of an award, risk-free interest rate, and expected dividend yield. The Company

did not grant any stock options in the years ended December 31, 2018 and 2017.

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The assumptions used to estimate the fair value of the stock options granted for the year ended December 31, 2016 were as follows:

	December 31, 2016
Weighted-average exercise price	\$ 8.95
Weighted-average grant-date fair value	\$ 4.03
Black-Scholes Assumptions	
Risk-free interest rate	1.93 %
Expected dividend yield	—
Expected volatility	44 %
Expected term (in years)	6.10

Risk-Free Interest Rate

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

Expected Dividend Yield

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

Expected Volatility

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

Expected Term

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

The following table summarizes stock option activity under stock incentive plans for the year ended December 31, 2018:

	Number of Shares	Weighted- Average Exercise Price per Share	Weighted- Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands) (1)
Outstanding at December 31, 2017	834,679	\$ 11.45	5.99	\$ 11,391
Granted	—	—		
Exercised	(109,496)	11.24		
Cancelled	(6,372)	11.91		
Outstanding at December 31, 2018	718,811	\$ 11.48	4.99	\$ 9,904
Exercisable as of December 31, 2018	690,100	\$ 11.44	4.94	\$ 9,537

(1) The aggregate intrinsic value is calculated as the positive difference between the exercise price of the underlying stock options and the market value of the Company's common stock on December 31, 2018 and December 31, 2017 as reported on the NASDAQ Stock Market.

The total intrinsic value of options exercised during the years ended December 31, 2018, 2017, and 2016 was approximately \$2.1 million, \$4.2 million, and \$1.8 million, respectively. As of December 31, 2018, there was approximately \$0.1 million of unrecognized stock-based compensation cost related to unvested stock options that is expected to be recognized over a weighted-average period of 0.34 years.

Restricted Stock Units

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

one share of common stock.

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The following table summarizes all restricted stock unit activity for the year ended December 31, 2018:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock units as of December 31, 2017	1,418,261	\$ 15.12
Restricted stock units granted	711,978	27.98
Restricted stock units vested	(562,551)	14.42
Restricted stock units cancelled	(110,612)	21.94
Unvested restricted stock units as of December 31, 2018	1,457,076	\$ 21.16

As of December 31, 2018, there was approximately \$22.4 million of unrecognized stock-based compensation cost related to unvested restricted stock units that is expected to be recognized over a weighted-average period of 2.18 years.

Restricted Stock Awards

The Company grants restricted stock awards to members of the Board of Directors annually. The fair value is measured based upon the number of units and the closing price of the Company's common stock underlying such units on the dates of grant. Awards to directors vest on the earlier of the first anniversary of the date of grant or the Company's Annual Meeting. The following table summarizes restricted stock award activity for the year ended December 31, 2018:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock awards as of December 31, 2017	58,279	\$ 19.60
Restricted stock awards granted	28,777	34.90
Restricted stock awards vested (restriction lapsed)	(52,260)	19.67
Restricted stock awards forfeited	—	—
Unvested restricted stock awards as of December 31, 2018	34,796	\$ 32.15

As of December 31, 2018, there was approximately \$0.4 million of unrecognized stock-based compensation cost related to unvested restricted stock units that is expected to be recognized over a weighted-average period of 0.48 years.

Equity Awards with Market-Based Vesting Conditions

During the years ended December 31, 2018, 2017, and 2016, the Company granted 151,580, 168,884 and 325,000 restricted stock units with market-based vesting conditions to certain key executives, respectively. These restricted stock units contain both market-based and service vesting conditions. The market-based vesting conditions are achieved if the closing price of the Company's common stock meets or exceeds a specified target price for 20 consecutive trading days. The awards are subject to additional service vesting which typically occurs in four equal quarterly installments over the one-year period beginning on the date the market-based vesting conditions are met.

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

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

	As of February 14, 2018	As of August 4, 2017	As February 10, 2017	As of February 1, 2016
Grant-date stock price	\$26.53	\$21.15	\$19.15	\$8.95
Assumptions				
Expected volatility	39	% 39	% 42	% 40
Risk-free interest rate	2.39	% 1.44	% 1.47	% 1.01
Expected dividend yield	—	% —	% —	% —

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

The following table summarizes equity awards with market-based vesting conditions activity for the year ended December 31, 2018:

	Restricted Stock Units with Market-Based Vesting Conditions	Weighted Average Grant Date Fair Value
Unvested market-based vesting awards as of December 31, 2017	218,884	\$ 13.26
Market-based vesting awards granted	151,580	19.57
Market-based vesting awards vested	(223,588) 15.40
Market-based vesting awards forfeited	(16,397) 18.42
Unvested market-based vesting awards as of December 31, 2018 ¹	130,479	\$ 16.28

(1) In addition to the unvested market-based vesting awards above, there were 250,000 vested market-based vesting options outstanding and exercisable as of December 31, 2018 and December 31, 2017, respectively. As of December 31, 2018, these options had an exercise price of \$14.44, a remaining contractual term of 5.92 years, and an intrinsic value of \$2.7 million.

As of December 31, 2018, there was approximately \$0.4 million of unrecognized stock-based compensation cost related to unvested awards with market-based vesting conditions that are expected to be recognized over a weighted-average period of 0.26 years.

For the year ended December 31, 2018 and 2017, the total fair value of restricted stock awards, restricted stock units, performance-based stock awards on the date vested was \$25.4 million, and \$17.8 million, respectively.

