

Carbonite Inc
Form 10-K
March 12, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

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

For the transition period from _____ to _____
Commission file number: 001-35264

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

Delaware 33-1111329
(State or other jurisdiction of (I.R.S. Employer
incorporation) Identification No.)

Two Avenue de Lafayette 02111
Boston, Massachusetts
(Address of principal executive offices) (Zip Code)
(617) 587-1100

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
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Common Stock, par value \$0.01 per share	The NASDAQ Stock Market LLC
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Securities registered pursuant to Section 12(g) of the Act:

None

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

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

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

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

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CARBONITE, INC.

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PART I

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K (this "Annual Report"), including the sections entitled "Business," "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations," includes forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "predict," "potential," expressions, as well as the negatives thereof, as they relate to us, our business, our management, and our industry, are intended to identify forward-looking statements. In light of risks and uncertainties discussed in this Annual Report, the forward-looking events and circumstances discussed in this Annual Report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at or by which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. These risks include, but are not limited to, those set forth under Item 1A of this Annual Report.

Forward-looking statements speak only as of the date of this Annual Report. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions, and expectations disclosed in the forward-looking statements we make. In addition, our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments that we may make.

You should read this Annual Report completely and with the understanding that our actual future results may be materially different from what we expect. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

ITEM 1. BUSINESS

Overview

Carbonite, Inc. (together with its subsidiaries, "Carbonite", the "Company", "our", "we", or "us") provides backup, disaster recovery, high availability and workload migration technology (the "Carbonite Data Protection Platform"). The Carbonite Data Protection Platform supports businesses in locations around the world with secure and scalable global cloud infrastructure. We continue to invest in strategic acquisitions and integrate these acquisitions into our portfolio of data protection solutions, in order to expand our addressable market and increase our strategic importance to customers.

We were incorporated on February 10, 2005 as a Delaware corporation and our principal executive offices are located at Two Avenue de Lafayette, Boston, Massachusetts, 02111. We founded Carbonite on one simple idea: all computers need to be backed up, and in our always-connected and highly mobile world, cloud backup is the ideal approach. On January 31, 2017, we completed the acquisition of all the outstanding capital stock of DoubleTake Software, Inc. for a purchase price of \$65.9 million. In addition, on August 14, 2017, we entered into an asset purchase agreement with Datacastle Corporation for a purchase price of \$9.6 million pursuant to which we acquired all the assets associated with Datacastle's cloud data backup, caching and analytics software and services for data protection purposes. As discussed below, we recently entered into an agreement to acquire all of the issued and outstanding capital stock of Mozy, Inc., a cloud backup service for businesses and consumers, and certain related business assets owned by EMC Corporation or its affiliates, for a purchase price of \$145.8 million. We believe these acquisitions strengthen our overall leadership position in the data protection market and strengthen our technology portfolio.

We derive the majority of our revenue from subscription fees and our consistently strong retention rates and scalable infrastructure help to support our growth. 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. For the year ended December 31, 2017, 2016 and 2015, we generated revenue of \$239.5 million, \$207.0 million, and \$136.6 million, respectively. We continue to invest in customer acquisition because the market for our solutions is highly

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competitive and, as a result, our bookings have grown from \$116.0 million in 2013 to \$245.9 million in 2017. For a reconciliation of bookings to revenue for the last five years, see “Selected Consolidated Financial and Other Data.”

Industry Trends

Trends on several fronts are fueling growth opportunities for Carbonite.

The first trend is the continued evolution of the data protection industry, along with the explosion in the creation of new data, which has driven customers to seek flexible and powerful cloud-based solutions that deliver high value. To protect new types of data and modernize their IT environments, businesses are shifting to the cloud. Analyst firm Gartner predicts that by 2020, the number of enterprises using the cloud as a backup target will double, up from 10% at the beginning of 2017.¹ Carbonite’s efficient cloud infrastructure fuels a variety of data protection models - from backup, to high availability to migration - in the right deployment models - from cloud, to onsite, to hybrid - to meet the needs of our customers.

The second trend is threats to data. The number of cyberattacks known as “Ransomware” has grown rapidly in recent years. The FBI defines ransomware as a type of malware installed on a computer or server that encrypts the files, making them inaccessible until a specified ransom is paid.²

The FBI reported that ransomware “skyrocketed” last year, costing businesses \$1 billion during 2016. According to Cybersecurity Ventures, global ransomware damage costs are expected to exceed \$5 billion by the end of 2017, up from \$325 million in 2015.⁴ In order to avoid bad press and reputational damage, many ransomware incidents are not reported. According to new research from Bitdefender, ransomware payments in 2017 will hit a record \$2 billion.⁵ In September 2016, the FBI issued a public service announcement stressing the importance of regular data backups and verification of the integrity of those backups as a defense to ransomware, stating that “backups are critical in ransomware incidents,” and “backups may be the best way to recover your critical data.” Additionally, Research and Markets expects the ransomware protection market to grow from \$8.16 billion in 2016 to \$17.36 billion by 2021.⁶ We expect this trend to drive adoption of backup solutions as businesses and individuals look for solutions to protect their data to avoid falling prey to criminals.

