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

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**FORM 10-Q**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 2018

OR

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

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

Commission file number: 001-35264

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**CARBONITE, INC.**  
(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation)

**33-1111329**  
(I.R.S. Employer  
Identification No.)

**Two Avenue de Lafayette, Boston, Massachusetts 02111**  
(Address of principal executive offices, including ZIP code)

**(617) 587-1100**  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

As of April 30, 2018, there were 28,582,618 shares of the registrant's Common Stock, par value \$0.01 per share, outstanding.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**Carbonite, Inc.**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**

**March 31, 2018**      **December 31, 2017**

(in thousands, except share data)

**ASSETS**

Current assets:		
Cash and cash equivalents	\$ 71,009	\$ 128,231
Trade accounts receivable, less allowances for doubtful accounts of \$1,121 and \$994	31,159	22,219
Prepaid expenses and other current assets	8,680	6,823
Total current assets	110,848	157,273
Property and equipment, net	38,622	28,790
Other assets	10,844	804
Acquired intangible assets, net	138,595	44,994
Goodwill	157,215	80,958
Total assets	\$ 456,124	\$ 312,819

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:		
Accounts payable	\$ 9,561	\$ 10,842
Accrued expenses	25,165	21,675
Current portion of deferred revenue	116,859	100,241
Total current liabilities	151,585	132,758
Long-term debt	203,398	111,819
Deferred revenue, net of current portion	27,467	24,273
Other long-term liabilities	6,230	5,704
Total liabilities	388,680	274,554
Commitments and contingencies (Note 12)		
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; 30,539,620 shares issued and 28,569,689 shares outstanding at March 31, 2018; 30,130,856 shares issued and 28,182,094 shares outstanding at December 31, 2017	305	301
Additional paid-in capital	237,883	233,343
Treasury stock, at cost (1,969,931 and 1,948,762 shares as of March 31, 2018 and December 31, 2017, respectively)	(27,166)	(26,616)
Accumulated other comprehensive income	(58)	581
Accumulated deficit	(143,520)	(169,344)
Total stockholders' equity	67,444	38,265
Total liabilities and stockholders' equity	\$ 456,124	\$ 312,819

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

**Carbonite, Inc.**  
**Condensed Consolidated Statements of Operations**  
**(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
	(in thousands, except share and per share amounts)	
<b>Revenue:</b>		
Services	\$ 54,574	\$ 50,115
Product	9,452	6,984
Total revenue	64,026	57,099
<b>Cost of revenue:</b>		
Services	15,330	15,283
Product	557	446
Amortization of intangible assets	2,425	1,626
Total cost of revenue	18,312	17,355
Gross profit	45,714	39,744
<b>Operating expenses:</b>		
Research and development	12,519	10,327
General and administrative	14,460	12,769
Sales and marketing	19,860	23,071
Amortization of intangible assets	939	450
Restructuring charges	862	—
Total operating expenses	48,640	46,617
Loss from operations	(2,926)	(6,873)
Interest expense	(2,601)	(222)
Interest income	244	20
Other income (expense), net	12	280
Loss before income taxes	(5,271)	(6,795)
Benefit for income taxes	(17,215)	(14,390)
Net income	\$ 11,944	\$ 7,595
<b>Net income per common share:</b>		
Basic	\$ 0.42	\$ 0.27
Diluted	\$ 0.40	\$ 0.27
<b>Weighted-average number of common share outstanding:</b>		
Basic	28,341,663	27,821,596
Diluted	30,043,783	28,504,811

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

**Carbonite, Inc.**  
**Condensed Consolidated Statements of Comprehensive Income**  
**(Unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
	(in thousands)	
Net income	\$ 11,944	\$ 7,595
Other comprehensive loss:		
Foreign currency translation adjustments	(639)	(244)
Total other comprehensive loss	(639)	(244)
Total comprehensive income	<u>\$ 11,305</u>	<u>\$ 7,351</u>

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

**Carbonite, Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
	(in thousands)	
<b>Operating activities</b>		
Net income	\$ 11,944	\$ 7,595
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,077	4,884
Amortization of deferred costs	424	—
Loss on disposal of equipment	58	—
Impairment of capitalized software	653	—
Stock-based compensation expense	3,737	2,777
Benefit for deferred income taxes	(17,662)	(14,842)
Non-cash interest expense related to amortization of debt discount	1,543	—
Other non-cash items, net	66	(385)
Changes in assets and liabilities:		
Accounts receivable	(4,616)	1,212
Prepaid expenses and other current assets	86	(384)
Other assets	(2,211)	(927)
Accounts payable	(4,214)	3,322
Accrued expenses	3,016	(689)
Other long-term liabilities	252	(96)
Deferred revenue	4,138	5,094
Net cash provided by operating activities	3,291	7,561
<b>Investing activities</b>		
Purchases of property and equipment	(3,288)	(6,568)
Proceeds from sale of property and equipment and businesses	330	295
Proceeds from maturities of derivatives	—	370
Purchases of derivatives	(1,403)	(403)
Payment for intangibles	(1,250)	—
Payment for acquisition, net of cash acquired	(144,603)	(59,740)
Net cash used in investing activities	(150,214)	(66,046)
<b>Financing activities</b>		
Proceeds from exercise of stock options	726	2,445
Payments of withholding taxes in connection with restricted stock unit vesting	(550)	(524)
Proceeds from long-term borrowings, net of debt issuance costs	88,984	39,063
Net cash provided by financing activities	89,160	40,984
Effect of currency exchange rate changes on cash	541	27
Net decrease in cash, cash equivalents and restricted cash	(57,222)	(17,474)
Cash, cash equivalents and restricted cash, beginning of period	128,231	59,287
Cash, cash equivalents and restricted cash, end of period	\$ 71,009	\$ 41,813
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for income taxes	\$ 341	\$ 416
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Capitalization of stock-based compensation	\$ 81	\$ 43
Acquisition of property and equipment included in accounts payable and accrued expenses	\$ 2,751	\$ (282)
Issuance of common stock for acquisition	\$ —	\$ 5,733

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

**Carbonite, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**1. Nature of Business**

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

**2. Basis of Presentation**

The accompanying unaudited condensed 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.

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"), the instructions to Form 10-Q, and the provisions of Regulation S-X pertaining to interim financial statements. Accordingly, certain information and footnote disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as filed with the SEC on March 12, 2018.

In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company's financial position for the periods presented. The results for the periods presented are not necessarily indicative of future results.

**Reclassifications**

The Company has reclassified certain prior period amounts in its condensed consolidated statements of cash flows to conform to the current period presentation. The reclassification relates to separately presenting the benefit for deferred income taxes, which was previously included in the change in other long-term liabilities caption. For the three months ended March 31, 2017, the Company reclassified \$14.8 million into the benefit for deferred income taxes caption. Additionally, the Company adopted Accounting Standard Updated ("ASU") 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* ("ASU 2016-18"), effective January 1, 2018, which is applied retrospectively by reclassifying restricted cash to be presented with cash and cash equivalents on the condensed consolidated statement of cash flows.

The Company has reclassified certain prior period amounts in its condensed 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 three months ended March 31, 2017, the Company reclassified \$0.1 million from general and administrative and \$0.4 million from sales and marketing into the amortization of intangible assets caption within operating expenses.

**Recently Adopted Accounting Standards**

The Company's significant accounting policies are presented in *Note 2 - Summary of Significant Accounting Policies*, in the Company's Annual Report on Form 10-K for fiscal year ended December 31, 2017 filed with the SEC on March 12, 2018. Summarized below are the accounting pronouncements adopted subsequent to December 31, 2017.

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("Topic 606"), which updated guidance and disclosure requirements for recognizing revenue. The new revenue recognition standard provides a five-step analysis of 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 effective 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 a discussion of the Company's updated policies related to revenue recognition and accounting for costs to obtain and fulfill a customer contract.

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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.

Cash and cash equivalents subject to contractual restrictions and not readily available for use are classified as restricted cash. 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. As of March 31, 2018 and December 31, 2017, the Company did not have a restricted cash balance reported within the condensed consolidated balance sheets.

### **Recently Issued Accounting Standards**

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 is currently evaluating the effect of the standard on its consolidated financial statements, and expects that upon adoption a significant lease obligation and right to use asset will be recognized. Refer to *Note 12 - Commitments and Contingencies* for additional information related to the Company's lease obligations.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*. 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 is currently evaluating the effect of the standard on its consolidated financial statements.

### **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 the 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 condensed 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 for the three month period ended March 31, 2018 was an increase of \$0.7 million.

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### ***Changes in Accounting Policies as a result of adopting Topic 606***

The Company primarily sells products and services as discussed below. Each category contains one or more performance obligations that are 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 the 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 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
- 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 "Software-as-a-Service" ("SaaS") and "Hardware-as-a-Service" ("HaaS") offerings. Most notably, the Company offers the customer the right to access its software through our 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 offerings are recorded over the performance period of the service. HaaS arrangements are accounted for under the guidance provided in ASC 840, *Leases*.

The Company also offers maintenance and support ("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.

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### **Disaggregation of Revenue**

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

	<b>Three Months Ended March 31, 2018</b>		
	<b>Products</b>	<b>Services</b>	<b>Total</b>
<b>Customer type</b>			
Consumer	\$ 6	\$ 20,943	\$ 20,949
Business	9,446	33,631	43,077
Total	<u>\$ 9,452</u>	<u>\$ 54,574</u>	<u>\$ 64,026</u>
<b>Sales channel</b>			
Direct	\$ 1,043	\$ 37,881	\$ 38,924
Indirect	8,409	16,693	25,102
Total	<u>\$ 9,452</u>	<u>\$ 54,574</u>	<u>\$ 64,026</u>
<b>Timing of revenue recognition</b>			
Transferred at a point in time	\$ 9,452	\$ —	\$ 9,452
Transferred over time	—	54,574	54,574
Total	<u>\$ 9,452</u>	<u>\$ 54,574</u>	<u>\$ 64,026</u>
<b>Geography</b>			
United States	\$ 4,650	\$ 48,997	\$ 53,647
Other	4,802	5,577	10,379
Total	<u>\$ 9,452</u>	<u>\$ 54,574</u>	<u>\$ 64,026</u>

### **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, which are transferred to accounts receivable once the rights become unconditional. The Company did not have contract assets as of March 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 current or noncurrent based on the timing of when revenue is expected to be recognized. Changes in contract liabilities for the three months ended March 31, 2018 are as follows (in thousands):

	<b>Deferred Revenue (Short-term)</b>	<b>Deferred Revenue (Long-term)</b>
Balance as of January 1, 2018	\$ 96,243	\$ 24,273
Increase (decrease), net	20,616	3,194
Balance as of March 31, 2018	<u>\$ 116,859</u>	<u>\$ 27,467</u>

For the three months ended March 31, 2018, revenue recognized related to deferred revenue at January 1, 2018 was approximately \$37.4 million. Additionally, the Company recognized \$1.3 million of revenue from deferred revenue related to the acquisition of Mozy, Inc. ("Mozy") on March 19, 2018. On March 31, 2018, the Company had \$158.5 million of remaining performance obligations. This amount does not include any variable consideration for sales or usage-based royalties. The Company expects to recognize 72.0% percent of its remaining performance obligations as revenue in the year ended December 31, 2018, an additional 21.0% percent for the year ended December 31, 2019 and the balance thereafter.