Stock-based Compensation Expense

Stock-based compensation is reflected in the consolidated statements of operations as follows for the years ended December 31, 2018, 2017, and 2016 (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Cost of revenues	\$1,545	\$1,061	\$807
Research and development	3,292	1,969	868
General and administrative	9,697	7,827	6,161
Sales and marketing	3,073	1,885	1,064
Total	\$17,607	\$12,742	\$8,900

Employee Stock Purchase Plan

On May 18, 2017, the Company registered 600,000 shares pursuant to the 2017 Employee Stock Purchase Plan (“2017 ESPP”) on a Form S-8. Under this plan eligible employees may purchase shares of the Company's common stock, subject to certain limitations, at the lesser of 85% of the beginning or ending withholding period fair market value as defined in the 2017

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ESPP. There are two six-month withholding periods in each fiscal year. As of December 31, 2018, rights to acquire 420,314 shares of common stock were available for issuance under the 2017 ESPP.

12. Income Taxes

On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act ("Tax Act"), which significantly changed the existing U.S. tax laws. The Tax Act includes a reduction in the U.S. corporate tax rate from 34% to 21%, a transition from a worldwide tax system to a modified territorial tax system, new taxes on certain foreign-sourced earnings, limitations on the deductibility of interest expense and executive compensation, as well as other changes.

In response to the Tax Act, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") which allows registrants to record provisional amounts during a measurement period, not to extend beyond one year from the enactment date. Pursuant to SAB 118, the Company has completed the accounting for the tax effects of all of the provisions of the Tax Act within the required measurement period.

The Company remeasured all deferred tax assets and liabilities as of December 31, 2017, based on the provisions of the Tax Act, which include a reduction in the federal statutory tax rate from 34% to 21%. The impact of the remeasurement to the net deferred tax asset is a reduction of \$8.9 million, which is fully offset by changes in the pre-existing valuation allowance. For the year ended December 31, 2017, the Company recorded a benefit of \$0.2 million related to the Federal Alternative Minimum Tax ("AMT") credit, which is now refundable under the Tax Act. In regard to the Tax Act's one-time tax on unrepatriated foreign earnings, the Company has performed an analysis and has determined that the Company does not have a liability as the Company has a net deficit of unrepatriated foreign earnings. The federal impacts of the Global Intangible Low-taxed Income ("GILTI") provision, the changes in the disallowed officers' compensation deductions and the changes in the deductibility of meals and entertainment are fully offset by net operating losses in 2018.

The domestic and foreign components of loss before (benefit) provision for income taxes were as follows (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Domestic	\$(11,895)	\$(14,171)	\$(1,911)
Foreign	6,110	(3,508)	(805)
Total loss before (benefit) for income taxes	\$(5,785)	\$(17,679)	\$(2,716)
The components of the (benefit) provision for income taxes are as follows (in thousands):			
	Years Ended December 31,		
	2018	2017	2016
Current tax provision:			
Federal	\$108	\$(395)	\$90
State	163	(24)	219
Foreign	3,007	2,134	1,089
Total current provision	3,278	1,715	1,398
Deferred tax benefit:			
Federal	(12,671)	(12,514)	—
State	(3,348)	(1,906)	10
Foreign	(606)	(972)	(25)
Total deferred benefit	(16,625)	(15,392)	(15)
Total (benefit) provision for income taxes	\$(13,347)	\$(13,677)	\$1,383

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A reconciliation of our income tax (benefit) provision to the statutory federal tax rate is as follows:

	Years Ended December		
	31, 2018	2017	2016
U.S. federal income tax rate	21.0 %	34.0 %	34.0 %
Change in the valuation allowance	222.9	83.8	(43.9)
Nondeductible stock-based compensation	49.5	21.5	0.7
State taxes, net of federal benefit	8.4	5.9	1.6
Foreign rate differential	(8.8)	(11.2)	(30.9)
U.S. foreign income inclusion	(33.1)	—	—
Income tax credits	33.5	6.9	41.5
Provision for tax reserves	(8.8)	0.7	(31.6)
Non-deductible compensation	(28.6)	(8.2)	(14.1)
Meals and entertainment	(4.2)	(1.2)	(2.4)
Transaction costs	(14.6)	(3.7)	(2.8)
Change in federal rate	—	(50.1)	—
Withholding taxes	(7.1)	(0.7)	—
Other	0.6	(0.3)	(3.0)
Effective income tax rate	230.7 %	77.4 %	(50.9)%

The Company recorded a (benefit) provision for income taxes of \$(13.3) million, \$(13.7) million and \$1.4 million for the years ended December 31, 2018, 2017, and 2016, respectively. For the year ended December 31, 2018, the Company's tax benefit was primarily driven by valuation allowance release and foreign income taxes. For the year ended December 31, 2017, the Company's tax benefit was primarily driven by valuation allowance release, foreign income taxes, and refundable AMT.

The components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	Years Ended	
	December 31, 2018	2017
Deferred tax assets:		
Net operating loss carryforwards	\$26,572	\$27,792
Research and development tax credit carryforwards	7,928	6,280
Deferred revenue	4,733	3,957
Stock compensation	2,972	2,339
Other	6,871	7,304
Total deferred tax assets	49,076	47,672
Valuation allowance for deferred tax assets	(12,291)	(28,273)
Total deferred tax assets, net of valuation allowance	36,785	19,399
Deferred tax liabilities:		
Amortization	(22,638)	(9,146)
Convertible debt	(6,445)	(7,948)
Depreciation	(3,696)	(1,508)
Deferred costs	(2,955)	—
Other	(1,869)	(1,942)
Total deferred tax liabilities	(37,603)	(20,544)
Net deferred tax liabilities	\$(818)	\$(1,145)

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As of December 31, 2018, the Company had U.S. federal, state and foreign net operating loss carryforwards of \$110.0 million, \$75.9 million, and \$2.3 million, respectively. The federal net operating loss carryforwards will expire at various dates beginning in 2027 through 2038. State net operating loss carryforwards will expire at various dates beginning in 2020 through 2038. At December 31, 2018, the Company had federal and state research and development tax credit carryforwards available

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to reduce future income taxes payable of \$6.9 million and \$3.8 million, respectively. These credits will expire at various dates beginning in the year 2025 through 2038. As of December 31, 2018, the Company also had refundable federal AMT credits of approximately \$0.2 million.