Finally, the industry analyst firm Gartner estimates the DRaaS market is expected to reach \$3.7 billion by 2021.⁷

According to Gartner, mid-market drivers for DRaaS include improved affordability and functionality.

We believe data growth and data threats will continue to drive the need for data protection and that our solutions position us well to capitalize on this growth opportunity.

¹Gartner: Magic Quadrant for Data Center Backup and Recovery Solutions, 2017

²Federal Bureau of Investigation Public Service Announcement I-091516-PSA, Ransomware Victims Urged to Report Infections to Federal Law Enforcement (<https://www.ic3.gov/media/2016/160915.aspx>)

³Cyber-extortion losses skyrocket, says FBI (<http://money.cnn.com/2016/04/15/technology/ransomware-cyber-security>)

⁴Cybersecurity Ventures, Ransomware Damage Report 2017 (<https://cybersecurityventures.com/ransomware-damage-report-2017-5-billion>)

⁵Cyberscoop, Ransomware is now a \$2 billion-per-year criminal industry (<https://www.cyberscoop.com/ransomware-2-billion-bitdefender-gpu-encryption>)

⁶Research and Markets, Ransomware Protection Market by Solution (<https://www.researchandmarkets.com/research/h5zh33/ransomware>)

⁷Gartner: Magic Quadrant for Disaster Recovery as a Service, 2017

Our Solutions

We believe that customers purchase our data protection solutions because they provide powerful features packaged in a cost-effective, simple and secure manner. We make it easy for customers to recover their files, applications or complete systems, and we provide high quality customer support.

We believe that our solutions provide the following benefits to our customers:

Power: Enterprise-grade data protection and recovery capabilities.

Simplicity: Intuitive user interfaces that make our solutions easy to use and maintain.

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Security: Proven, modern technology that provides peace of mind that our customers' data is safe. We encrypt all customer files before they are transmitted to our data centers, guarding against unauthorized access to stored files and ensuring a high level of data security. In addition, we employ state-of-the-art data center security measures intended to prevent intrusions.

Value: We provide comprehensive solutions at an affordable, predictable price, enabling customers to meet their data protection needs from a single vendor.

Our Key Competitive Strengths

We believe that our key competitive strengths include the following:

Proprietary backup architecture: Our entire infrastructure is designed and optimized for protecting high volumes of data in low-latency environments. We believe that our average storage costs per subscriber are lower than those realized by typical general purpose data center storage systems, providing us with lower cost of service and greater return on investment.

Heterogeneous environment support: Our solutions have been architected to use proprietary “agents” that run on a variety of operating platforms, including Windows and Linux (on-premise and in the cloud), and VMware, Oracle, IBM AIX and HP-UX on-premise, to ensure that businesses can securely backup and restore all their important data.

Brand awareness: We believe that we have among the highest brand awareness in the cloud backup market. We promote our brand through our multi-channel marketing program, which includes a broad presence in radio, online display advertising, print advertising, paid and natural search, and an affiliate and reseller network.

Distribution: Our sales network is designed to sell large volumes of our solutions to customers. To penetrate the extensive and diverse population of businesses, we have invested in recruiting and onboarding a network of sales channel partners including distributors, value-added resellers, managed service providers (“MSPs”) and global systems integrators. We believe the breadth and diversity of our channel partner relationships, coupled with our internal direct sales capabilities provide a competitive advantage when reaching businesses.

Significant intellectual property portfolio: We have a significant intellectual property portfolio relating to our solutions, including over 67 issued patents and pending applications worldwide. CARBONITE is a registered trademark in the U.S. and in over 40 other countries, including countries in the European Union.

Encryption and data security: We use sophisticated encryption technology to ensure the privacy of our customers' stored files. For solutions that utilize our cloud environments, we encrypt files using a secure key before the files leave the customers' computer and transmit the encrypted files over the internet to secure data centers. Customers' files then remain encrypted on our servers to guard against unauthorized access. We employ outside security analysis firms, including anti-hacking specialists, to review and test our defenses and internal procedures.

Comprehensive customer support: We believe that our customer support is more comprehensive than that offered by our primary competitors in the cloud backup market and aids in our customer retention. Telephone, live chat, and email customer support are included in our subscription fee.

Our Offerings

Our Carbonite Data Protection Platform includes the following solutions:

Carbonite Safe: For individuals or businesses, we offer annual and multi-year cloud backup plans. All plans offer discounts for multi-year subscriptions.

Carbonite Endpoint Protection: Carbonite Endpoint Protection protects the data that resides on an organization's computers, laptops, tablets and smartphones. Our endpoint protection is engineered with central management and control features that simplify deployment.

Carbonite Server Backup solutions, with three different deployment models:

Carbonite Hybrid Backup: Carbonite Hybrid Backup, powered by EVault, protects a customer's data footprint both on-premise and in the cloud and enables rapid recovery while version history stored in the cloud safeguards against disaster. Carbonite Hybrid Backup supports more than 200 operating systems, platforms and applications, including new and legacy systems on both physical and virtual machines. This solution protects up to 24 terabytes (TB) with our hardware-as-a-service solution and multiple petabytes with a purchased appliance.