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### *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 \$4.1 million are included in this balance at January 1, 2018 and March 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 three months ended March 31, 2018, the Company capitalized \$2.1 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 three months ended March 31, 2018, the Company had amortization expense of \$0.4 million related to deferred costs. Amortization expense is included in sales and marketing expense in the condensed consolidated statements of operations. As of March 31, 2018, the Company has \$1.9 million and \$8.0 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. The following table summarizes the effects of adopting Topic 606 on the Company's condensed consolidated balance sheet as of March 31, 2018 (in thousands):

	March 31, 2018		
	As reported under Topic 606	Adjustments	Balances under Prior GAAP
Trade accounts receivable, net	\$ 31,159	\$ (2,744)	\$ 28,415
Prepaid expenses and other current assets	8,680	(1,875)	6,805
Other assets	10,844	(7,925)	2,919
Accrued expenses	25,165	(6)	25,159
Current portion of deferred revenue	116,859	2,843	119,702
Deferred revenue, net of current portion	27,467	785	28,252
Other long-term liabilities	6,230	(372)	5,858
Accumulated other comprehensive income	(58)	(107)	(165)
Accumulated deficit	(143,520)	(15,689)	(159,209)

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

	Three Months Ended March 31, 2018		
	As reported under Topic 606	Adjustments	Balances under Prior GAAP
Revenue	\$ 64,026	\$ (721)	\$ 63,305
General and administrative	14,460	(595)	13,865
Sales and marketing	19,860	1,689	21,549
Benefit for income taxes	(17,215)	(6)	(17,221)
Net income (loss)	11,944	(1,809)	10,135
Net income per share - basic	0.42	—	0.42
Net income per share - diluted	0.40	—	0.40

The adjustment to the general and administrative caption above relates to a sale of assets recorded in the three months ended March 31, 2018. The deferred revenue divested as part of the sale was \$0.6 million higher under prior GAAP. This

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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 reported total amounts of cash flows from operating, investing and financing activities in its condensed consolidated statement of cash flows.

### **Revision of Prior Period Amounts**

The Company has revised certain prior period amounts in its condensed 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. The Company has revised to correctly present the services and products components of revenue and cost of revenue in the condensed consolidated statements of operations for the three months ended March 31, 2017. 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.

The effect of the revisions to the condensed consolidated statements of operations for the three months ended March 31, 2017, is as follows (in thousands):

	Three months ended March 31, 2017		
	As Previously Reported	Adjustments	As Revised
<b>Revenue:</b>			
Services	\$ —	\$ 50,115	\$ 50,115
Product	—	6,984	6,984
Total revenue	57,099	—	57,099
<b>Cost of revenue:</b>			
Services	—	15,283	15,283
Product	—	446	446
Amortization of intangible assets	—	1,626	1,626
Total cost of revenue	17,355	—	17,355

Refer to *Item 5* of this quarterly report for the impact on periods reported in the Company's 2017 Annual Report on Form 10-K filed with the SEC on March 12, 2018.

### **4. Net Income Per Share**

Basic net income per share is calculated by dividing the net income by the weighted average number of common shares outstanding during the period. 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. The following table sets forth the computation of basic and diluted net income per share:

	Three Months Ended March 31,	
	2018	2017
	(in thousands, except per share amounts)	
<b>Numerator:</b>		
Net income	\$ 11,944	\$ 7,595
<b>Denominator:</b>		
Weighted average common shares outstanding, basic	28,342	27,822
Effect of potential dilutive common shares	1,702	683
Weighted average shares outstanding, diluted	30,044	28,505
Basic net income per share	\$ 0.42	\$ 0.27
Diluted net income per share	\$ 0.40	\$ 0.27

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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. As such, the Company has included the dilutive effect of the conversion premium of its Convertible Notes in the calculation of diluted net income per share as of March 31, 2018, as the Company's common stock price exceeded the \$25.84 conversion price during the three months ended March 31, 2018.

The following options to purchase common shares and restricted stock units/awards have been excluded from the computation of diluted net income 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):

	Three Months Ended March 31,	
	2018	2017
Options to purchase common shares	—	37
Restricted stock units/awards	188	1,754
Total	188	1,791

## 5. Fair Value of Financial Instruments

### *Derivative Instruments*

#### *Non-designated Foreign Currency Contracts*

The Company uses foreign currency forward contracts as part of its strategy to manage exposure related to Euro denominated intercompany monetary assets and liabilities. The Company has not designated these forward contracts as hedging instruments pursuant to ASC 815, *Derivatives and Hedging*. 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 March 31, 2018 and December 31, 2017, the Company had outstanding contracts with a total notional value of \$45.7 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 March 31, 2018 and December 31, 2017 (in thousands):

Description	Balance Sheet Classification	Fair Value	
		March 31, 2018	December 31, 2017
<b>Derivative liabilities</b>			
<u>Non-designated hedging instruments</u>			
Foreign currency contracts	Accrued expenses	\$ 106	\$ 439
Total derivative liabilities		\$ 106	\$ 439

The following table summarizes the losses related to derivative instruments not designated as hedging instruments for the three months ended March 31, 2018 and 2017 (in thousands):

	Location in Statement of Operations	Three Months Ended March 31,	
		2018	2017
Foreign currency contracts	Other income (expense), net	\$ (1,071)	\$ (411)

### *Other Fair Value Measurements and Disclosures*

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:

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

*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):

	March 31, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Cash equivalents—money market funds	\$ 47,795	\$ —	\$ —	\$ 47,795	\$ 96,295	\$ —	\$ —	\$ 96,295
<b>Total</b>	<b>\$ 47,795</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 47,795</b>	<b>\$ 96,295</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 96,295</b>
<b>Liabilities:</b>								
Foreign currency exchange contracts	—	106	—	106	—	439	—	439
<b>Total</b>	<b>\$ —</b>	<b>\$ 106</b>	<b>\$ —</b>	<b>\$ 106</b>	<b>\$ —</b>	<b>\$ 439</b>	<b>\$ —</b>	<b>\$ 439</b>

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 (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 condensed consolidated balance sheet as of March 31, 2018 are as follows (in thousands):

	March 31, 2018		
	Principal	Carrying Value	Fair Value
Convertible notes	\$ 143,750	\$ 113,398	\$ 185,258

The carrying amount of the Company's borrowings under its credit agreement with Silicon Valley Bank, Citizens Bank, N.A., HSBC Bank USA, N.A., Barclays Bank PLC and Wells Fargo Bank, National Association ("Revolving Credit Facility") is a reasonable estimate of its fair value as the borrowings are subject to variable rates that reflect currently available terms and conditions for similar debt. 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 three months ended March 31, 2018, the Company recorded an impairment charge of \$0.7 million related to a capitalized software project that 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 condensed consolidated statements of operations.

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### 6. Acquisitions

#### *Acquisition-Related Expenses*

In the three months ended March 31, 2018 and 2017, acquisition-related expenses were \$3.3 million and \$3.0 million, respectively. Acquisition-related expenses have been included primarily in general and administrative expenses in the condensed consolidated statements of operations. The Company's current year acquisition costs relate to the acquisition of Mozy and the prior year acquisition costs relate to the acquisitions of Datacastle Corporation ("Datacastle") and DoubleTake Software, Inc. ("DoubleTake").

#### *2018 Acquisition*

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 is subject to a potential future adjustment for working capital. The purchase price was funded with cash on hand and funds available under the Company's Revolving Credit Facility (refer to *Note 14*). 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 purchase price allocation is considered preliminary, and additional adjustments may be recorded during the measurement period in accordance with FASB's guidance regarding business combinations. The purchase price allocation will be finalized as the Company receives additional information relevant to the acquisition, including the final valuation and reconciliation of the assets purchased, including tangible and intangible assets, liabilities assumed, and the related impact to the deferred tax assets and liabilities. The Company expects a release of the U.S. valuation allowance corresponding to any potential measurement period adjustments that impact the net U.S. deferred tax liability. The following tables summarize the preliminary purchase price allocation (in thousands):

Fair value of consideration transferred:	
Cash, net of cash acquired	\$ 144,603
Fair value of total acquisition consideration	<u>\$ 144,603</u>
Fair value of assets acquired and liabilities assumed:	
Accounts receivable	\$ 1,996
Prepaid and other current assets	811
Property and equipment	7,169
Other long-term assets	241
Intangible assets	96,500
Goodwill	75,933
Total assets acquired	<u>182,650</u>
Accounts payable	(249)
Accrued liabilities	(623)
Deferred revenues	(19,610)
Deferred tax liability	<u>(17,565)</u>
Net assets acquired	<u>\$ 144,603</u>

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.

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In connection with the acquisition of Mozy, goodwill of \$75.9 million was recognized for the excess purchase price over the fair value of the net assets acquired. The Company believes the goodwill related to the acquisition will enable the Company to leverage its technology in the broader market, as well as offering cross-selling market exposure opportunities. Goodwill from the acquisition of Mozy 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 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:

	<u>Amount</u>	<u>Weighted Average Useful</u>	<u>Risk-Adjusted</u>
	<u>(in thousands)</u>	<u>Life</u>	<u>Discount Rates used in</u>
		<u>(in years)</u>	<u>Valuation</u>
Developed technology	\$ 8,700	2	12.5%
Customer relationships	87,300	7	16.5 - 17.5%
Trade names	500	2	12.5%
Total identifiable intangible assets	<u>\$ 96,500</u>		

Pro forma financial information for the acquisition of Mozy is not presented as the data necessary to present the pro forma revenue, net income and earnings per share is not yet available. The pro forma information related to the acquisition of Mozy will be presented in the Company's subsequent Form 10-Q, when the information becomes available. For the three months ended March 31, 2018, the operating results of Mozy, which are included in the Company's condensed consolidated statements of operations since the date of acquisition, are comprised of \$1.9 million of revenue and \$1.1 million of expenses, excluding amortization expense.

### **2017 Acquisitions**

#### *Datacastle*

On August 14, 2017, the Company entered into an asset purchase agreement with Datacastle and completed the acquisition of all the assets associated with Datacastle's cloud data backup, caching and analytics software and services for data protection purposes, including Datacastle Red, Datacastle Analytics and Datacastle QuickCache products, for a 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	<u>\$ 9,600</u>
Fair value of total acquisition consideration	<u>\$ 9,600</u>

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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
<b>Total assets acquired</b>		<b>10,095</b>
Accrued liabilities		(175)
Deferred revenue		(320)
<b>Net assets acquired</b>	<b>\$</b>	<b>9,600</b>

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 asset 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%
<b>Total identifiable intangible assets</b>	<b>\$ 3,440</b>		

### *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 a working capital payment of \$0.5 million. The working capital payment 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 to cover certain consulting, technology and accounting services for up to nine months post close, which ended in 2017. The acquisition of DoubleTake 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	\$	59,740
Fair value of equity instruments		5,733
Working capital payment		458
<b>Fair value of total consideration</b>	<b>\$</b>	<b>65,931</b>

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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
<b>Total assets acquired</b>		<b>92,859</b>
Accounts payable		(636)
Accrued liabilities		(2,156)
Deferred revenues		(9,100)
Deferred tax liability		(14,918)
Other non-current liabilities		(118)
<b>Net assets acquired</b>	<b>\$</b>	<b>65,931</b>

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 Double-Take 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. 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 Company utilized accounting guidance related to intangible assets which lists the pertinent factors to be considered when estimating the useful life of an intangible asset. These factors include, in part, a review of the expected use by the Company of the assets acquired, the expected useful life of another asset (or group of assets) related to the acquired assets and legal, regulatory or other contractual provisions that may limit the useful life of an acquired asset.