Management has evaluated the positive and negative evidence bearing upon the realizability of its deferred tax assets.

As required by the provisions of ASC 740, Income Taxes ("ASC 740"), management has determined that it is not more-likely-than-not that the tax benefits related to the federal, state and foreign deferred tax assets will be realized for financial reporting purposes. Accordingly, the federal, state and certain foreign deferred tax assets have been fully reserved at December 31, 2018 and 2017. The valuation allowance decreased approximately \$16.0 million during the year ended December 31, 2018 primarily due to the partial release of U.S. valuation allowance as a result of a net deferred tax liability recorded in the acquisition of Mozy. The U.S. net deferred tax liability primarily relates to non-tax deductible intangible assets recognized in the financial statements which generate a deferred tax liability. The net deferred tax liability established is estimated to be a source of income to utilize previously unrecognized deferred tax assets in the U.S. Therefore, we have recorded a tax benefit of \$16.2 million for the release of U.S. valuation allowance related to the previously unrecognized deferred tax assets in the U.S. The U.S. maintains a valuation allowance on the overall U.S. net deferred tax asset as it is deemed more likely than not the U.S. net deferred tax asset will not be realized. Furthermore, the 2018 change in valuation allowance is also impacted by a deferred tax liability related to the adoption of Topic 606. The valuation allowance decreased approximately \$24.7 million during the year ended December 31, 2017 due primarily to the partial release of U.S. valuation allowance as a result of a net deferred tax liability recorded in the acquisition of DoubleTake.

Future changes in Company ownership may limit the amount of net operating loss carryforwards and research and development credit carryforwards that can be utilized annually to offset future taxable income and taxes, respectively. In general, an ownership change, as defined by Section 382 of the Internal Revenue Code of 1986, as amended, results from transactions increasing the ownership of certain shareholders or public groups in the stock of a corporation by more than 50 percentage points over a three-year period. Based upon the Company's analysis as of December 31, 2018, there was no ownership change experienced during 2018.

Unrecognized Tax Benefits

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Unrecognized tax benefits, beginning of year	\$(3,700)	\$(4,108)	\$(3,231)
Additions based on tax positions related to the current year	(473)	(673)	(943)
Additions for tax positions of prior years	(58)	—	(14)
Reductions for tax positions of prior years	7	1,081	80
Unrecognized tax benefits, end of year	\$(4,224)	\$(3,700)	\$(4,108)

The Company accounts for uncertain tax positions under the recognition and measurement criteria of ASC 740. For those tax positions for which it is more likely than not that a tax benefit will be sustained, we record the largest amount of tax benefit with a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. If we do not believe that it is not more likely than not that a tax benefit will be sustained, no tax benefit is recognized. As of December 31, 2018, the Company had a total amount of unrecognized tax benefits of \$4.2 million, of which \$0.1 million represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods. The difference between the total amount of unrecognized tax benefits and the amount that would impact the effective tax rate consists of items that, if recognized, would result in a corresponding increase in the valuation allowance.

The Company recognizes interest and penalties related to uncertain tax positions as a component in income tax expense. As of December 31, 2018, the Company had no accrued interest or penalties related to uncertain tax positions and no amounts have been recognized in the Company's consolidated statements of operations. The statute of limitations for assessment by the Internal Revenue Service ("IRS") and state tax authorities is open for tax years ending December 31, 2015, 2016, 2017 and 2018, although carryforward attributes that were generated prior to tax year 2014 may still be adjusted upon examination by the IRS or state tax authorities if they either have been or will be

used in a future period. The statute of limitations for assessments by foreign taxing authorities is generally not open for years prior to 2013, although carryforward attributes that were generated prior to tax year 2013 may still be adjusted upon examinations.

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The Company is subject to U.S. federal income tax and various state and local taxes in both domestic and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities within these jurisdictions. The Company is not currently under examination in any domestic or foreign jurisdiction. The Company does not reasonably expect that the unrecognized tax benefit will change significantly within the next twelve months.

As of December 31, 2018, a deferred tax liability has not been established for approximately \$16.2 million of cumulative undistributed earnings of non-U.S. subsidiaries, which are expected to be permanently reinvested in operations outside the U.S. Determination of the unrecognized deferred tax liability on unremitted earnings is not practical due to uncertainty regarding the remittance structure, the mix of earnings and earnings for profit pools in the year of remittance, and overall complexity of the calculation.

13. Commitments and Contingencies

Operating Leases

The Company leases facilities under leases that expire at varying dates through 2029. Certain of these leases contain renewal options and require the Company to pay operating costs, including property taxes, insurance, and maintenance.

The Company has lease agreements to rent office and data center space. The Company also has data center colocation agreements in place to rent colocation space.