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Carbonite Cloud Backup: Carbonite Cloud Backup, powered by EVault, automatically backs up data to the cloud and keeps physical and virtual systems protected with point-in-time restore and offers support for more than 200 operating systems, platforms and applications.

Carbonite Onsite Backup: Carbonite Onsite Backup, powered by EVault, is a highly flexible data protection solution that backs up and replicates data securely across a customer's own private network. Carbonite Onsite Backup supports more than 200 operating systems, platforms and applications, including new and legacy systems on both physical and virtual machines. With Carbonite Onsite Backup, a customer can protect their entire organization and manage it from a central dashboard.

Carbonite High Availability and Disaster Recovery solutions:

Carbonite Availability: Carbonite Availability keeps critical business systems available on Windows and Linux servers. Our continuous replication technology maintains an up-to-date copy of your operating environment without taxing the primary system or network bandwidth. With support for physical, virtual or cloud source and target environments, the Carbonite Availability solution, powered by DoubleTake, is a comprehensive IT resilience solution for organizations with mixed IT environments.

Carbonite Recover: Carbonite's disaster recovery-as-a-service solution securely replicates critical systems from a customer's primary environment to the cloud. Carbonite Recover ensures that an up-to-date secondary copy is available for failover at any moment, minimizing downtime as well as costs.

Carbonite Data Migration solutions:

Carbonite Migrate: Carbonite Migrate quickly and easily migrates physical, virtual and cloud workloads to and from any environment with minimal risk and near-zero downtime. Using efficient real-time, byte-level replication technology, Carbonite Migrate, powered by DoubleTake, creates a replica of the data, application, database or entire server being migrated and keeps it in sync with production systems until a cutover is initiated. The migrated data can be validated without disrupting business operations.

Carbonite Email Archiving solutions:

Carbonite Email Archiving: Our MailStore offerings are designed to meet the specific email archiving needs of customers in terms of performance, stability, functionality and simplicity. Our three solutions include MailStore Server, MailStore Service Provider Edition and MailStore Home.

Our Proprietary Technology

At the core of our offerings is proprietary technology that allows us to offer highly scalable data protection solutions to our end customers, and as a platform for managed service providers to offer to their customers as a white-labeled offering. This technology is installed on protected systems, running in the customers' environment, and includes server software, web-based monitoring, control, and account management tools. We believe that simple, centralized, web-based control of our solutions improves the user experience both for end-users and for our partners.

We invest heavily in the development of our technologies. In 2017, 2016 and 2015, we spent \$46.2 million, \$33.3 million, and \$28.1 million, respectively, on research and development. Our proprietary technologies are fundamental to our value proposition as they enable us to deliver solutions that are scalable, reliable and cost effective.

Marketing and Sales

Our marketing and sales efforts are focused on three primary goals: acquiring customers at a low cost, retaining existing customers, and building brand awareness. Our advertising reinforces our brand by emphasizing ease of use, affordability, security and reliability. We use radio advertising, online display advertising, print advertising, paid search, direct marketing, and affiliate and reseller marketing. Our public relations efforts include engaging the traditional press, new media, industry influencers and social networks. Our sales model is designed to sell large volumes of our solutions to businesses globally, both directly and through our indirect network of channel partners which includes distributors, value-added resellers, managed service providers and global systems integrators.

Marketing. Our customers come from two primary sources: businesses who buy our solutions directly from our website, our inside sales team, or from our network of partners, and consumers who sign up for solutions on our website in response to our direct marketing campaigns. We support our sales network with a marketing approach that leverages our established brand to drive market awareness and demand generation among the broad population of businesses and consumers. Our marketing

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

Channel distribution. To further penetrate the extensive and diverse population of businesses, we have and will continue to invest in our network of sales channel partners. Our network of sales channel partners includes distributors, value-added resellers, managed service providers and global systems integrators and is designed to sell large volumes of our relatively low-priced solutions to customers.

Retention. Our retention efforts are focused on establishing and maintaining long-term relationships with our customers by delivering a compelling customer experience and superior value, communicating regularly with customers through email, on-site messaging, and other media, and creating positive interactions with our customer support team. We monitor developing trends in subscription durations, renewals, and customer satisfaction to maximize our customer retention. We offer incentives to customers to purchase multi-year subscriptions, which we believe helps to increase our retention.

Intellectual Property

We believe the strength of our brand and the functionality of our software help differentiate us from our competitors. Our success therefore depends on our ability to protect our technologies and intellectual property, which allows us to move and store vast amounts of customer data. To protect our intellectual property, we rely on a combination of trademark, patent, copyright, and trade secret laws, as well as confidentiality procedures and contractual restrictions. Carbonite, the Carbonite Logo, MAILSTORE, DOUBLETAKE and EVAULT, as well as other marks, are registered trademarks of Carbonite, Inc. in numerous countries throughout the world. The Carbonite trademark is subject to registrations covering over 40 countries. Carbonite also has additional registrations and/or pending applications for additional marks in the U.S. and/or other countries, including but not limited to “Carbonite The Better Backup Plan”, “Back it up. Get it back”, “Because Your Life is On Your Computer” Logo, "Carbonite" and the Green Dot Logo, Carbonite Lock Logo, the Z logo and Chinese character representations for Carbonite. In addition, we have 67 issued patents and pending applications worldwide that cover both our technical infrastructure and our key usability and design concepts.