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%
<b>Total identifiable intangible assets</b>	<b>\$ 36,700</b>		

The Company determined that disclosing the amount of DoubleTake related revenue and expenses included in the condensed consolidated statements of operations is impracticable as certain operations were integrated into the operations of

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the Company. Furthermore, the Company operates as one reportable segment and does not consider DoubleTake a separate reporting segment.

**Pro Forma Financial Information (unaudited)**

The following unaudited pro forma information presents the condensed consolidated results of operations of the Company and DoubleTake for the three months ended March 31, 2017 as if the acquisition of DoubleTake had been completed on January 1, 2017. These pro forma condensed 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, 2017, nor are they intended to represent or be indicative of future results of operations (in thousands, except per share data):

	<b>Three Months Ended March 31, 2017</b>
Pro forma revenue	\$ 60,380
Pro forma net income	\$ 7,560
Pro forma net income per common share:	
Basic	\$ 0.27
Diluted	\$ 0.27

**7. Goodwill and Acquired Intangible Assets**

As of March 31, 2018 and December 31, 2017, the carrying amount of goodwill was \$157.2 million and \$81.0 million, respectively. The following is a rollforward of our goodwill balance (in thousands):

	<b>Goodwill</b>
Balance as of December 31, 2017	\$ 80,958
Goodwill acquired	75,933
Goodwill divested	(29)
Effect of foreign exchange rates	353
Balance as of March 31, 2018	\$ 157,215

Acquired intangible assets consist of the following (in thousands):

	Weighted-Average Estimated Useful Life (in years)	March 31, 2018			December 31, 2017		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Technology-related	4.7	\$ 55,004	\$ 13,616	\$ 41,388	\$ 46,833	\$ 12,504	\$ 34,329
Customer relationships	7.0	97,253	3,024	94,229	11,295	3,361	7,934
Trade names	6.7	3,792	814	2,978	3,677	946	2,731
Non-compete agreements	0.0	—	—	—	230	230	—
<b>Total</b>	<b>6.1</b>	<b>\$ 156,049</b>	<b>\$ 17,454</b>	<b>\$ 138,595</b>	<b>\$ 62,035</b>	<b>\$ 17,041</b>	<b>\$ 44,994</b>

The Company recorded amortization expense of \$3.4 million and \$2.1 million for the three months ended March 31, 2018 and 2017, respectively. Amortization relating to developed technology is recorded within cost of revenue, amortization of customer relationships is recorded within sales and marketing expenses, and amortization of trade names and non-compete

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agreements is recorded within general and administrative expenses. Future estimated amortization expense of acquired intangibles as of March 31, 2018 is as follows (in thousands):

Remainder of 2018	\$	24,161
2019		25,645
2020		22,253
2021		21,033
2022		15,126
Thereafter		30,377
	\$	<u>138,595</u>

On October 3, 2017, the Company entered into a license and distribution agreement for technology 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 and \$1.25 million progress payment in January 2018. The final payment of \$4.5 million is contingent upon the completion and acceptance of certain deliverables. Under ASC 985, *Software, Subtopic 20, Costs of Software to Be Sold, Leased, or Marketed*, these costs are capitalized as incurred and amortized over their estimated useful life on a straight-line basis. During the three months ended March 31, 2018, the Company capitalized an additional \$1.25 million of costs associated with purchased software.

### 8. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	March 31, 2018	December 31, 2017
Accrued compensation	\$ 7,548	\$ 9,892
Accrued consulting and professional fees	6,110	2,162
Accrued tax liabilities	2,437	2,280
Accrued sales and marketing	1,938	1,124
Accrued interest	1,907	898
Accrued facilities	908	1,002
Accrued restructuring	907	688
Derivative liability	106	439
Accrued other expenses	3,304	3,190
Total accrued expenses	<u>\$ 25,165</u>	<u>\$ 21,675</u>

### 9. Stockholders' Equity

#### *Share Repurchase Program*

On May 11, 2015, the Company's Board of Directors authorized a \$20.0 million share repurchase program, effective from May 15, 2015 through May 15, 2018. On March 22, 2017, the Company's Board of Directors authorized an increase to the share repurchase program to an aggregate amount of \$30.0 million. 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.

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The Company did not make any repurchases under the program during the three months ended March 31, 2018. The Company made the following repurchases during the three months ended March 31, 2017:

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	
	<b>(total cost, in thousands)</b>	
Number of shares repurchased		767,400
Average repurchase price per share	\$	19.50
Total cost	\$	14,964

At March 31, 2018, approximately \$5.2 million remained available under the Company's share repurchase program.

## **10. Stock-based Awards**

### *Employee Stock Purchase Plan*

On May 18, 2017, the Company's stockholders approved the 2017 Employee Stock Purchase Plan ("2017 ESPP"). Under the 2017 ESPP, 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 ESPP. There are two six-month withholding periods in each fiscal year. As of March 31, 2018, rights to acquire 540,819 shares of common stock were available for issuance under the 2017 ESPP.

### *Stock-based Compensation Expense*

Stock-based compensation is reflected in the consolidated statement of operations as follows (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
Cost of revenues	\$ 325	\$ 231
Research and development	687	309
General and administrative	2,124	1,957
Sales and marketing	601	280
Total stock-based compensation expense	\$ 3,737	\$ 2,777

## **11. Income Taxes**

The Company's effective income tax rates were 326.6% and 211.8% for the three months ended March 31, 2018 and 2017, respectively. The Company's effective income tax rate is based upon estimated income before provision for income taxes for the year, composition of the income in different countries, and adjustments, if any, in the applicable quarterly periods for potential tax consequences, benefits and/or resolutions of tax audits or other tax contingencies. For the three months ended March 31, 2018 and 2017, the effective income tax rate varied from the statutory income tax rate principally due to the release of valuation allowance as a result of the acquisitions of Mozy and DoubleTake, respectively, which is recorded discretely, and pre-tax book losses in the U.S. and Switzerland that cannot be benefited. The tax benefit recognized during the three months ended March 31, 2018 and 2017, consists of a tax benefit for a U.S. valuation allowance release that is partially offset by foreign tax expense.

The Company's effective income tax rate in the three months ended March 31, 2018 differed from the three months ended March 31, 2017 primarily due to the partial releases of U.S. valuation allowance due to a net deferred tax liability recorded in the acquisitions of Mozy and DoubleTake, respectively. The net deferred tax liabilities recorded for Mozy and DoubleTake primarily relate 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, the Company has recorded a discrete tax benefit of \$17.6 million and \$14.8 million in the three months ended March 31, 2018 and 2017, respectively, for the release of valuation allowance related to the deferred tax liability recorded in purchase accounting. 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.

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On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act ("Tax Act"), which significantly changes the pre-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. Pursuant to SAB 118, the Company will complete the accounting for the tax effects of all of the provisions of the Tax Act within the required measurement period not to extend beyond one year from the enactment date. As of March 31, 2018, the Company has concluded on the impact of the federal rate change, refundable Federal Alternative Minimum Tax ("AMT") credit, and the one-time tax on unrepatriated foreign earnings. There have been no changes in estimates or additional guidance issued during the three months ended March 31, 2018 which would change the Company's assessment of the tax impacts recorded as of the year ended December 31, 2017. The Company is still analyzing both the Federal and state impacts of the Tax Act on certain foreign-sourced sales and earnings, limitations on the deductibility of interest expense and executive compensation, limitations on the deductibility of meals and entertainment, as well as other items changed in the Tax Act.

## 12. Commitments and Contingencies

### *Operating Leases*

The Company leases facilities under leases that expire at varying dates through 2025. 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 space in Boston, Massachusetts (corporate headquarters); Salt Lake City, Utah; and Indianapolis, Indiana as well as various other locations in North America and Europe. The Company has lease agreements to rent data center space in Ashburn, Virginia; Chandler, Arizona; and Phoenix, Arizona as well as various other locations in North America and Europe. Additionally, the Company has data center colocation agreements in place to rent colocation space. The terms of several of these 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 \$2.3 million and \$2.2 million for the three months ended March 31, 2018 and 2017, respectively. At March 31, 2018 and December 31, 2017, \$4.9 million and \$4.7 million, respectively, was included in accrued expenses and other long-term liabilities related to the deferred rent.

Future non-cancellable minimum lease payments under all operating leases as of March 31, 2018, are as follows (in thousands):

Years Ended December 31,	Office Leases	Data Center Leases (1)	Total
Remainder of 2018	\$ 3,351	\$ 3,018	\$ 6,369
2019	3,761	2,443	6,204
2020	3,638	2,057	5,695
2021	3,687	2,056	5,743
2022	3,471	768	4,239
Thereafter	6,871	64	6,935
Total	\$ 24,779	\$ 10,406	\$ 35,185

(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.

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### **Other Non-cancellable Commitments**

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

<b>Years Ended December 31,</b>	
Remainder of 2018	\$ 4,146
2019	1,345
2020	499
2021	—
2022	—
Total	<u>\$ 5,990</u>

### **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 has filed several patent suits against several other companies and the asserted patents are currently in various rounds of litigation and inter partes reviews by other parties. In response to Realtime Data's lawsuit against the Company, the Company moved to dismiss the case for improper venue or alternatively to transfer the case to the U.S. District Court for the District of Massachusetts. On November 22, 2017, the case was transferred to Massachusetts. No trial date has been set. The complaint sought damages in an unspecified amount and injunctive relief. 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.

### **13. Restructuring**

In October 2017, the Company initiated a restructuring program ("2017 Plan") to streamline operations and reduce operating costs. The Company estimates that it will incur restructuring charges totaling approximately \$2.0 million related to employee severance under the 2017 Plan. Activities under the 2017 Plan are expected to be substantially completed by the beginning of the second half of 2018. The following table summarizes the restructuring program activity for the three months ended March 31, 2018 (in thousands):

	<b>Employee Severance and Related Costs</b>	
Accrued restructuring as of December 31, 2017	\$	688
Charges		862
Cash payments		(665)
Non-cash and other adjustments		22
Accrued restructuring as of March 31, 2018	<u>\$</u>	<u>907</u>

The Company did not record any restructuring charges for the three months ended March 31, 2017, nor did the Company did not have any amounts accrued related to restructuring charges as of March 31, 2017.

## 14. Borrowings and Credit Arrangements

### *Revolving Credit Facility*

On March 19, 2018, the Company entered into a Revolving Credit Facility with Silicon Valley Bank, Citizens Bank, N.A., HSBC Bank USA, N.A., Barclays Bank PLC and Wells Fargo Bank, National Association, 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.

As of March 31, 2018, the Company had outstanding borrowings of \$90.0 million under the Revolving Credit Facility, which was used in combination with cash on hand, to fund the acquisition of Mozy.

### *Convertible 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:

1. 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 (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 immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of

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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 previous 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):

	<b>March 31, 2018</b>
<b>Liability component:</b>	
Principal	\$ 143,750
Less: debt issuance costs	(684)
Less: debt discount	(29,668)
<b>Net carrying amount</b>	<b>\$ 113,398</b>
Equity component	\$ 31,451

For the three months ending March 31, 2018, the Company incurred total interest expense associated with the Convertible Notes as follows (in thousands):

	<b>Three months ended March 31, 2018</b>
Interest expense related to contractual interest coupon	\$ 898
Interest expense related to accretion of the discount	1,543
Interest expense related to debt issuance costs	36
<b>Total</b>	<b>\$ 2,477</b>

As of March 31, 2018, the net carrying value of the Convertible Notes was \$113.4 million, which is net of unamortized debt issuance costs of \$0.7 million. The effective interest rate on the Convertible Notes, including amortization of debt issuance costs and accretion of the discount, is 8.7%. As of the last trading day in the quarter ended March 31, 2018, the closing market price of the Company’s common stock did not exceed 130% of the conversion price.