The terms of several of the Company's leases include escalating rent and free rent periods. Accordingly, the Company recorded a deferred rent liability related to the free rent and escalating rent payments, such that rent is being recognized on a straight-line basis over the terms of the leases. Rent expense was \$8.8 million, \$8.9 million and \$8.1 million for the fiscal years ended December 31, 2018, 2017 and 2016, respectively. At December 31, 2018 and 2017, \$4.5 million and \$4.7 million is included in accrued expenses and other current liabilities and other long-term liabilities related to the deferred rent, respectively. Future non-cancellable minimum lease payments under all operating leases as of December 31, 2018, are as follows (in thousands):

Years Ended December 31,	Office Leases	Data Center Leases (1)	Total
2019	\$4,194	\$4,833	\$9,027
2020	3,975	4,434	8,409
2021	3,888	2,133	6,021
2022	3,713	833	4,546
2023	3,655	70	3,725
Thereafter	5,183	—	5,183
Total	\$24,608	\$12,303	\$36,911

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

Other Non-Cancellable Commitments

As of December 31, 2018, the Company had non-cancellable commitments to vendors primarily consisting of hosted software, consulting, advertising, marketing and broadband services contracts through 2021, as follows (in thousands):

Years Ended December 31,	Commitments
2019	\$ 18,069
2020	1,069
2021	125
Total	\$ 19,263

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Litigation

On February 27, 2017, a non-practicing entity named Realtime Data LLC ("Realtime Data") filed a lawsuit against the Company in the U.S. District Court for the Eastern District of Texas, alleging that the Company's cloud storage services infringe upon certain patents held by Realtime Data. Realtime Data's complaint against the Company sought damages in an unspecified amount and injunctive relief. On December 19, 2017, the United States District Court for the Eastern District of Texas transferred the case to the United States District Court of Massachusetts. Realtime Data has filed patent suits against several other companies around the country, and one or more of the asserted patents are currently in various stages of other litigations and/or United States Patent and Trademark Office ("USPTO") post-grant proceedings. The Company has requested the Court stay the case pending USPTO post-grant proceedings as to some of the asserted patents. No trial date has been set. The Company intends to defend itself vigorously. The Company has not accrued a loss contingency related to this matter because litigation related to a non-practicing entity is inherently unpredictable. Although a loss is reasonably possible, an unfavorable outcome is not considered by management to be probable at this time and the Company remains unable to reasonably estimate a possible loss or range of loss associated with this litigation.

The Company is from time to time subject to various other legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. The Company routinely assesses its current litigation and/or threatened litigation as to the probability of ultimately incurring a liability, and records its best estimate of the ultimate loss if reasonably possible to estimate, in situations where the Company assesses the likelihood of loss as probable. While the outcome of these other claims cannot be predicted with certainty, management does not believe that the outcome of any of these other legal matters will have a material adverse effect on the Company's condensed consolidated financial statements.

14. Restructuring

In October 2017, the Company initiated a restructuring program ("2017 Plan") to streamline operations and reduce operating costs. The 2017 plan was completed in the fourth quarter of 2018. The Company incurred restructuring charges totaling \$1.8 million related to employee severance under the 2017 plan. In the third quarter of 2018, the Company incurred restructuring expenses related to lease exit charges from a data center facility that was exited during the quarter, as the Company determined to consolidate select data center space.

The following table summarizes the restructuring program activity for the year ended December 31, 2018 and 2017 (in thousands):

	Employee Severance and Related Costs	Facilities Related Costs	Total
Accrued restructuring as of December 31, 2016	\$ —	\$ —	\$ —
Charges	1,047	—	1,047
Cash payments	(359)	—	(359)
Accrued restructuring as of December 31, 2017	688	—	688
Charges	803	467	1,270
Cash payments	(1,460)	(467)	(1,927)
Non-cash and other adjustments	(31)	—	(31)
Accrued restructuring as of December 31, 2018	\$ —	\$ —	\$ —

In 2016, the Company recorded restructuring charges of \$0.9 million. These charges were associated with the reorganization and consolidation of certain operations and the disposal of certain assets during 2016, due to the EVault acquisition. These restructuring activities were completed in March 2016.

Restructuring-related expenses have been included in restructuring charges within the Company's consolidated statements of operations. The accrual for restructuring-related expenses have been included in accrued expenses and other current liabilities within the Company's consolidated balance sheets.

15. Retirement Plan

The Company has a 401(k) defined contribution savings plan for its employees who meet certain employment status and age requirements. The plan allows participants to contribute a portion of their annual compensation on a pre-tax basis. Effective January 1, 2012, the Company elected to make a matching contribution of up to 4% of each employee's wages. For the periods

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ending December 31, 2018, 2017 and 2016, the total expense for the Company's matching contributions to the plan was \$3.0 million, \$2.5 million, and \$1.8 million, respectively.

16. Borrowings and Credit Arrangements

Revolving Credit Facility

On March 19, 2018, the Company entered into a Revolving Credit Facility which provides revolving credit financing of up to \$130.0 million, including a \$10.0 million sub-limit for letters of credit and a \$10.0 million sub-limit for swingline loans. The commitments under the Revolving Credit Facility may be increased by up to an additional \$100.0 million plus an additional unlimited amount so long as the Company does not exceed a specified pro forma secured net leverage ratio, in either case provided the existing or additional lenders are willing to make such increased commitments and subject to other terms and conditions.

The Revolving Credit Facility matures on the earlier of March 20, 2023 or, 91 days prior to the maturity of the Company's outstanding Convertible Notes, to the extent the same have not been repurchased, redeemed or otherwise refinanced as permitted under the Revolving Credit Facility. Borrowings bear interest at a variable rate equal to LIBOR plus an applicable margin as defined in the credit agreement. The Revolving Credit Facility is secured by substantially all of the Company's assets and contains customary affirmative and negative covenants, including, among others, certain limitations on the incurrence of indebtedness, guarantees and liens, the making of investments, acquisitions and dispositions, the payment of dividends and the repurchase of capital stock and the repayment, redemption or amendment of subordinated debt.