Competition

Our market is rapidly evolving due to technological advances that are driving changes in the way businesses operate. Over the past few years, competition has intensified, and we expect this to continue with market consolidation, the introduction of new technologies, and introduction of new market entrants. We compete against many companies across the data protection, disaster recovery, high availability and storage industries, ranging from those who provide a wide array of IT services, to those who provide only a specific business continuity product, to distributors and resellers. We expect many of our actual and potential competitors and solutions to change as we expand further into the business market and as the markets we compete in continue to evolve.

We believe key factors to successfully compete in any of our markets include ease of installation and use, value, cloud storage, data security, reliability, and brand reputation. We believe that Carbonite competes favorably with respect to each of the key factors by providing powerful, yet simple solutions. Our offerings are easy-to-use, affordable, secure, include a variety of storage capacity options, and enable anytime, anywhere access to files.

Employees

As of December 31, 2017, we had 941 full-time and 26 part-time employees. Of our full-time employees, 323 were in operations and support, 239 were in sales and marketing, 213 were in research and development, and 166 were in general and administrative functions. None of our employees are covered by collective bargaining agreements.

Subsequent Events

On February 12, 2018, we entered into a definitive and binding Master Acquisition Agreement ("Agreement") with EMC Corporation ("EMC"), Mozy, Inc. ("Mozy") and Dell Technologies, Inc. pursuant to which we will acquire all of the issued and outstanding capital stock of Mozy, a provider of online, data and computer backup software, and certain related business assets owned by EMC or its affiliates, for a purchase price of \$145.8 million in cash, subject to potential adjustments for working capital. The Agreement contains customary representations, warranties, covenants and indemnities, including a covenant requiring us to use our reasonable best efforts to obtain debt financing for the transaction in accordance with the terms of a commitment letter for a \$120.0 million revolving credit

facility. Consummation of the transaction is also subject to various conditions, including receipt of governmental approvals and other customary closing conditions. The Agreement contains termination rights, including a right for either party to terminate the Agreement if the closing shall not have occurred on or before July 1, 2018, subject to certain conditions. We expect the acquisition to close during the first quarter of 2018.

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Available Information

We file reports with the Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other filings required by the SEC. We make available on our website (www.carbonite.com) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. These materials are available free of charge on or through our website via the Investor Relations page at www.carbonite.com. References to our website address in this report are intended to be inactive textual references only, and none of the information contained on our website is part of this Annual Report or incorporated in this Annual Report by reference.

ITEM 1A. RISK FACTORS

The following discussion of risk factors contains forward-looking statements. These risk factors may be important to understanding other statements in this Annual Report. The following information should be read in conjunction with Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes in Part II, Item 8, “Financial Statements and Supplementary Data” of this Annual Report.

Our business, financial condition and operating results can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below, any one or more of which could, directly or indirectly, cause our actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, operating results and stock price.

Because of the following factors, as well as other factors affecting our financial condition and operating results, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

Risks Related to Our Business

We have experienced periods of losses and negative cash flow since our inception, and we may not be able to achieve or sustain profitability or positive cash flow in the future.

We experienced net losses of \$21.6 million for 2015, \$4.1 million for 2016 and \$4.0 million for 2017, and we have an accumulated deficit of approximately \$169.3 million as of December 31, 2017. While we have experienced revenue growth over these same periods, we may not be able to achieve profitability in the future and, if we are able to achieve profitability, sustain such profitability on a consistent basis. In an effort to increase and service our customer base, we expect to continue making significant expenditures to develop and expand our business, including for customer acquisition, advertising, technology infrastructure, storage capacity, product development, and international expansion. We also expect that our results may fluctuate due to a variety of factors described elsewhere in this Annual Report, including the timing and amount of our advertising expenditures, the timing and amount of expenditures related to the development of technologies and solutions, and to defend intellectual property infringement and other claims. We may also incur increased losses and negative cash flow in the future for a variety of reasons, and we may encounter unforeseen expenses, difficulties, complications, delays, and other unknown events.

The market for cloud solutions is competitive, and if we do not compete effectively, our operating results could be harmed.

We compete with cloud backup providers and providers of traditional hardware-based backup systems. Many of our competitors benefit from competitive advantages over us, such as greater name recognition, longer operating histories, more varied services, and larger marketing budgets, as well as greater financial, technical, and other resources. In addition, many of our competitors have established marketing relationships and major distribution agreements with computer manufacturers, internet service providers, and resellers, giving them access to larger customer bases. Some of our competitors may make acquisitions or enter into strategic relationships to offer a more comprehensive service than we do. These combinations may make it more difficult for us to compete effectively. We expect these trends to continue as competitors attempt to strengthen or maintain their market positions.