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### ITEM 2. 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 our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as filed on March 12, 2018 with the SEC.*

#### Forward-Looking Statements

*This Quarterly Report on Form 10-Q contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "will," "plan," "project," "seek," "should," "target," "will," "would," and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, our ability to integrate recent acquisitions into our operations and achieve the expected benefits of the acquisition, our ability to profitably attract new customers and retain existing customers, our dependence on the market for cloud backup services, our ability to manage growth, changes in economic or regulatory conditions or other trends affecting the Internet and the information technology industry, and those discussed in the section titled "Risk Factors" included in our Annual Report on Form 10-K filed with the SEC on March 12, 2018. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.*

#### Overview

We are a leading provider of backup, disaster recovery, high availability and workload migration solutions (the "Carbonite Data Protection Platform"). The Carbonite Data Protection Platform supports businesses in locations around the world with our secure global cloud infrastructure.

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: directly from 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.

In 2017, we completed the acquisition of all the outstanding capital stock of DoubleTake for a purchase price of \$65.9 million, and the acquisition of the assets of Datacastle for a purchase price of \$9.6 million. On March 19, 2018, we acquired all of the issued and outstanding capital stock of Mozy for a purchase price of \$144.6 million in cash, net of cash acquired, which is subject to a potential future adjustment for working capital. We believe these acquisitions strengthen our overall leadership position in the data protection market and strengthen our technology portfolio.

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 recorded restructuring charges of \$1.9 million for employee severance related to the reduction of our workforce. We estimate that we will incur restructuring charges totaling approximately

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\$2.0 million related to employee severance under the 2017 Plan. Activities under the 2017 Plan are expected to be substantially completed by the beginning of the second half of 2018.

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. We expect to continue to incur GAAP operating losses on an annual basis for the foreseeable future.

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

Additional information about our business and operations is contained in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 12, 2018.

### ***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. Refer to "Other 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, or for quarterly presentations, the percentage of customers on the last day of the comparable quarter in the prior year who remain customers on the last day of the current quarter. 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 acquisitions, restructuring, 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.

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### Performance Highlights

For the three months ended March 31, 2018 and 2017, we had the following results:

- We generated revenue of \$64.0 million and \$57.1 million, respectively. Revenue increased by \$6.9 million, or 12%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017.
- Cash flow from operations was \$3.3 million and \$7.6 million, respectively.

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

	Three Months Ended March 31,	
	2018	2017
(in thousands, except percentage data)		
<b>Key metrics (1):</b>		
Bookings	\$ 67,588	\$ 62,122
Annual retention rate	87%	86%
Renewal rate	83%	85%
Adjusted free cash flow	\$ 2,442	\$ 2,255

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

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

	Three Months Ended March 31,		Change %
	2018	2017	
(in thousands, except percentage data)			
Business	\$ 45,576	\$ 40,075	14 %
Consumer	22,012	22,047	— %
Total bookings	\$ 67,588	\$ 62,122	9 %

Our bookings increased by \$5.5 million or approximately 9% for the three month period ended March 31, 2018 compared to the corresponding period in 2017. This increase was driven by increased sales of our business solutions, including \$2.3 million in bookings from our recently acquired Mozy offerings. We expect the growth rate of total bookings to increase in the upcoming year as a result of the inclusion of sales from our Mozy offerings.

### Key Components of our Consolidated Statements of Operations

#### Revenue

*Services.* Services revenues primarily consist of SaaS and HaaS offerings, maintenance and support ("M&S") services and professional services. Revenues related to the SaaS offerings are recorded over the performance period of the service and HaaS arrangements are accounted for under the guidance provided in ASC 840, *Leases*. 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 consider royalty and time-based sales to be subscription type arrangements. 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.

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### *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 related to hosting our services and supporting our customers are related to the number of customers and the complexity of our services and hosting 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 in 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 enhancements and ease of use of our solutions. These efforts result in updated versions, 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 and as a percentage of revenue 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. Over the short term, we expect sales and marketing expenses to decrease as a percentage of revenue due 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.

*Amortization of intangible assets.* Amortization of acquired customer relationships, trade names, and non-compete agreements are included in operating expenses. 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.

*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 13—Restructuring* to our consolidated financial statements included in this Quarterly Report for additional information.

### **Results of Operations**

The following table sets forth, for the periods presented, data from our condensed 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 table below should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q.

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	Three Months Ended March 31,	
	2018	2017
	(% of total revenue)	
<b>Consolidated statements of operations data:</b>		
Revenue:		
Services	85.2 %	87.8 %
Product	14.8	12.2
Total revenue	100.0	100.0
Cost of revenue:		
Services	23.9	26.8
Product	0.9	0.8
Amortization on intangible assets	3.8	2.8
Total cost of revenue	28.6	30.4
Gross profit	71.4	69.6
Operating expenses:		
Research and development	19.6	18.1
General and administrative	22.6	22.3
Sales and marketing	31.0	40.4
Amortization on intangible assets	1.5	0.8
Restructuring charges	1.3	0.0
Total operating expenses	76.0	81.6
Loss from operations	(4.6)	(12.0)
Interest expense	(4.1)	(0.4)
Interest income	0.5	—
Other income (expense), net	—	0.5
Loss before income taxes	(8.2)	(11.9)
Benefit for income taxes	(26.9)	(25.2)
Net income	18.7 %	13.3 %

*Comparison of the Three Months Ended March 31, 2018 and 2017*

*Revenue*

	Three Months Ended March 31,			
	2018	2017	Change	
	(in thousands, except percentage data)			
Revenue:				
Services	\$ 54,574	\$ 50,115	\$ 4,459	8.9%
As a % of total revenue	85.2%	87.8%		
Products	9,452	6,984	2,468	35.3%
As a % of total revenue	14.8%	12.2%		
Total revenue	\$ 64,026	\$ 57,099	\$ 6,927	12.1%

Services revenue increased by \$4.5 million, or 9%, for the three month period ended March 31, 2018, as compared to the three month period ended March 31, 2017, primarily driven by increased sales of our business solutions, including \$1.9 million in revenue from our recently acquired Mozy offerings.

Product revenue increased by \$2.5 million, or 35%, for the three month period ended March 31, 2018, as compared to the three month period ended March 31, 2017, primarily driven by increased sales of our disaster recovery offerings.

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*Cost of revenue, gross profit, and gross margin*

	Three Months Ended March 31,			
	2018	2017	Change	
	(in thousands, except percentage data)			
Cost of revenue	\$ 18,312	\$ 17,355	\$ 957	5.5%
As a % of total revenue	28.6%	30.4%		
Cost of revenue:				
Services	\$ 15,330	\$ 15,283	\$ 47	0.3%
Product	557	446	111	24.9%
Amortization of intangible assets	2,425	1,626	799	49.1%
Total cost of revenue	\$ 18,312	\$ 17,355	\$ 957	5.5%
Gross profit	\$ 45,714	\$ 39,744		
Gross margin	71.4%	69.6%		

Our total gross margin increased to 71.4% from 69.6% for the three month period ended March 31, 2018, as compared to the three month period ended March 31, 2017, driven principally by a higher percentage of product revenue, offset by an increase in amortization of developed technology.

*Cost of services revenue*

	Three Months Ended March 31,			
	2018	2017	Change	
	(in thousands, except percentage data)			
Cost of services revenue	\$ 15,330	\$ 15,283	\$ 47	0.3%
As a % of service revenue	28.1%	30.5%		
As a % of total revenue	23.9%	26.8%		
Components of cost of services revenue:				
Personnel-related costs	\$ 6,643	\$ 6,902	\$ (259)	(3.8)%
Hosting, depreciation and facilities costs	5,348	5,408	(60)	(1.1)%
Software, consulting and other	3,339	2,973	366	12.3%
Total cost of services revenue:	\$ 15,330	\$ 15,283	\$ 47	0.3%

Cost of services revenue remained relatively consistent for the three month period ended March 31, 2018, as compared to the three month period ended March 31, 2017.

*Cost of product revenue*

	Three Months Ended March 31,			
	2018	2017	Change	
	(in thousands, except percentage data)			
Cost of product revenue	\$ 557	\$ 446	\$ 111	24.9%
As a % of product revenue	5.9%	6.4%		
As a % of total revenue	0.9%	0.8%		

Cost of product revenue remained relatively consistent for the three month period ended March 31, 2018, as compared to the three month period ended March 31, 2017.

[Table of Contents](#)*Amortization of intangible assets*

	Three Months Ended March 31,			
	2018	2017	Change	
	(in thousands, except percentage data)			
Amortization of intangible assets	\$ 2,425	\$ 1,626	\$ 799	49.1%
As a % of total revenue	3.8%	2.8%		

Amortization of intangible assets increased by \$0.8 million driven by additional developed technology amortization associated with acquisitions made in those periods.

*Operating expenses**Research and development*

	Three Months Ended March 31,			
	2018	2017	Change	
	(in thousands, except percentage data)			
Research and development	\$ 12,519	\$ 10,327	\$ 2,192	21.2%
As a % of total revenue	19.6%	18.1%		
Components of research and development:				
Personnel-related costs	\$ 9,074	\$ 7,963	\$ 1,111	14.0%
Outside services and consulting costs	1,286	898	388	43.2%
Hosting and other	2,159	1,466	693	47.3%
Total research and development:	\$ 12,519	\$ 10,327	\$ 2,192	21.2%

Research and development expenses increased by \$2.2 million for the three month period ended March 31, 2018, as compared to the three month period ended March 31, 2017, primarily due to a \$1.1 million increase in personnel-related costs associated with acquired research and development employees and an increase of \$0.7 million in hosting and other, all of which is associated with enhancing the functionality and ease of use of our solutions.

*General and administrative*

	Three Months Ended March 31,			
	2018	2017	Change	
	(in thousands, except percentage data)			
General and administrative	\$ 14,460	\$ 12,769	\$ 1,691	13.2%
As a % of total revenue	22.6%	22.3%		
Components of general and administrative:				
Personnel-related costs	\$ 6,673	\$ 6,399	\$ 274	4.3%
Professional fees	5,100	4,805	295	6.1%
Consulting, taxes and other	2,687	1,565	1,122	71.7%
Total general and administrative:	\$ 14,460	\$ 12,769	\$ 1,691	13.2%

General and administrative expenses increased by \$1.7 million for the three month period ended March 31, 2018, as compared to the three month period ended March 31, 2017, primarily related to a \$0.5 million loss recorded on the sale of business and a \$0.4 million increase in transactional tax expense owed to foreign tax authorities included within consulting, taxes and other.

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### *Sales and marketing*

	Three Months Ended March 31,			
	2018	2017	Change	
	(in thousands, except percentage data)			
Sales and marketing	\$ 19,860	\$ 23,071	\$ (3,211)	(13.9)%
As a % of total revenue	31.0%	40.4%		
Components of sales and marketing:				
Personnel-related costs	\$ 9,502	\$ 10,969	\$ (1,467)	(13.4)%
Advertising costs	3,345	5,002	(1,657)	(33.1)%
Costs of credit card transactions and offering free trials	2,050	1,753	297	16.9 %
Marketing programs, consulting and other	4,963	5,347	(384)	(7.2)%
Total sales and marketing:	\$ 19,860	\$ 23,071	\$ (3,211)	(13.9)%

Sales and marketing expenses decreased by \$3.2 million for the three month period ended March 31, 2018, as compared to the three month period ended March 31, 2017. The decrease was primarily due to a \$1.5 million decrease in personnel-related costs and a \$1.7 million decrease in online display and traditional radio advertising costs. The decrease in personnel-related costs was driven by \$0.7 million 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, and \$0.7 million associated with a decrease in sales headcount resulting from our 2017 restructuring plan.