During the year ended December 31, 2018, the Company repaid \$90.0 million of its outstanding borrowings under the Revolving Credit Facility. As of December 31, 2018, the Company had no outstanding borrowings under the facility. The Revolving Credit Facility also contains certain financial covenant ratios related to leverage and interest coverage that the Company must maintain.

Convertible Senior Notes

On April 4, 2017, the Company issued, in a private offering, \$143.8 million aggregate principal amount of Convertible Notes. The Convertible Notes accrue interest at 2.5% per year, payable semiannually in arrears on April 1 and October 1 of each year. The Convertible Notes will mature on April 1, 2022, unless earlier repurchased, redeemed or converted.

The conversion rate for the Convertible Notes is initially 38.7034 shares of Company's common stock per \$1,000 principal amount of Convertible Notes, which is equivalent to an initial conversion price of approximately \$25.84 per share of common stock. Prior to January 1, 2022, the Convertible Notes will be convertible by the holders only upon satisfaction of the following conditions and during following periods:

During any calendar quarter commencing after the calendar quarter ending on September 30, 2017 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days

1. (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

2. During the five business day period after any five consecutive trading day period (the "Measurement Period") in which the trading price per \$1,000 principal amount of notes for each trading day of the Measurement Period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day;

3. If the Company calls any or all of the notes for redemption at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; and

4. Upon the occurrence of certain specified corporate events.

On or after January 1, 2022 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time. The Company may satisfy any conversion obligations by paying or delivering, as the case may be, cash, shares of its common stock or a combination of cash and shares of its common stock, at the Company's election in the manner and subject to the terms and conditions provided in the indenture governing the Convertible Notes.

The Company may redeem for cash all or any portion of the Convertible Notes, at its option, on or after April 5, 2020 if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), during any 30 consecutive trading day period ending on the trading day

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immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

The Company received \$138.7 million in proceeds from the issuance of the Convertible Notes, net of debt issuance costs and the discounts to the initial purchasers. The Company used \$39.2 million of the proceeds to repay all amounts outstanding under its revolving credit facility and \$15.0 million of the proceeds to repurchase shares of its common stock from purchasers of Convertible Notes in privately negotiated transactions effected through one or more of the initial purchasers or their affiliates conducted concurrently with the pricing of the Convertible Notes. The remaining proceeds will be used for general corporate purposes, including potential acquisitions.

In accordance with ASC 470-20, Debt with Conversion and Other Options, the Company separated the Convertible Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the Convertible Notes as a whole. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is amortized to interest expense over the term of the Convertible Notes. The equity component is included in the additional paid-in-capital portion of stockholders' equity on the Company's consolidated balance sheet, and is not remeasured as long as it continues to meet the conditions for equity classification.

In addition, the debt issuance costs and debt discount are allocated between the liability and equity components in proportion to the allocation of the proceeds. The issuance costs and discount allocated to the liability component are capitalized as a reduction of the principal amount of the Convertible Notes payable on the Company's balance sheet and amortized, using the effective-interest method, as additional interest expense over the term of the Convertible Notes.

The issuance costs and discount allocated to the equity component are recorded as a reduction to additional paid-in capital. The Convertible Notes consisted of the following (in thousands):

	Years Ended	
	December 31,	
	2018	2017
Liability component:		
Principal	\$143,750	\$143,750
Less: debt issuance costs	(573)	(720)
Less: debt discount	(24,872)	(31,211)
Net carrying amount	\$118,305	\$111,819
Equity component	\$31,451	\$31,451

For the years ended December 31, 2018 and 2017, the Company incurred total interest expense associated with the Convertible Notes as follows (in thousands):

	Years Ended	
	December 31,	
	2018	2017
Interest expense related to contractual interest coupon	\$3,594	\$2,655
Interest expense related to accretion of the discount	6,340	4,434
Interest expense related to debt issuance costs	146	102
Total	\$10,080	\$7,191

As of December 31, 2018, the net carrying value of the Convertible Notes was \$118.3 million, which is net of unamortized debt issuance costs of \$0.6 million. The effective interest rate on the Convertible Notes, including amortization of debt issuance costs and accretion of the discount, is 8.7%. At December 31, 2018, the conversion option value of the Convertible Notes does not exceed their principal amount since the closing market price of the Company's common stock does not exceed the conversion rate. As of December 31, 2018, the Convertible Notes were not convertible.

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17. Geographic Data

As more fully described in Note 2 - Summary of Significant Accounting Policies, the Company operates in one operating segment. Revenue by geographic region was based on physical location of the operations recording the sale.

Revenues by geographic region are presented as follows (in thousands):

	Years Ended	
	December 31,	
	2018	2017
United States	\$249,215	\$209,161
International	47,193	30,301
Total	\$296,408	\$239,462

For the year ended December 31, 2016, revenues by geographic region were not disclosed as revenue outside the United States did not exceed 10% of total revenue. No individual country other than the United States accounts for 10% or more of revenues in the years ended December 31, 2018, 2017 and 2016. Revenue included in the “International” caption above primarily relates to the Company’s operations in Europe.

The Company does not disclose geographic information for long-lived assets, excluding deferred tax assets, goodwill and intangible assets. Long-lived assets, excluding deferred tax assets, goodwill and intangible assets, located outside the United States do not exceed 10% of total assets.