Demand for our cloud and hybrid backup solutions is sensitive to price. Many factors, including our customer acquisition, advertising and technology costs, and our current and future competitors' pricing and marketing strategies, can significantly

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affect our pricing strategies. Certain of our competitors offer, or may in the future offer, lower-priced or free solutions that compete with our solutions. There can be no assurance that we will not be forced to engage in price-cutting initiatives, or to increase our advertising and other expenses to attract and retain customers in response to competitive pressures, either of which could have a material adverse effect on our revenue and operating results.

We may not be able to respond to rapid technological changes with new solutions in a timely and cost effective manner or at all, which could have a material adverse effect on our operating results.

The market in which we compete is characterized by rapid technological change and frequent new solution and service introductions. Our ability to attract new customers and increase revenue from existing customers will depend in large part on our ability to enhance and improve our existing solutions, introduce new features and solutions, and sell into new markets. We are in the process of addressing the challenges of dynamic and accelerating market trends, such as the changing PC market, the adoption of mobile devices, the increase in the use of virtualized environments and architectural shifts in the provision of security and storage solutions, all of which has made it more difficult for us to compete effectively and requires us to improve our solutions and service offerings. Customers may require features and capabilities that our current solutions do not have. Our failure to develop solutions that satisfy customer preferences in a timely and cost-effective manner may harm our ability to renew our subscriptions with existing customers and to create or increase demand for our solutions, and may adversely impact our operating results.

Additionally, the process of developing new technology is complex and uncertain, and if we fail to accurately predict customers' changing needs and emerging technological trends or if we fail to achieve the benefits expected from our investments, our business could be harmed. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position and we must commit significant resources to developing new solutions before knowing whether our investments will result in solutions the market will accept. Our new solutions or solution enhancements could fail to attain sufficient market acceptance for many reasons, including:

- delays in releasing our new solutions or enhancements to the market;
- failure to accurately predict market demand or customer demands;
- inability to protect against new types of attacks or techniques used by hackers;
- defects, errors or failures in their design or performance;
- negative publicity about their performance or effectiveness;
- introduction or anticipated introduction of competing solutions by our competitors;
- poor business conditions for our customers, causing them to delay IT purchases;
- the perceived value of our solutions or enhancements relative to their cost;
- easing of regulatory requirements around security or storage; and
- reluctance of customers to purchase solutions incorporating open source software.

The introduction of new services by competitors or the development of entirely new technologies to replace existing offerings could make our solutions obsolete or adversely affect our business and operating results. In addition, any new markets or countries into which we attempt to sell our solutions may not be receptive. We may experience difficulties with software development, design, or marketing that could delay or prevent our development, introduction, or implementation of new solutions and enhancements. We have in the past experienced delays in the planned release dates of new features and upgrades, and have discovered defects in new solutions after their introduction. There can be no assurance that new solutions or upgrades will be released according to schedule, or that when released they will not contain defects. Either of these situations could result in adverse publicity, loss of revenue, delay in market acceptance, or claims by customers brought against us, all of which could have a material adverse effect on our reputation, business, operating results, and financial condition. Moreover, the development of new technologies requires substantial investment and we have no assurance that such investments will achieve their expected benefits on a timely manner or at all, either of which could also have a material adverse effect on our results of operations.

A decline in demand for our solutions or for cloud solutions in general could cause our revenue to decline.

We derive, and expect to continue to derive, substantially all of our revenue from the sale of data protection solutions including our backup and restore, DRaaS and email archiving offerings. Our introduction of "hybrid" solutions (cloud

and on-

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premise) provides a broader offering for customers who may not want cloud only solutions, but the market for cloud solutions remains dynamic and subject to rapidly changing customer demands and trends in preferences. Some of the potential factors that could affect interest in and demand for cloud solutions include:

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

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

If we are unable to attract new customers to our solutions on a cost-effective basis, our revenue and operating results would be adversely affected.

We generate the majority of our revenue from the sale of subscriptions to our solutions. In order to grow, we must continue to attract a large number of customers, many of whom may have not previously used cloud backup solutions.

We use and periodically adjust a diverse mix of advertising and marketing programs to promote our solutions.

Significant increases in the pricing of one or more of our advertising channels would increase our advertising costs or cause us to choose less expensive and perhaps less effective channels. As we add to or change the mix of our advertising and marketing strategies, we may expand into channels with significantly higher costs than our current programs, which could adversely affect our operating results. We may incur advertising and marketing expenses significantly in advance of the time we anticipate recognizing any revenue generated by such expenses, and we may only at a later date, or never, experience an increase in revenue or brand awareness as a result of such expenditures.

Additionally, because we recognize revenue from customers over the terms of their subscriptions, a large portion of our revenue for each quarter reflects deferred revenue from subscriptions entered into during previous quarters, and downturns or upturns in subscription sales or renewals may not be reflected in our operating results until later periods.