### *Amortization of intangible assets*

	Three Months Ended March 31,			
	2018	2017	Change	
	(in thousands, except percentage data)			
Amortization of intangible assets	\$ 939	\$ 450	\$ 489	108.7%
As a % of total revenue	1.5%	0.8%		

Amortization of intangible assets increased by \$0.5 million for the three month period ended March 31, 2018, as compared to the three month period ended March 31, 2017, primarily related to an increase in customer relationship amortization associated with the acquisition of Mozy in March 2018.

### *Restructuring*

	Three Months Ended March 31,			
	2018	2017	Change	
	(in thousands, except percentage data)			
Restructuring	\$ 862	\$ —	\$ 862	100.0%
As a % of total revenue	1.3%	—%		

Restructuring expenses for the three month period ended March 31, 2018 were \$0.9 million related to the restructuring program we initiated in October 2017 whereby we reduced our workforce in an effort to streamline operations and reduce operating costs. We did not record any restructuring charges for the three month period ended March 31, 2017. Refer to *Note 13 - Restructuring*, to our condensed consolidated financial statements included in this Quarterly Report for additional information.

### *Loss from operations*

Operating loss for the three month period ended March 31, 2018 compared to the three month period ended March 31, 2017 decreased primarily a result of an increase in revenue and decrease in sales and marketing expenses, all partially offset by increases in costs of revenue, research and development expenses, general and administrative expenses and restructuring expenses.

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### *Non-operating income (expense)*

	Three Months Ended March 31,			
	2018	2017	Change	
	(in thousands, except percentage data)			
Interest expense	\$ (2,601)	\$ (222)	\$ (2,379)	1,071.6 %
As a % of total revenue	(4.1)%	(0.4)%		
Interest income	\$ 244	\$ 20	\$ 224	1,120.0 %
As a % of total revenue	0.5 %	— %		
Other income (expense), net	\$ 12	\$ 280	\$ (268)	(95.7)%
As a % of total revenue	— %	0.5 %		

Interest expense increased for the three month period ended March 31, 2018, as compared to the three month period ended March 31, 2017, primarily due to the interest expense and amortization of the debt discount and debt issuance costs related to our Convertible Notes issued in April 2017.

Interest income increased for the three month period ended March 31, 2018, as compared to the three month period ended March 31, 2017, primarily due to an increased cash balance in specific money market accounts that are driving an increase in interest earned.

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 three month period ended March 31, 2018, as compared to the three month period ended March 31, 2017, primarily due to exchange rate gains (losses) related to foreign currency exchange rate fluctuations on intercompany and other non-functional currency transactions.

### *Benefit for income taxes*

We recorded income tax benefit of \$17.2 million and \$14.4 million for the three month periods ended March 31, 2018 and March 31, 2017, respectively. Our effective income tax rates were 326.6% and 211.8% for the three month periods ended March 31, 2018 and March 31, 2017, respectively. Our effective income tax rate varied from the statutory income tax rate principally due to the release of valuation allowance as a result of the acquisition of Mozy, which is recorded discretely, and pre-tax book losses in the U.S. and Switzerland that cannot be benefited.

Our effective income tax rate in the three months ended March 31, 2018 differed from the three months ended March 31, 2017 primarily due to the partial releases of U.S. valuation allowance due to a net deferred tax liability recorded in the acquisitions of Mozy and DoubleTake, respectively. The net deferred tax liabilities recorded for Mozy and DoubleTake primarily relate to non-tax deductible intangible assets recognized in the condensed consolidated 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, the Company has recorded a discrete tax benefit of \$17.6 million and \$14.8 million in the three months ended March 31, 2018 and 2017, respectively, for the release of valuation allowance related to the deferred tax liability recorded in purchase accounting. 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.

### *Other Financial Data*

In addition to our results discussed above determined under GAAP, we believe that bookings, annual retention rate, renewal rate, and adjusted free cash flow are useful to investors in evaluating our operating performance. See the *Performance Highlights* section above for the table presenting certain Non-GAAP and other operational metric performance highlights for the three months ended March 31, 2018 and 2017. Management considers these financial and operating metrics critical to understanding our business, reviewing our historical performance, measuring and identifying current and future trends, and for planning purposes. Securities analysts also frequently use bookings and adjusted free cash flow as supplemental measures to evaluate the overall performances of companies.

Bookings and adjusted free cash flow are financial data that are not calculated in accordance with GAAP. The tables below provide reconciliation 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.

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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 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 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 adjusted 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.

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Revenue	\$ 64,026	\$ 57,099
Add change in deferred revenue and unbilled revenue, net of foreign exchange (excluding acquisitions, divestitures, impact of adopting Topic 606)	3,562	5,023
Bookings	<u>\$ 67,588</u>	<u>\$ 62,122</u>

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	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Cash provided by operating activities	\$ 3,291	\$ 7,561
Subtract capital expenditures	(3,288)	(6,568)
Free cash flow	3	993
Add acquisition-related payments	1,647	1,230
Add restructuring-related payments	665	—
Add litigation-related payments	127	32
Adjusted free cash flow	<u>\$ 2,442</u>	<u>\$ 2,255</u>

### *Liquidity and Capital Resources*

As of March 31, 2018, we had cash and cash equivalents of \$71.0 million, of which \$55.2 million was held in the United States and \$15.8 million was held by our international subsidiaries. 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. We currently do not expect to require repatriation of cash and investments to fund our U.S. operations and, as a result, we intend to indefinitely reinvest our foreign earnings to fund our foreign subsidiaries.

#### *Sources 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 revolving credit facility that we entered into in March 2018, 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.

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 March 31, 2018, we had outstanding borrowings of \$90.0 million under the Revolving Credit Facility, which was used in combination with cash on hand to fund the acquisition of Mozy.

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 program;
- 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;

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- 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 summarizes our net cash inflows (outflows) for the three months ended March 31, 2018 and 2017.

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Net cash provided by operating activities	\$ 3,291	\$ 7,561
Net cash used in investing activities	\$ (150,214)	\$ (66,046)
Net cash provided by financing activities	\$ 89,160	\$ 40,984

### *Operating activities*

Our cash flows from operating activities are significantly influenced by the amount of our net (loss) income, 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 three months ended March 31, 2018, cash provided by operating activities was \$3.3 million, which was driven by our net income of \$11.9 million and an increase in deferred revenue of \$4.1 million. These cash inflows were partially offset by a net adjustment for non-cash charges of \$5.1 million, primarily comprised of a \$17.6 million benefit for deferred income taxes, partially offset by \$6.1 million of depreciation and amortization, \$3.7 million of stock-based compensation expense, \$1.6 million of non-cash interest expense related to the amortization of debt discount, \$0.7 million related to a capitalized software impairment, and \$0.4 million in amortization of deferred costs. Additionally, these inflows were offset by a \$5.7 million change in working capital and a \$1.9 million decrease in other assets and liabilities.

In the three months ended March 31, 2017, cash provided by operating activities was \$7.6 million, which was driven by our net income of \$7.6 million, an increase in deferred revenue of \$5.1 million and a decrease in working capital of \$3.5 million. These cash inflows were partially offset by a net adjustment for non-cash charges of \$7.6 million, primarily comprised of a \$14.9 million benefit for deferred income taxes and \$0.4 million in other non-cash items, partially offset by \$4.9 million of depreciation and amortization and \$2.8 million of stock-based compensation expense, and a decrease in other assets and liabilities of \$1.0 million.

### *Investing activities*

In the three months ended March 31, 2018, cash used in investing activities was \$150.2 million, which was primarily driven by our payment of \$144.6 million in connection with the acquisition of Mozy, capital expenditures of \$3.2 million, a purchase of derivatives of \$1.4 million, purchase of intangibles of \$1.3 million, partially offset by proceeds from the sale of businesses of \$0.3 million.

In the three months ended March 31, 2017, cash used in investing activities was \$66.0 million, which was primarily driven by our payment of \$59.7 million in connection with the acquisition of DoubleTake, capital expenditures of \$6.6 million, a purchase of derivatives of \$0.4 million, partially offset by proceeds from the sale of businesses of \$0.3 million and proceeds from maturities of derivatives of \$0.4 million.

### *Financing activities*

In the three months ended March 31, 2018, cash provided by financing activities was \$89.2 million, which was primarily driven by \$89.0 million proceeds from long-term borrowings, net of debt issuance costs and \$0.7 million proceeds from the exercise of stock options, partially offset by \$0.5 million payments of withholding taxes in connection with restricted stock activity.

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In the three months ended March 31, 2017, cash provided by financing activities was \$41.0 million, which was primarily driven by \$39.1 million proceeds from long-term borrowings, net of debt issuance costs and \$2.4 million proceeds from the exercise of stock options, partially offset by \$0.5 million payments of withholding taxes in connection with restricted stock activity.

### *Off-balance sheet arrangements*

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

### *Contractual obligations*

The following table summarizes our contractual obligations at March 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	16,173	3,594	7,188	5,391	—
Revolving Credit Facility principal	90,000	—	—	90,000	—
Revolving Credit Facility interest (2)	12,274	3,348	6,483	2,443	—
Office lease obligations	24,779	3,351	7,399	7,159	6,870
Data center lease obligations (3)	10,406	3,018	4,500	2,824	64
Hosted software solution obligations	2,854	1,430	1,424	—	—
Consulting obligations	1,020	1,020	—	—	—
Other purchase commitments	2,116	1,696	420	—	—
Total	<u>\$ 303,372</u>	<u>\$ 17,457</u>	<u>\$ 27,414</u>	<u>\$ 251,567</u>	<u>\$ 6,934</u>

- (1) 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 taxing authorities. There have been no material changes to our uncertain tax positions in the first quarter of 2018.
- (2) The interest payment periods and interest rates are variable related to the Revolving Credit Facility. The future interest payments disclosed above are estimated based on the interest rate and cadence of interest payments in effect as of March 31, 2018.
- (3) 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 administrative offices in Salt Lake City, Utah and Indianapolis, Indiana.

Commitments under our data center lease obligations included above consist primarily of Ashburn, Virginia; Chandler, Arizona; and Phoenix, Arizona data centers. Additional commitments within this line consist of data center colocation agreements in place with Iron Mountain and DataBank.

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.

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### **Critical Accounting Policies**

Our 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.

We consider the assumptions and estimates associated with revenue recognition, business combinations, goodwill and acquired intangible assets, income taxes and stock-based compensation to be our critical accounting policies and estimates. For further information on our critical and other significant accounting policies, see the notes to the condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K, as filed on March 12, 2018 with the SEC.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For quantitative and qualitative disclosures about market risk affecting us, see Item 7A “Quantitative and Qualitative Disclosures about Market Risk” in our Annual Report on Form 10-K filed with the SEC on March 12, 2018. Our exposure to market risks has not changed materially from that set forth in our Annual Report.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of 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 March 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 March 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.

#### **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 period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### **Inherent Limitations on Effectiveness of Controls**

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

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These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

See Note 12 – Commitments and Contingencies to our condensed consolidated financial statements included in this Quarterly Report for information concerning litigation. In addition to the Realtime Data lawsuit, 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 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 1A. RISK FACTORS**

The Company's operations and financial results are subject to various risks and uncertainties that could adversely affect our business, financial condition, liquidity and results of operations. There have been no material changes to the risks and uncertainties previously presented in "Item 1A. Risk Factors", in our Annual Report on Form 10-K filed with the SEC on March 12, 2018.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**(a) Sale of Unregistered Securities**

Not applicable.