18. Subsequent Events

On February 7, 2019, the Company entered into an agreement and plan of merger to acquire Webroot. The Company will acquire all of the issued and outstanding capital stock of Webroot, a leading cybersecurity company, for \$618.5 million in cash, which will be adjusted with respect to cash, debt, transaction expenses and working capital. The consummation of the merger is subject to certain closing conditions (excluding a financing condition) and also includes customary termination provisions for both Webroot and the Company, including if the merger has not been consummated by May 8, 2019, which date is subject to extension in certain circumstances with respect to regulatory clearance. The merger agreement also contains representations, warranties, and covenants by the parties that are customary for a transaction of this nature. The acquisition is expected to be consummated in the first quarter of 2019. Concurrently with the execution of the merger agreement, the Company entered into a financing commitment letter (the “Commitment Letter”) for (i) a seven-year senior secured term loan facility of \$550.0 million (the “Term Loan Facility”) and (ii) a five-year senior secured revolving credit facility (the “Revolving Facility” and, together with the Term Loan Facility, the “Facilities”). Upon execution of the Revolving Facility, the Company intends to terminate its previously executed Revolving Credit Facility entered into on March 19, 2018. The Company will fund the transaction with existing cash and the proceeds of borrowing under the Facilities. The Facilities will be subject to certain customary representations, warranties and covenants. The funding of the Facilities is subject to the Company’s compliance with customary terms and conditions precedent as set forth in the Commitment Letter, including the execution and delivery of definitive documentation consistent with the Commitment Letter and the substantially simultaneous consummation of the merger on terms consistent with the merger agreement.

19. Quarterly Information (Unaudited)

Quarterly results of operations are as follows (in thousands, except per share amounts):

	For the Three Months Ended							
	Dec. 31,	Sept.	June 30,	March	Dec. 31,	Sept. 30,	June 30,	March
	2018	30,	2018	31,	2017	2017	2017	31,
		2018		2018				2017
Statements of Operations Data:								
Revenue	\$76,966	\$77,682	\$77,734	\$64,026	\$61,692	\$61,637	\$59,034	\$57,099
Gross profit	\$54,780	\$55,854	\$54,677	\$45,714	\$44,881	\$44,047	\$40,723	\$39,744
Income (loss) from operations	\$2,558	\$4,316	\$(281)	\$(2,926)	\$555	\$(1,094)	\$(4,653)	\$(6,873)
Net income (loss)	\$719	\$586	\$(5,687)	\$11,944	\$(1,614)	\$(3,603)	\$(6,380)	\$7,595
Basic net income (loss) per share	\$0.02	\$0.02	\$(0.20)	\$0.42	\$(0.06)	\$(0.13)	\$(0.23)	\$0.27
Diluted net income (loss) per share	\$0.02	\$0.02	\$(0.20)	\$0.40	\$(0.06)	\$(0.13)	\$(0.23)	\$0.27

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2018. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2018, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting.

Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of our principal executive and principal financial officers and effected by our Board of Directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

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

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2018.

Management based its assessment on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) ("COSO").

Based on management’s assessment of Carbonite, Inc., management has concluded that our internal control over financial reporting was effective as of December 31, 2018.

Deloitte & Touche LLP, an independent registered public accounting firm, has issued a report on our internal control over financial reporting as of December 31, 2018, which is included below.

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Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Carbonite, Inc. and subsidiaries (the "Company") as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Company and our report dated February 28, 2019, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's change in method of accounting for revenue from contracts with customers and costs to obtain a contract.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

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/s/ Deloitte & Touche LLP

Boston, Massachusetts
February 28, 2019

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ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Except as set forth below with respect to the Company's Code of Business Conduct and Ethics, the information required by this item will be set forth in the sections entitled "Board of Directors, Corporate Governance & Related Matters", "Section 16(a) Beneficial Ownership Reporting Compliance", "Executive Officers" and "Criteria for Procedures Director Nominations" of our definitive proxy statement to be filed with the SEC in connection with our 2019 annual meeting of stockholders (the "Proxy Statement"), which is expected to be filed not later than 120 days after the end of our fiscal year ended December 31, 2018, and is incorporated in this Annual Report by reference.

We have adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees, including our principal executive officer and principal financial officer. The Code of Business Conduct and Ethics is posted on our website at <http://investor.carbonite.com/governance.cfm>.

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Business Conduct and Ethics by posting such information on our website, at the address and location specified above and, to the extent required by the listing standards of The NASDAQ Global Market, by filing a Current Report on Form 8-K with the SEC, disclosing such information.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be set forth in the sections entitled "Compensation Discussion and Analysis", "Compensation Committee Interlocks and Insider Participation" and "Report of the Compensation Committee of the Board of Directors on Executive Compensation" of our Proxy Statement and is incorporated in this Annual Report by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will be set forth in the sections entitled "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" of our Proxy Statement and is incorporated in this Annual Report by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information, if any, required by this item will be set forth in the sections entitled "Certain Relationships And Related Transactions" and "Board of Directors, Corporate Governance & Related Matters - Independence of our Board of Directors" of our Proxy Statement and is incorporated in this Annual Report by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item will be set forth in the section entitled "Audit-Related Matters" of our Proxy Statement and is incorporated in this Annual Report by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

See Index to Consolidated Financial Statements on page 44 of this Annual Report, which is incorporated into this Item by reference.

(a)(3) Exhibits

See Exhibit Index to this Annual Report, which is incorporated into this Item by reference. Each management contract or compensatory plan or arrangement required to be filed has been identified.

(b) Exhibits

See Exhibit Index to this Annual Report, which is incorporated into this Item by reference.

(c) Financial Statement Schedules

No schedules are submitted because they are not applicable, not required or because the information is included in the Consolidated Financial Statements or Notes to Consolidated Financial Statements.