We have made in the past, and may make in the future, significant investments to test new advertising, and there can be no assurance that any such investments will lead to the cost-effective acquisition of additional customers. If we are unable to maintain effective advertising programs, our ability to attract new customers could be adversely affected, our advertising and marketing expenses could increase substantially, and our operating results may suffer.

A portion of our potential customers locate our website through search engines, such as Google, Bing, and Yahoo!.

Our ability to maintain the number of visitors directed to our website is not entirely within our control. If search engine companies modify their search algorithms in a manner that reduces the prominence of our listing, or if our competitors' search engine optimization efforts are more successful than ours, fewer potential customers may click through to our website. In addition, the cost of purchased listings has increased in the past and may increase in the future. A decrease in website traffic or an increase in search costs could adversely affect our customer acquisition efforts and our operating results.

A significant portion of our customers first try our solutions through free trials. We seek to convert these free trial users to paying customers of our solutions. If our rate of conversion suffers for any reason, our revenue may decline and our business may suffer.

We expect to continue to acquire or invest in other companies, which may divert our management's attention, result in additional dilution to our stockholders, and consume resources that are necessary to sustain our business.

We recently entered into a binding agreement to acquire the outstanding capital stock of Mozy, Inc. and we completed the acquisitions of Datacastle Corporation and Double-Take Software, Inc. in 2017 and the acquisition of EVault, Inc. in 2016. We expect to continue to acquire complementary solutions, services, technologies, or businesses in the future.

We may also enter into relationships with other businesses to expand our portfolio of solutions or our ability to provide our solutions in foreign jurisdictions, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing, or investments in other companies. Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to complete these transactions may often be subject to

conditions or approvals that are beyond our control. Consequently, these transactions, even if undertaken and announced, may not close.

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Acquisitions may also disrupt our business, divert our resources, and require significant management attention that would otherwise be available for the development of our business. Moreover, the anticipated benefits of any acquisition, investment, or business relationship may not be realized or we may be exposed to unknown liabilities, including litigation against the companies that we may acquire. In connection with any such transaction, we may:

- issue additional equity securities that would dilute our stockholders;
- use cash that we may need in the future to operate our business;
- incur debt on terms unfavorable to us, that we are unable to repay, or that may place burdensome restrictions on our operations;
- incur large charges or substantial liabilities; or
- become subject to adverse tax consequences or substantial depreciation, deferred compensation, or other acquisition-related accounting charges.

Any of these risks could harm our business and operating results.

Integration of an acquired company's operations may present challenges.

The integration of an acquired company requires, among other things, coordination of administrative, sales and marketing, accounting and finance functions, and expansion of information and management systems. Integration may prove to be difficult due to the necessity of coordinating geographically separate organizations and integrating personnel with disparate business backgrounds and accustomed to different corporate cultures. We may not be able to retain key employees of an acquired company. Additionally, the process of integrating a new solution or service may require a disproportionate amount of time and attention of our management and financial and other resources. Any difficulties or problems encountered in the integration of a new solution or service could have a material adverse effect on our business.

We intend to continue to acquire businesses which we believe will help achieve our business objectives. As a result, our operating costs will likely continue to grow. The integration of an acquired company may cost more than we anticipate, and it is possible that we will incur significant additional unforeseen costs in connection with such integration, which may negatively impact our earnings.

In addition, we may only be able to conduct limited due diligence on an acquired company's operations. Following an acquisition, we may be subject to liabilities arising from an acquired company's past or present operations, including liabilities related to data security, encryption and privacy of customer data, and these liabilities may be greater than the warranty and indemnity limitations that we negotiate. Any liability that is greater than these warranty and indemnity limitations could have a negative impact on our financial condition.

Even if successfully integrated, there can be no assurance that our operating performance after an acquisition will be successful or will fulfill management's objectives.

We may be unsuccessful in managing or expanding our operations, which could adversely affect our business and operating results.

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

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

Our business depends on our customers' continued high-speed access to the internet, as well as the continued maintenance and development of the internet infrastructure. The future delivery of our solutions will depend on third-party internet service providers to expand high-speed internet access, to maintain a reliable network with the necessary speed, data capacity and security, and to develop complementary solutions and services, including high-speed modems, for providing reliable and timely internet access and services. All of these factors are out of our

control. To the extent that the internet continues to experience an

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increased number of users, frequency of use, or bandwidth requirements, the internet may become congested and be unable to support the demands placed on it, and its performance or reliability may decline. Any internet outages or delays could adversely affect our ability to provide services to our customers.

Currently, internet access is provided by telecommunications companies and internet access service providers that have significant and increasing market power in the broadband and internet access marketplace. On December 14, 2017, the Federal Communications Commission classified broadband internet access service as an unregulated information service and repealed the specific rules against blocking, throttling or “paid prioritization” of content or services. In the absence of government regulation, these providers could take measures that affect their customers’ ability to use our products and services, such as attempting to charge their customers more for using our products and services. To the extent that internet service providers implement usage-based pricing, including meaningful bandwidth caps, or otherwise try to monetize access to their networks, we could incur greater operating expenses and customer acquisition and retention could be negatively impacted. Furthermore, to the extent network operators were to create tiers of internet access service and either charge us for or prohibit our services from being available to our customers through these tiers, our business could be negatively impacted. Some of these providers also offer products and services that directly compete with our own offerings, which could potentially give them a competitive advantage. If we are unable to retain our existing customers, our business, financial condition and operating results would be adversely affected.