**(b) Use of Proceeds**

Not applicable.

**(c) Issuer Purchases of Equity Securities**

The following table is a summary of the Company's repurchases of our common stock in the first quarter of 2018:

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share (2)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May be Purchased Under the Plans or Programs (3)
January 1, 2018 - January 31, 2018	—	\$ —	—	\$ 5,214,409
February 1, 2018 - February 28, 2018	10,057	\$ 23.24	—	\$ 5,214,409
March 1, 2018 - March 31, 2018	11,112	\$ 28.45	—	\$ 5,214,409
	<u>21,169</u>		<u>—</u>	

(1) During the three months ended March 31, 2018, 21,169 shares were withheld to satisfy tax withholding obligations in connection with the vesting of restricted stock units. We did not repurchase any shares of our common stock pursuant to our previously-announced program.

(2) The average price per share for each of the months in the fiscal quarter was calculated by dividing (a) the sum for the aggregate value of the tax withholding obligations by (b) the sum of the number of shares withheld.

(3) In May 2015, our Board of Directors authorized a \$20.0 million share repurchase program that was subsequently increased to \$30.0 million on March 22, 2017. The share repurchase program expires on May 15, 2018 unless renewed by our Board of Directors.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not Applicable.

[Table of Contents](#)**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**ITEM 5. OTHER INFORMATION****Item 8.01 - Other Events*****Revision of Prior Period Amounts***

In connection with our adoption of Topic 606, we determined that revenue from products has historically exceeded 10% of total revenue and therefore should have been previously stated separately from services revenue. While we believe the effects of this correction to presentation are immaterial to previously issued financial statements, we will prospectively revise affected periods when they are next presented as comparative prior period amounts in our 2018 filings on forms 10-Q and 10-K. The effects of such revisions will correctly present the services and products components of revenue and cost of revenue in the condensed consolidated statements of operations, and 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, our cash flows, or any balance sheet line item.

The effect of the revisions to the consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015, is as follows (in thousands):

	Year ended December 31, 2017		
	As Previously Reported	Adjustments	As Revised
Revenue:			
Services	\$ —	\$ 207,403	\$ 207,403
Product	—	32,059	32,059
Total revenue	239,462	—	239,462
Cost of revenue:			
Services	—	59,211	59,211
Product	—	2,677	2,677
Amortization of intangible assets	—	8,179	8,179
Total cost of revenue	70,067	—	70,067

	Year ended December 31, 2016		
	As Previously Reported	Adjustments	As Revised
Revenue:			
Services	\$ —	\$ 186,087	\$ 186,087
Product	—	20,899	20,899
Total revenue	206,986	—	206,986
Cost of revenue:			
Services	—	55,512	55,512
Product	—	2,793	2,793
Amortization of intangible assets	—	2,632	2,632
Total cost of revenue	60,937	—	60,937

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	Year ended December 31, 2015		
	As Previously Reported	Adjustments	As Revised
<b>Revenue:</b>			
Services	\$ —	\$ 130,320	\$ 130,320
Product	—	6,296	6,296
Total revenue	136,616	—	136,616
<b>Cost of revenue:</b>			
Services	—	37,503	37,503
Product	—	—	—
Amortization of intangible assets	—	1,281	1,281
Total cost of revenue	38,784	—	38,784

The effect of the revisions to our consolidated statements of operations for the three months ended June 30, 2017, September 30, 2017 and December 31, 2017, is as follows (in thousands):

	Three months ended June 30, 2017,			Three months ended September 30, 2017,			Three months ended December 31, 2017,		
	As Previously Reported	Adj	As Revised	As Previously Reported	Adj	As Revised	As Previously Reported	Adj	As Revised
<b>Revenue:</b>									
Services	\$ —	\$ 51,050	\$ 51,050	\$ —	\$ 52,966	\$ 52,966	\$ —	\$ 53,272	\$ 53,272
Product	—	7,984	7,984	—	8,671	8,671	—	8,420	8,420
Total revenue	59,034	—	59,034	61,637	—	61,637	61,692	—	61,692
<b>Cost of revenue:</b>									
Services	—	15,266	15,266	—	14,627	14,627	—	14,036	14,036
Product	—	921	921	—	760	760	—	549	549
Amortization of intangible assets	—	2,124	2,124	—	2,203	2,203	—	2,226	2,226
Total cost of revenue	18,311	—	18,311	17,590	—	17,590	16,811	—	16,811

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### ITEM 6. EXHIBITS

#### Exhibits

2.1	<a href="#"><u>Master Acquisition Agreement by and among Carbonite, Inc., EMC Corporation, Mozy, Inc. and Dell Technologies Inc. dated February 12, 2018. (Incorporated by reference from Exhibit 2.1 to Form 8-K filed with the SEC on March 19, 2018)</u></a>
10.1	<a href="#"><u>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. (Incorporated by reference from Exhibit 10.1 to Form 8-K filed with the SEC on March 19, 2018)</u></a>
10.2	<a href="#"><u>Amended and Restated Carbonite, Inc. Executive Severance Plan, dated as of May 1, 2018.</u></a>
21.1	<a href="#"><u>List of subsidiaries.</u></a>
31.1	<a href="#"><u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2	<a href="#"><u>Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1	<a href="#"><u>Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
32.2	<a href="#"><u>Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
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.

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**SIGNATURES**

Pursuant to the requirements 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: May 10, 2018

By: /s/ Anthony Folger  
Anthony Folger  
Chief Financial Officer

Dated: May 10, 2018

By: /s/ Cassandra Hudson  
Cassandra Hudson  
Chief Accounting Officer

**AMENDED AND RESTATED CARBONITE, INC.  
EXECUTIVE SEVERANCE PLAN**

**(Effective Date May 1, 2018)**

**1. PURPOSE**

Carbonite, Inc. (the “Company”) considers it essential to the best interests of its stockholders to promote and preserve the continuous employment of key management personnel. The Compensation Committee (the “Committee”) of the Board of Directors of the Company (the “Board”) recognizes that the possibility of a Change of Control (as defined in Section 3(c) hereof) exists and that such possibility, and the uncertainty and questions that it may raise among management, may result in the departure or distraction of key management personnel to the detriment of the Company and its stockholders. Therefore, the Committee has determined that this Amended and Restated Executive Severance Plan (the “Plan”) should be adopted to reinforce and encourage the continued attention and dedication of certain key members of management who are designated as participants by the Committee, in its sole discretion, to participate in the Plan (each, a “Covered Executive,” and collectively, the “Covered Executives”). Nothing in this Plan shall be construed as creating an express or implied contract of employment and, except as otherwise agreed in writing between the Covered Executive and the Company or any of its subsidiaries (“Subsidiaries”), the Covered Executive shall not have any right to be retained in the employ of the Company or any of its Subsidiaries. This Plan is intended to provide benefits to a group of employees of the Company and its Subsidiaries that constitutes a “select group of management or highly compensated employees” within the meaning of Department of Labor Regulation §2520.104-24.

**2. ELIGIBILITY REQUIREMENTS**

A Covered Executive is eligible for benefits under this Plan if he or she meets the following requirements:

- (a) The Covered Executive must have completed at least one year of continuous service, based on the Covered Executives’ most recent hire date;
- (b) The Covered Executives’ Terminating Event must be on or after the effective date of this Plan; and
- (c) The Covered Executive must execute (and not revoke) a release and waiver substantially in the form attached hereto as Exhibit A (the “Release”).

The Covered Executives as of the date hereof are set forth on Exhibit B hereto. Such Exhibit may be revised from time to time by the Committee; provided however that no individual may be removed from status as a Covered Executive during the one year period commencing upon the occurrence of a Change of Control.

**3. TERMINATION EVENT**

A “Terminating Event” shall mean the termination of employment of a Covered Executive in connection with any of the events provided in Section 3(a) or 3(b) below.

- (a) Termination by the Company. Termination by the Company of a Covered Executives’ employment for any reason other than for (i) Cause (as defined below) or (ii) the death or disability (as
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determined by the Committee under the Company's or any applicable Subsidiary's then existing long-term disability coverage) of such Covered Executive.

For purposes of this Plan, the term "Cause" shall mean (except as set forth below) dismissal by the Company of the Covered Executive as a result of (i) the commission of any act by the Covered Executive constituting financial dishonesty against the Company (which act would be chargeable as a crime under applicable law); (ii) the Covered Executive engaging in any other act of fraud, intentional misrepresentation, moral turpitude, illegality or harassment; (iii) unauthorized use or disclosure by a Covered Executive of any proprietary information or trade secrets of the Company or any other party to whom the Covered Executive owes an obligation of nondisclosure as a result of his or her relationship with the Company; (iv) the repeated failure by the Covered Executive to follow the directives of the chief executive officer of the Company or the Board; or (v) any material misconduct, violation of the Company's policies, or willful and deliberate non-performance of duty by the Covered Executive in connection with the business affairs of the Company. Notwithstanding the foregoing, during the 12 month period immediately following a Change of Control, "Cause" shall mean instead (i) the willful and continued failure by the Covered Executive (other than any such failure resulting from the employee's incapacity due to physical or mental illness) to perform substantially the duties and responsibilities of the employee's position after a written demand for substantial performance is delivered to the Covered Executive by the Company, which demand specifically identifies the manner in which the Company believes that the Covered Executive has not substantially performed such duties or responsibilities and provides the Covered Executive with a cure period of at least thirty days; (ii) the conviction of the Covered Executive by a court of competent jurisdiction for felony criminal conduct; or (iii) the willful engaging by the Covered Executive in fraud or dishonesty which is demonstrably and materially injurious to the Company or its reputation, monetarily or otherwise. No act, or failure to act, on the Covered Executive's part shall be deemed "willful" unless committed or omitted by the Covered Executive in bad faith and without reasonable belief that the Covered Executive's act or failure to act was in, or not opposed to, the best interest of the Company.

(b) Termination by the Covered Executive for Good Reason. Termination by a Covered Executive of his or her employment with the Company and its Subsidiaries for Good Reason, occurring within 12 months following a Change of Control (as defined herein).

For purposes of this Plan, the term "Good Reason" shall mean that the Covered Executive has complied with the Good Reason Process (as defined below) following the occurrence of any of the following events: (i) a material diminution in the Covered Executive's responsibilities, authority or duties; (ii) a material diminution in the Covered Executive's base salary or annual bonus opportunity; (iii) a relocation of more than 25 miles of the office at which the Covered Executive provides services to the Company, or (iv) any failure by the Company to obtain the written assumption of this Plan by any successor to the Company. Notwithstanding the terms of any employment or similar agreement with the Company to which the Covered Executive is a party that contains a different definition of "good reason" (or other similar term), this definition shall be applicable to the Covered Executive for purposes of this Plan and not such other definition. "Good Reason Process" means that (A) the Covered Executive reasonably determines in good faith that a Good Reason condition has occurred; (B) the Covered Executive notifies the Company in writing of the first occurrence of the Good Reason condition within 60 days of the first occurrence of such condition; (C) the Company is provided with a period of 30 days following such notice (the "Cure Period") to remedy the condition; (D) notwithstanding such efforts, the Good Reason condition continues to exist; and (E) the Covered Executive terminates his or her employment within 60 days after the end of the Cure Period. If the Company cures the Good Reason condition during the Cure Period, Good Reason shall be deemed not to have occurred.