ITEM 16. FORM 10-K SUMMARY

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CARBONITE, INC.

Dated: February 28, 2019 By: /s/ Mohamad Ali
Mohamad Ali
Chief Executive Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Mohamad Ali Mohamad Ali	Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2019
/s/ Anthony Folger Anthony Folger	Chief Financial Officer (Principal Financial Officer)	February 28, 2019
/s/ Cassandra Hudson Cassandra Hudson	Chief Accounting Officer (Principal Accounting Officer)	February 28, 2019
/s/ Stephen Munford* Stephen Munford	Chairman of the Board	February 28, 2019
/s/ Marina Levinson* Marina Levinson	Director	February 28, 2019
/s/ Charles Kane* Charles Kane	Director	February 28, 2019
/s/ Todd Krasnow* Todd Krasnow	Director	February 28, 2019
/s/ Linda Connly* Linda Connly	Director	February 28, 2019
/s/ Scott Daniels* Scott Daniels	Director	February 28, 2019
/s/ David Friend* David Friend	Director	February 28, 2019

February 28, 2019

*By: /s/ Mohamad Ali

*Mohamad Ali Attorney-in-Fact

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EXHIBIT INDEX

Exhibit No.	Description
2.1	<u>Master Acquisition Agreement by and among Carbonite, Inc., EMC Corporation, Mozy, Inc. and Dell Technologies Inc. dated February 12, 2018. (Filed as Exhibit 2.1 to Form 8-K filed with the Securities and Exchange Commission on March 19, 2018 and incorporated herein by reference).</u>
3.1	<u>Amended and Restated Certificate of Incorporation of Carbonite, Inc. (Filed as Exhibit 3.1 to Amendment No. 2 to Registrant's Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on July 13, 2011, and incorporated by reference.)</u>
3.2	<u>Amended and Restated By-Laws of Carbonite, Inc. (Filed as the same numbered exhibit to Amendment No. 2 to Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 13, 2011, and incorporated herein by reference.)</u>
4.1	<u>Form of Common Stock Certificate. (Filed as the same numbered exhibit to Amendment No. 3 to Registrant's Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on July 25, 2011, and incorporated herein by reference)</u>
4.2	<u>Indenture (including form of Note), dated as of April 4, 2017, by and between Carbonite, Inc. and U.S. Bank National Association, as trustee. (Filed as Exhibit 4.1 to Form 8-K filed with the Securities and Exchange Commission on April 4, 2017 and incorporated herein by reference.)</u>
10.1#	<u>Amended and Restated 2005 Stock Incentive Plan and Form of Incentive Stock Option Agreement, Non-statutory Stock Option Agreement, and Stock Restriction Agreement under the Amended and Restated 2005 Stock Incentive Plan. (Filed as the same numbered exhibit to Amendment No. 2 to Registrant's Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on July 13, 2011, and incorporated herein by reference.)</u>
10.2#	<u>2011 Equity Award Plan, as amended. (Filed as Exhibit 10.1 to Form 10-Q filed with the Securities and Exchange Commission on August 3, 2018 and incorporated herein by reference)</u>
10.3#	<u>Form of Indemnification Agreement by and between Carbonite, Inc. and each of its directors and executive officers. (Filed as the same numbered exhibit to Amendment No. 4 to Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on May 12, 2011, and incorporated herein by reference.)</u>
10.4	<u>Commercial Lease with Lewiston Properties, LLC, dated as of May 13, 2011. (Filed as Exhibit 10.13 to Amendment No. 1 to Registrant's Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on June 15, 2011, and incorporated herein by reference.)</u>
10.5	<u>Turn Key Datacenter Lease with GIP Wakefield, LLC, dated as of June 3, 2011. (Filed as Exhibit 10.14 to Amendment No. 1 to Registrant's Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on June 15, 2011, and incorporated herein by reference.)</u>
10.6	<u>Turn Key Datacenter Lease with Digital Phoenix Van Buren, LLC, dated as of November 29, 2011. (Filed as Exhibit 10.17 to Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 7, 2012, and incorporated herein by reference.)</u>
10.7	<u>First Amendment to the Datacenter Lease with GIP Wakefield, LLC, dated as of September 15, 2011. (Filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 3, 2012, and incorporated herein by reference.)</u>
10.8	<u>Second Amendment to the Datacenter Lease with GIP Wakefield, LLC, dated as of March 31, 2012. (Filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 3, 2012, and incorporated herein by reference.)</u>
10.9	<u>Third Amendment to the Datacenter Lease with GIP Wakefield LLC, dated as of June 11, 2012. (Filed as Exhibit 10.24 to Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 6, 2013, and incorporated herein by reference.)</u>
10.10#	<u>Offer Letter with Anthony Folger, dated as of November 21, 2012. (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 2, 2013, and incorporated herein by reference.)</u>

- 10.11* Fourth Amendment to the Datacenter Lease with GIP Wakefield, LLC, dated as of February 14, 2013. (Filed as Exhibit 10.19 to Registrant's Annual Report on Form 10-K with the Securities and Exchange Commission on March 5, 2014, and incorporated herein by reference.)
- 10.12* Turnkey Datacenter Lease with Digital 2121 South Price, LLC, dated as of December 31, 2013. (Filed as Exhibit 10.24 to Registrant's Annual Report on Form 10-K with the Securities and Exchange Commission on March 5, 2014, and incorporated herein by reference.)
- 10.13* Fifth Amendment to the Datacenter Lease with GIP Wakefield, LLC, dated as of February 6, 2014. (Filed as Exhibit 10.25 to Registrant's Annual Report on Form 10-K with the Securities and Exchange Commission on March 5, 2014, and incorporated herein by reference.)