If our efforts to satisfy our existing customers are not successful, we may not be able to retain them, and as a result, our revenue and ability to grow would be adversely affected. We may not be able to accurately predict future trends in customer renewals. Customers choose not to renew their subscriptions for many reasons, including if customer service issues are not satisfactorily resolved, a desire to reduce discretionary spending, or a perception that they do not use the service sufficiently, that the solution is a poor value, or that competitive services provide a better value or experience. If our retention rate decreases, we may need to increase the rate at which we add new customers in order to maintain and grow our revenue, which may require us to incur significantly higher advertising and marketing expenses than we currently anticipate, or our revenue may decline. A significant decrease in our retention rate would therefore have an adverse effect on our business, financial condition, and operating results.

Our relationships with our partners and distributors may be terminated or may not continue to be beneficial in generating new customers, which could adversely affect our ability to increase our customer base.

We maintain a network of active partners and distributors, which refer customers to us through links on their websites or outbound promotion to their customers. The number of customers that we are able to add through these relationships is dependent on the marketing efforts of our partners and distributors, over which we have little control.

If we are unable to maintain our relationships, or renew contracts on favorable terms, with existing partners and distributors or establish new contractual relationships with potential partners and distributors, we may experience delays and increased costs in adding customers, which could have a material adverse effect on us.

If we are unable to expand our base of small and medium business customers, our future growth and operating results could be adversely affected.

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

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

In addition, small and medium businesses frequently have limited budgets and are more likely to be significantly affected by economic downturns than larger, more established companies. As a result, they may choose to spend funds on items other than our solutions, particularly during difficult economic times. If we are unsuccessful in meeting the

needs of potential small and medium business customers, it could adversely affect our future growth and operating results.

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

Given our small and medium business and individual consumer market focus, maintaining and enhancing the Carbonite brand is critical to our success. We believe that the importance of brand recognition and loyalty will increase in light of increasing competition in our markets. We plan to continue investing substantial resources to promote our brand, both domestically and internationally, but there is no guarantee that our brand development strategies will enhance the recognition of our brand. Some of our existing and potential competitors have well-established brands with greater recognition than we have. If our efforts to promote and maintain our brand are not successful, our operating results and our ability to attract and retain customers may be adversely affected. In addition, even if our brand recognition and loyalty increases, this may not result in increased use of our solutions or higher revenue.

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

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

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

Any significant disruption in service on our websites, in our computer systems, or caused by our third party storage and system providers could damage our reputation and result in a loss of customers, which would harm our business, financial condition, and operating results.

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

In addition, while we operate and maintain elements of our websites and network infrastructure, some elements of this complex system are operated by third parties that we do not control and that would require significant time to replace. We expect this dependence on third parties to increase. In particular, we utilize Amazon Web Services and Google Cloud Storage to provide computing and storage capacity pursuant to agreements that continue until terminated upon written notice by either party. All of these third-party systems are located in data center facilities operated by third parties. Our data center leases expire at various times in 2018 and 2023 with rights of extension. If we are unable to

renew these agreements on commercially reasonable terms, we may be required to transfer that portion of our computing and storage capacity to new data center facilities, and we may incur significant costs and possible service interruption in connection with doing so.

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

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successful in finding an alternative service provider on acceptable terms or in hosting the computer servers ourselves. We may also be limited in our remedies against these providers in the event of a failure of service.

Interruptions in our own systems, the third-party systems and facilities on which we rely, or the use of our data center facilities, whether due to system failures, computer viruses, physical or electronic break-ins, damage or interruption from human error, power losses, natural disasters or terrorist attacks, hardware failures, systems failures, telecommunications failures or other factors, could affect the security or availability of our websites and infrastructure, prevent us from being able to continuously back up our customers' data or our customers from accessing their stored data, and may damage our customers' stored files. Any financial difficulties, such as bankruptcy, faced by our third-party data center operators, our third-party colocation providers or any of the service providers with whom we or they contract may have negative effects on our business, the nature and extent of which are difficult to predict. Moreover, if our third-party data center providers or our third-party colocation providers are unable to keep up with our growing needs for capacity, this could have an adverse effect on our business. Interruptions in our services might reduce our revenue, cause us to issue credits or refunds to customers, subject us to potential liability, or harm our renewal rates.

In addition, prolonged delays or unforeseen difficulties in connection with adding storage capacity or upgrading our network architecture when required may cause our service quality to suffer. Problems with the reliability or security of our systems could harm our reputation. Damage to our reputation and the cost of remedying these problems could negatively affect our business, financial condition, and operating results.