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(c) Change of Control. For purposes of this Plan, a “Change of Control” shall mean any of the following:

(i) a transaction or series of transactions (other than an offering of the Company’s Common Stock to the general public through a registration statement filed with the Securities and Exchange Commission) whereby any “person” or related “group” of “persons” (as such terms are used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (other than the Company, any of its subsidiaries, an employee benefit plan maintained by the Company or any of its subsidiaries or a “person” that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company possessing more than 50% of the total combined voting power of the Company’s securities outstanding immediately after such acquisition; or

(ii) during any period of two consecutive years, individuals who, at the beginning of such period, constitute the Company’s Board of Directors (the “Board”) together with any new director(s) (other than a director designated by a person who shall have entered into an agreement with the Company to effect a transaction described in Section 3(c)(i) or Section 3(c)(iii)) whose election by the Board or nomination for election by the Company’s stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two-year period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

(iii) the consummation by the Company (whether directly involving the Company or indirectly involving the Company through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination or (y) a sale or other disposition of all or substantially all of the Company’s assets in any single transaction or series of related transactions, in each case *other than* a transaction: (A) that results in the Company’s voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the Company or the person that, as a result of the transaction, controls, directly or indirectly, the Company or owns, directly or indirectly, all or substantially all of the Company’s assets or otherwise succeeds to the business of the Company (the Company or such person, the “Successor Entity”)) directly or indirectly, at least a majority of the combined voting power of the Successor Entity’s outstanding voting securities immediately after the transaction, and (B) after which no person or group beneficially owns voting securities representing 50% or more of the combined voting power of the Successor Entity; provided, however, that no person or group shall be treated for purposes of this Section 3(c)(iii)(B) as beneficially owning 50% or more of combined voting power of the Successor Entity solely as a result of the voting power held in the Company prior to the consummation of the transaction; or

(iv) the Company’s shareholders approve a liquidation or dissolution of the Company.

A Terminating Event shall not be deemed to have occurred pursuant to this Section 3 solely as a result of the Covered Executive being an employee of any direct or indirect successor to the business or assets of the Company and its Subsidiaries, rather than continuing as an employee of the Company or its Subsidiary following a Change of Control.

#### 4. **TERMINATION BENEFITS**

(a) Except as provided in Section 4(c) below, in the event of a Terminating Event pursuant to Section 3(a), with respect to such Covered Executive:

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(i) the Company shall pay to the Covered Executive an amount equal to half of the Covered Executives' annual base salary in effect immediately prior to the Terminating Event, payable in cash, in one lump-sum payment within sixty (60) days following the Date of Termination (as defined in Section 10(b) below); and

(ii) in the event that the Covered Executive timely elects to continue health, vision and/or dental coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), the Company will pay a lump sum payment equal to six times the Company's portion of the Covered Executives' monthly premium payments for each such coverage elected by the Covered Executive for the Covered Executive and his or her eligible dependents, if applicable.

(b) Except as provided in Section 4(c) below, in the event that a Terminating Event occurs within 12 months after a Change of Control with respect to such Covered Executive:

(i) the Company shall pay to the Covered Executive an amount equal to the sum of (A) the Covered Executives' annual base salary in effect immediately prior to the Terminating Event (or the Covered Executives' annual base salary in effect immediately prior to the Change of Control, if higher) and (B) the Covered Executives' total target bonus as if it had been achieved at 100% for the fiscal year in which the Change of Control occurred, payable in cash, in one lump-sum payment within sixty (60) days following the Date of Termination; and

(ii) in the event that the Covered Executive timely elects to continue health, vision and/or dental coverage pursuant to COBRA, the Company will pay, a lump sum equal to eighteen times the Company's portion of the Covered Executives' monthly premium payments for each such coverage elected by the Covered Executive for the Covered Executive and his or her eligible dependents, if applicable.

(c) Notwithstanding the foregoing, in the event that any Covered Executive is a party to any employment agreement, offer letter or similar agreement with the Company (an "Employment Agreement") on the date the Covered Executive commences participation under this Plan that would also provide for severance payments or benefits upon a Terminating Event, then the Covered Executive shall be entitled to receive either (i) the payments and benefits described in Section 4(a) or 4(b), above, or (ii) such severance payments and benefits described in the Covered Executives' Employment Agreement, whichever amount is greater in the aggregate, and subject to Section 8 of the Plan. In consideration of the opportunity to receive any payment or benefit under this Plan and as a condition of a Covered Executives' participation hereunder, any such Employment Agreement shall be deemed amended (and any payments or benefits shall be deemed to be waived by the Covered Executive) to the extent necessary to effect the provisions of this Section 4(c).

## 5. RELEASE AND GENERAL RULES

To be eligible to receive the separation pay and benefits pursuant to Section 4 under this Plan, a Covered Executive must, within the period specified in the Release (which shall not exceed forty-five (45) days following the Date of Termination), execute the Release and return it to the Company. The Release must be voluntarily executed by the Covered Executive, and the Covered Executive must not revoke such Release within any applicable revocation period that may be required by law from time to time. Payments and benefits to the Covered Executive under Section 4 ("Termination Benefits") will not be paid or begin

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until the day after the last day on which the Covered Executive may revoke the signed Release submitted to the Company.

Upon termination, a Covered Executive must return all Company property that is in the Covered Executives' possession, custody or control. Company property includes, but is not limited to, all keys, credit cards, computers, and other items or equipment provided to the Employee for use during employment, together with all written and recorded materials, documents, computer discs or memory cards, plans, records, notes, files, drawings or papers, and any copies thereof, relating to the affairs of the Company and its Subsidiaries and their affiliates, including in particular all notes and records relating to customers of the Company.

## 6. ADDITIONAL LIMITATIONS

Unless a more favorable treatment is provided in an Employment Agreement of a Covered Executive (and notwithstanding any other provision in any compensation plan), in the event that that any payment or distribution by the Company or any of its Subsidiaries or their affiliates to or for the benefit of the Covered Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Plan or otherwise) (all such payments and benefits, including the payments and benefits payable to the Covered Executive pursuant to Section 4 hereof ("Total Termination Benefits")) (i) constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), or any comparable successor provisions, and (ii) but for this Section 6 would be subject to the excise tax imposed by Section 4999 of the Code, or any comparable successor provisions (the "Excise Tax"), then the Covered Executive's Total Termination Benefits shall be either (i) provided to the Covered Executive in full, or (b) provided to Covered Executive as to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the foregoing amounts, when taking into account applicable federal, state, local and foreign income and employment taxes, the Excise Tax, and any other applicable taxes, results in the receipt by the Covered Executive, on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under the Excise Tax and the Covered Executive shall have no right to Total Termination Benefits in excess of the amount so determined. Any determination required under this Section 6 shall be made in writing in good faith by a nationally recognized accounting firm selected by the Company (the "Accountants"). In the event of a reduction of benefits hereunder, the Termination Payments shall be reduced in the following order: (1) cash payments not subject to Section 409A of the Code; (2) cash payments subject to Section 409A of the Code; (3) equity-based payments and acceleration; and (4) non-cash forms of benefits. To the extent any payment is to be made over time (e.g., in installments, etc.), then the payments shall be reduced in reverse chronological order. For purposes of making the calculations required by this Section 6, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of the Code, and other applicable legal authority. The Company shall bear the cost of all fees the Accountants charge in connection with any calculations contemplated by this Section 6.

## 7. ADMINISTRATION OF PLAN; CLAIMS PROCEDURES

(a) General. Except as specifically provided herein, the Plan shall be administered by the Committee. The Committee may delegate any administrative duties, including, without limitation, duties with respect to the processing, review, investigation, approval and payment of severance benefits, to designated individuals or committees. The Committee shall be the "Administrator" and a "named fiduciary" under the Plan for purposes of ERISA.

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(b) Interpretations. The Committee shall have the duty and authority to interpret and construe, in its sole discretion, the terms of the Plan in regard to all questions of eligibility, the status and rights of Covered Executives, and the manner, time and amount of any payment under the Plan. The Committee or its representative shall decide any issues arising under this Plan, and the decision of the Committee shall be binding and conclusive on the Covered Executives and the Company; provided however that in the event of a dispute regarding payments or benefits hereunder arising in connection with a Terminating Event occurring during the 12 month period immediately following a Change of Control, such decisions shall be subject to de novo review under Section 10(d) hereof.

(c) Filing a Claim. It is not normally necessary to file a claim in order to receive benefits under this Plan; however, if a Covered Executive (the "Claimant") feels he or she has been improperly denied severance benefits, any claim for payment of severance benefits shall be signed, dated and submitted to the Chief Financial Officer, as set forth in Section 15. The Committee shall then evaluate the claim and notify the Claimant of the approval or disapproval in accordance with the provisions of this Plan not later than 90 days after the Company's receipt of such claim unless special circumstances require an extension of time for processing the claims. If such an extension of time for processing is required, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial 90 day period which shall specify the special circumstances requiring an extension and the date by which a final decision will be reached (which date shall not be later than 180 days after the date on which the claim was filed). If the Claimant does not provide all the necessary information for the Committee to process the claim, the Committee may request additional information and set deadlines for the Claimant to provide that information.

(d) Notice of Initial Determination. The Claimant shall be given a written notice in which the Claimant shall be advised as to whether the claim is granted or denied, in whole or in part. If a claim is denied, in whole or in part, the Claimant shall be given written notice which shall contain (i) the specific reasons for the denial, (ii) specific references to pertinent Plan provisions on which the denial is based, (iii) a description of any additional material or information necessary to perfect the claim and an explanation of why such material or information is necessary and (iv) an explanation of this Plan's appeal procedures, which shall also include a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA following a denial of the claim upon review.

(e) Right to Appeal. If a claim for payment of severance benefits made in accordance with the procedures specified in this Plan is denied, in whole or in part, the Claimant shall have the right to request that the Committee review the denial, provided that the Claimant files a written request for review with the Committee within 60 days after the date on which the Claimant received written notification of the denial. The Claimant may review or receive copies, upon request and free of charge, of any documents, records or other information "relevant" (within the meaning of Department of Labor Regulation 2560.503-1(m)(8)) to the Claimant's claim. The Claimant may also submit written comments, documents, records and other information relating to his or her claim.

(f) Review of Appeal. In deciding a Claimant's appeal, the Committee shall take into account all comments, documents, records and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial review of the claim. If the Claimant does not provide all the necessary information for the Committee to decide the appeal, the Committee may request additional information and set deadlines for the Claimant to provide that information. Within 60 days after a request for review is received, the review shall be made and the Claimant shall be advised in writing of the decision on review, unless special circumstances require an extension of time for processing the review, in which case the Claimant shall be given a written

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notification within such initial 60 day period specifying the reasons for the extension and when such review shall be completed (provided that such review shall be completed within 120 days after the date on which the request for review was filed).

(g) Notice of Appeal Determination. The decision on review shall be forwarded to the Claimant in writing and, in the case of a denial, shall include (i) specific reasons for the decision, (ii) specific references to the pertinent Plan provisions upon which the decision is based, (iii) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records or other information relevant to the Claimant's claim and (iv) a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA following a wholly or partially denied claim for benefits. The Committee's decision on review shall be final and binding on all persons for all purposes; provided however that in the event of a dispute regarding payments or benefits hereunder arising in connection with a Terminating Event occurring during the 12 month period immediately following a Change of Control, such decisions shall be subject to de novo review under Section 10(d) hereof. If a Claimant shall fail to file a request for review in accordance with the procedures herein outlined, such Claimant shall have no right to review and shall have no right to bring an action in any court, and the denial of the claim shall become final and binding on all persons for all purposes. Any notice and decisions by the Committee under this Section 7 may be furnished electronically in accordance with Department of Labor Regulation 2520.104b-1(c)(i), (iii) and (iv).8.