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- 10.14 Indenture of Lease by and between Abbey Lafayette Operating LLC and Carbonite, Inc. dated as of May 5, 2014. (Filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q with the Securities and Exchange Commission on May 6, 2014, and incorporated herein by reference.)
- 10.15# Form of Stock Restriction Agreement under the 2011 Equity Award Plan. (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 4, 2014, and incorporated herein by reference.)
- 10.16# Amended and Restated Offer Letter with Danielle Sheer, dated as of August 1, 2014. (Filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q with the Securities and Exchange Commission on August 5, 2014, and incorporated herein by reference.)
- 10.17# Promotion Letter Agreement with Cassandra Hudson, dated as of October 28, 2014. (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 3, 2014, and incorporated herein by reference.)
- 10.18* Sixth Amendment to the Datacenter Lease with GIP Wakefield, LLC, dated as of September 30, 2014. (Filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 6, 2014, and incorporated herein by reference.)
- 10.19# Executive Employment Agreement with Mohamad Ali, dated as of December 3, 2014. (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 4, 2014.)
- 10.20# Amendment to Executive Employment Agreement with Mohamad Ali, dated as of January 8, 2015. (Filed as Exhibit 99.2 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 9, 2015, and incorporated herein by reference.)
- 10.21 Seventh Amendment to the Datacenter Lease with GIP Wakefield, LLC, dated as of September 30, 2015. (Filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2015, and incorporated herein by reference.)
- 10.22# Offer Letter with Paul Mellinger, dated as of December 15, 2015. (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2015, and incorporated herein by reference.)
- 10.23# Offer Letter with Norman Guadagno, dated as of January 6, 2016. (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 6, 2016, and incorporated herein by reference.)
- 10.24# Amended and Restated Carbonite, Inc. Executive Severance Plan, dated as of May 1, 2018. (Filed as Exhibit 10.2 to Form 10-Q filed with the Securities and Exchange Commission on May 10, 2018 and incorporated herein by reference.)
- 10.25 Performance-Based Restricted Stock Unit Award Agreement under the 2011 Equity Award Plan. (Filed as Exhibit 10.35 to Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 8, 2016, and incorporated herein by reference.)
- 10.26 First Amendment to Turnkey Datacenter Lease with Digital Phoenix Van Buren, LLC, dated as of February 3, 2016. (Filed as Exhibit 10.36 to Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 8, 2016, and incorporated herein by reference.)
- 10.27* Eighth Amendment to Turn Key Datacenter Lease with GIP Wakefield, LLC, dated as of September 30, 2016. (Filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2016, and incorporated herein by reference.)
- 10.28* Deed of Turn Key Datacenter Lease with Digital Loudoun Parkway Center North, LLC, dated as of September 30, 2016. (Filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2016, and incorporated herein by reference.)
- 10.29* Carbonite, Inc. 2017 Employee Stock Purchase Plan (Filed as Appendix B to the Company's definitive proxy statement filed with the Securities and Exchange Commission on March 27, 2017 and incorporated herein by reference.)
- 10.30

Credit Agreement, dated as of March 19, 2018 by and between Carbonite, Inc., Silicon Valley Bank, Citizens Bank, N.A., HSBC Bank USA, N.A., Barclays Bank PLC and Wells Fargo Bank, National Association. (Filed as Exhibit 10.1 to Form 8-K filed with the Securities and Exchange Commission on March 19, 2018 and incorporated herein by reference).

10.31# Senior Executive Severance Plan, dated as of February 2, 2016, as amended. (Filed as Exhibit 10.2 to Form 10-Q filed with the Securities and Exchange Commission on August 3, 2018 and incorporated herein by reference).

10.32# Employee Severance Plan, as amended. (Filed as Exhibit 10.3 to Form 10-Q filed with the Securities and Exchange Commission on August 3, 2018 and incorporated herein by reference).

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Exhibit No.	Description
10.33#	<u>Form of Restricted Stock Unit Agreement under the 2011 Equity Award Plan. (Filed as Exhibit 10.4 to Form 10-Q filed with the Securities and Exchange Commission on August 3, 2018 and incorporated herein by reference).</u>
10.34#	<u>Form of Performance-Based Restricted Stock Unit Award Agreement. (Filed as Exhibit 10.5 to Form 10-Q filed with the Securities and Exchange Commission on August 3, 2018 and incorporated herein by reference).</u>
10.35#	<u>R. Beeler Offer Letter. (Filed as Exhibit 10.1 to Form 10-Q filed with the Securities and Exchange Commission on November 5, 2018 and incorporated herein by reference).</u>
10.36#	<u>Offer Letter Agreement with Linda Connly. (Filed as Exhibit 10.1 to Form 8-K filed with the Securities and Exchange Commission on February 7, 2019 and incorporated herein by reference).</u>
10.37#	<u>Second Amendment to Employment Agreement with Mohamad Ali, dated February 6, 2019. (Filed as Exhibit 10.2 to Form 8-K filed with the Securities and Exchange Commission on February 7, 2019 and incorporated herein by reference).</u>
21.1	<u>List of subsidiaries.</u>
23.1	<u>Consent of Deloitte & Touche LLP, independent registered public accounting firm.</u>
23.2	<u>Consent of Ernst & Young LLP, independent registered public accounting firm.</u>
24.1	<u>Power of Attorney.</u>
31.1	<u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

#Indicates a management contract or compensatory plan.

*Portions of this exhibit have been omitted pursuant to the Commission's grant of confidential treatment.