(h) In the event of a dispute regarding Termination Benefits with respect to a Terminating Event occurring during the one year period immediately following a Change of Control, the Company shall reimburse the applicable Covered Executive for reasonable legal fees incurred in connection with such dispute.

## 8. SECTION 409A

(a) The payments under this Plan are designated as separate payments for purposes of the short-term deferral rule under Treasury Regulation Section 1.409A-1(b)(4), the exemption for involuntary terminations under separation pay plans under Treasury Regulation Section 1.409A-1(b)(9)(iii), and the exemption for medical expense reimbursements under Treasury Regulation Section 1.409A-1(b)(9)(v)(B). As a result, (A) payments that are made on or before the 15th day of the third month of the calendar year following the year that includes the date of the Covered Executive's termination of employment, (B) any additional payments that are made on or before the last day of the second calendar year following the year of the Covered Executive's termination of employment and do not exceed the lesser of two times the Covered Executive's annual rate of pay in the year prior to his or her termination or two times the limit under Section 401(a)(17) of the Code then in effect, and (C) continued medical expense reimbursements during the applicable COBRA period, are exempt from the requirements of Section 409A of the Code.

(b) Notwithstanding any other provision in this Plan, to the extent any payments made or contemplated hereunder constitute nonqualified deferred compensation, within the meaning of Section 409A, then (i) each such payment which is conditioned upon the Covered Executive's execution of a release and which is to be paid or provided during a designated period that begins in one taxable year and ends in a second taxable year, shall be paid or provided in the later of the two taxable years and (ii) if the Covered Executive is a specified employee (within the meaning of Section 409A of the Code) as of the date of the Covered Executive's separation from service, each such payment that is payable upon the Covered Executive's separation from service and would have been paid prior to the six-month anniversary of Executive's separation from service, shall be delayed until the earlier to occur of (A) the six months and one day following the Covered Executive's separation from service or (B) the date of the Covered

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Executive's death. Any such delayed cash payment shall earn interest at an annual rate equal to the applicable federal short-term rate published by the Internal Revenue Service for the month in which the date of separation from service occurs, from such date of separation from service until the payment. Notwithstanding anything herein to the contrary, if and to the extent that amounts payable under this Plan are deemed, for purposes of Section 409A of the Code, to be in substitution of amounts previously payable under another arrangement with respect to the Covered Executive, such payments hereunder will be made at the same time(s) and in the same form(s) as such amounts would have been payable under the other arrangement, to the extent required to comply with Section 409A of the Code.

(c) All in-kind benefits provided and expenses eligible for reimbursement under this Plan shall be provided by the Company or incurred by Covered Executives during the time periods set forth in this Plan. All reimbursements shall be paid as soon as administratively practicable, but in no event shall any reimbursement be paid after the last day of the taxable year following the taxable year in which the expense was incurred. The amount of in-kind benefits provided or reimbursable expenses incurred in one taxable year shall not affect the in-kind benefits to be provided or the expenses eligible for reimbursement in any other taxable year. Such right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit.

(d) To the extent that any payment or benefit described in this Plan constitutes "non-qualified deferred compensation" under Section 409A of the Code, and to the extent that such payment or benefit is payable upon a Covered Executives' termination of employment, then such payments or benefits shall be payable only upon such Covered Executives' "separation from service." The determination of whether and when a separation from service has occurred shall be made in accordance with the presumptions set forth in Treasury Regulation Section 1.409A-1(h).

(e) The Company makes no representation or warranty and shall have no liability to any Covered Executive or to any other person if any provisions of this Plan are determined to constitute deferred compensation subject to Section 409A of the Code but do not satisfy an exemption from, or the conditions of, such Section.

## 9. WITHHOLDING

All payments made by the Company under this Plan shall be net of any tax or other amounts required to be withheld by the Company or its Subsidiaries under applicable law.

## 10. NOTICE AND DATE OF TERMINATION; DISPUTE RESOLUTION; ETC.

(a) Notice of Termination. Any purported termination of a Covered Executives employment (other than by reason of death) shall be communicated by written Notice of Termination from the Company to a Covered Executive or vice versa in accordance with this Section 10. For purposes of this Plan, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Plan relied upon and the Date of Termination, provided that in the event of a Notice of Termination due to Good Reason or for Cause during the 12 month period immediately following a Change of Control, if the Company or the Covered Executive cures the Good Reason or Cause condition, as the case may be, within thirty (30) days (the "Cure Period"), the Good Reason or Cause event shall be deemed not to have occurred.

(b) Date of Termination. "Date of Termination," shall mean: (i) if a Covered Executive's employment is terminated due to his or her death, the date of his or her death; (ii) if a Covered Executive's

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employment is terminated on account of the Covered Executive's disability or by the Company for Cause, the date on which Notice of Termination is given (or following the expiration of the Cure Period, if applicable); (iii) if a Covered Executive's employment is terminated by the Company without Cause, the date specified in the Notice of Termination; (iv) if a Covered Executive's employment is terminated by such Covered Executive without Good Reason, 30 days after the date on which a Notice of Termination is given, and (v) if a Covered Executive's employment is terminated by such Covered Executive with Good Reason, the date on which a Notice of Termination is given after the end of the Cure Period (but in any event no later than 90 days after the initial existence of the condition constituting Good Reason). Notwithstanding the foregoing, in the event that a Covered Executive gives a Notice of Termination to the Company, the Company may unilaterally accelerate the Date of Termination and such acceleration shall not result in a termination by the Company for purposes of this Plan.

(c) **No Mitigation.** The Covered Executives are not required to seek other employment or to attempt in any way to reduce any amounts payable to the Covered Executive by the Company under this Plan. Further, the amount of any payment provided for in this Plan shall not be reduced by any compensation earned by a Covered Executive as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by a Covered Executive to the Company or its Subsidiaries, or otherwise.

(d) **Arbitration of Disputes.** Any controversy or claim arising out of or relating to this Plan or the breach thereof or otherwise arising out of a Covered Executives employment or the termination of that employment (including, without limitation, any claims of unlawful employment discrimination whether based on age or otherwise) shall, to the fullest extent permitted by law, be settled by arbitration before a single arbitrator in any forum and form agreed upon by the parties or, in the absence of such an agreement, under the auspices of JAMS in Boston, Massachusetts in accordance with JAMS Streamlined Arbitration Rules and Procedures, or JAMS International Arbitration Rules, if the matter is deemed "international" within the meaning of that term as defined in the JAMS International Arbitration Rules. In the event that any person or entity other than a Covered Executive is a party to such controversy or claim, such controversy or claim shall be submitted to arbitration subject to such other person or entity's agreement. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. This Section 10(d) shall be specifically enforceable. Notwithstanding the foregoing, this Section 10(d) shall not preclude the Company or its Subsidiaries or a Covered Executive from pursuing a court action for the sole purpose of obtaining a temporary restraining order or a preliminary injunction in circumstances in which such relief is appropriate; provided that any other relief shall be pursued through an arbitration proceeding pursuant to this Section 10(d).

## 11. **BENEFITS AND BURDENS**

This Plan shall inure to the benefit of and be binding upon the Company and the Covered Executives, their respective successors, executors, administrators, heirs and permitted assigns. In the event of a Covered Executives death after a Terminating Event but prior to the completion by the Company of all payments and benefits due such Covered Executive under this Plan, the Company shall continue such payments and/or benefits to the Covered Executives beneficiary designated in writing to the Company prior to his or her death (or to his estate, if the Covered Executive fails to make such designation).

## 12. **SUCCESSOR OF THE COMPANY**

The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and

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agree to perform this Plan to the same extent that the Company would be required to perform it if no succession had taken place. Failure of the Company to obtain an assumption of this Plan at or prior to the effectiveness of any succession shall be a material breach of this Plan.

### **13. ENFORCEABILITY**

If any portion or provision of this Plan shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Plan, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Plan shall be valid and enforceable to the fullest extent permitted by law.

### **14. WAIVER**

No waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure by any person to require the performance of any term or obligation of this Plan, or the waiver by any person of any breach of this Plan, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

### **15. NOTICES**

Any notices, requests, demands, and other communications provided for by this Plan shall be sufficient if in writing and delivered in person or sent by registered or certified mail, postage prepaid, to a Covered Executive at the last address the Covered Executive has filed in writing with the Company, or to the Company at its main office, directed to the attention of the Secretary of the Company.

### **16. EFFECT ON OTHER PLANS**

Nothing in this Plan shall be construed to limit the rights of the Covered Executives under the Company or any Subsidiary's benefit plans, programs or policies.

### **17. AMENDMENT OR TERMINATION OF PLAN**

This Plan shall take effect on the date it is adopted by the Committee. The Company may amend or terminate this Plan at any time or from time to time; provided, however, that no such amendment shall, without the written consent of the affected Covered Executive, in any material adverse way affect the rights of such Covered Executive, and no termination of the Plan shall be made without the written consent of the Covered Executives.

### **18. GOVERNING LAW**

This Plan shall be construed under and be governed in all respects by the laws of the Commonwealth of Massachusetts.

**Subsidiaries of Carbonite, Inc.**

<b>Subsidiary</b>	<b>Jurisdiction</b>
Carbonite Securities Corporation	United States (Massachusetts)
Carbonite China Holdings, LLC	United States (Delaware)
Carbonite India Holdings, LLC	United States (Delaware)
Carbonite (China) Co., Ltd.	China
Zmanda Technologies India Pvt. Ltd	India
Carbonite Cloud Backup (Canada) Inc.	Canada
Carbonite GmbH	Switzerland
MailStore Software GmbH	Germany
Carbonite Holdings B.V.	Netherlands
Carbonite International Holdings B.V.	Netherlands
Carbonite Operations B.V.	Netherlands
Carbonite (France) SAS	France
Carbonite (UK) Limited	United Kingdom
Mozy, Inc.	United States (Delaware)
Mozy Holdings Limited	Ireland
Mozy International Limited	Ireland

Carbonite Securities Corporation, Carbonite International Holdings B.V., Carbonite India Holdings, LLC, Carbonite Holdings B.V., Carbonite (France) SAS and Mozy, Inc. are wholly owned subsidiaries of Carbonite, Inc.

Zmanda Technologies India Pvt. Ltd. is a wholly owned subsidiary of Carbonite India Holdings, LLC.

Carbonite China Holdings, LLC and Carbonite Operations B.V. are wholly owned subsidiaries of Carbonite International Holdings B.V.

Carbonite (China) Co., Ltd. is a wholly owned subsidiary of Carbonite China Holdings, LLC.

Carbonite Cloud Backup (Canada) Inc., Carbonite GmbH and MailStore Software GmbH are wholly owned subsidiaries of Carbonite Operations B.V.

Carbonite (UK) Limited is a wholly owned subsidiary of Carbonite (France) SAS.

Mozy Holdings Limited is a wholly owned subsidiary of Mozy, Inc.

Mozy International Limited is a wholly owned subsidiary of Mozy Holdings Limited.

## CERTIFICATIONS

I, Mohamad Ali, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Carbonite, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 10, 2018

/s/ Mohamad Ali

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Mohamad Ali

Chief Executive Officer

## CERTIFICATIONS

I, Anthony Folger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Carbonite, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 10, 2018

/s/ Anthony Folger

Anthony Folger  
Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Carbonite, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mohamad Ali, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mohamad Ali

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Mohamad Ali  
President, and Chief Executive Officer

May 10, 2018

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Carbonite, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony Folger, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Anthony Folger

Anthony Folger  
Chief Financial Officer

May 10, 2018

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