Our proprietary systems provide redundancy at the disk level, and geospatially for vault based storage, to protect copies of stored customer files. We rely on the fact that our customers maintain the primary instance of their files. We only offer higher redundancy backup sites for our vault based solutions. As such, a total failure of our systems, or the failure of any of our systems, could result in the loss of or a temporary inability to back up our customers' data and result in our customers being unable to access their stored files. If one of our data centers fails at the same time that our customers' computers fail, we would be unable to provide stored copies of their data. If this were to occur, our reputation could be compromised and we could be subject to liability to the customers that were affected.

If the security of our customers' confidential information stored in our systems is breached or their stored files are otherwise subjected to unauthorized access, our reputation and business may be harmed, and we may be exposed to liability.

Our customers rely on our solutions to store digital copies of their files, including financial records, business information, photos, and other personally meaningful content. We also store credit card information and other personal information about our customers. An actual or perceived breach of our network security and systems or other events that cause the loss or public disclosure of, or access by third parties to, our customers' stored files could have serious negative consequences for our business, including possible fines, penalties and damages, reduced demand for our solutions, an unwillingness of customers to provide us with their credit card or payment information, an unwillingness of our customers to use our solutions, harm to our reputation and brand, loss of our ability to accept and process customer credit card orders, and time-consuming and expensive litigation. If this occurs, our business and operating results could be adversely affected. Third parties may be able to circumvent our security by deploying viruses, worms, and other malicious software programs that are designed to attack or attempt to infiltrate our systems and networks and we may not immediately discover these attacks or attempted infiltrations. Further, outside parties may attempt to fraudulently induce our employees, consultants, or affiliates to disclose sensitive information in order to gain access to our information or our customers' information. The techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, often are not recognized until launched against a target, and may originate from less regulated or remote areas around the world. As a result, we may be unable to proactively address these techniques or to implement adequate preventative or reactionary measures. In addition, employee or consultant error, malfeasance, or other errors in the storage, use, or transmission of personal information could result in a breach of customer or employee privacy. We maintain insurance coverage to mitigate the potential financial impact of these risks; however, our insurance may not cover all such events or may be insufficient to compensate us for the potentially significant losses, including the potential damage to the future growth of our business, that may result from the breach of customer or employee privacy.

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

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

We rely on third-party providers for a number of critical aspects of our cloud services and consequently we do not maintain direct control over the security or stability of the associated systems. Furthermore, the firmware, software and/or open source software that our data protection solutions utilize may be susceptible to hacking or misuse. If malicious actors compromise our solutions or if customer confidential information is hacked or otherwise accessed without authorization, our business will be harmed. In the event of the discovery of a significant security vulnerability, we would incur additional substantial expenses and our business would be harmed. If we or our third-party providers are unable to successfully prevent breaches of security relating to our solutions or customer private information, it could result in litigation and potential liability for us, damage our brand and reputation, or otherwise harm our business and our stock price.

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

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

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

Our solutions are used by customers in the health care industry and we must comply with numerous federal and state laws related to patient privacy in connection with providing our solutions to these customers. In particular, the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and the Health Information Technology for Economic and Clinical Health Act, or HITECH, include privacy standards that protect individual privacy by limiting the uses and disclosures of individually identifiable health information and implementing data security standards.

Because our solutions may backup individually identifiable health information for our customers, our customers are mandated by HIPAA to enter into written agreements with us known as business associate agreements that require us to safeguard individually identifiable health information. Business associate agreements typically include:

- a description of our permitted uses of individually identifiable health information;

- a covenant not to disclose that information except as permitted under the agreement and to make our subcontractors, if any, subject to the same restrictions;
- assurances that appropriate administrative, physical, and technical safeguards are in place to prevent misuse of that information;
- an obligation to report to our customers any use or disclosure of that information other than as provided for in the agreement;

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- a prohibition against our use or disclosure of that information if a similar use or disclosure by our customers would violate the HIPAA standards;
- the ability of our customers to terminate their subscription to our solution if we breach a material term of the business associate agreement and are unable to cure the breach;
- the requirement to return or destroy all individually identifiable health information at the end of the customer's subscription; and
- access by the Department of Health and Human Services to our internal practices, books, and records to validate that we are safeguarding individually identifiable health information.

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

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

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

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

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

stock price and make it more difficult for us to effectively market and sell our solutions to new and existing customers.

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

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

Growth may place significant demands on our management and our infrastructure.

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

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

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

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

Our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovation, creativity and teamwork fostered by our culture, and our business may be harmed.

We believe that our corporate culture has been a key contributor to our success. If we do not continue to develop our corporate culture as we grow and evolve, including maintaining our culture of transparency with our employees, it could harm our ability to foster the innovation, creativity, and teamwork that we believe that we need to support our growth. As our organization grows and we are required to implement more complex organizational structures, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture, which could negatively impact our future success. In

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addition, the availability of a public market for our securities could create disparities of wealth among our employees, which could adversely impact relations among employees and our corporate culture in general.

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

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

- changes in the valuation of our deferred tax assets and liabilities;
- expected timing and amount of the release of tax valuation allowances;
- expiration of, or detrimental changes in, research and development tax credit laws;
- tax effects of stock-based compensation;
- costs related to intercompany restructurings;
- changes in tax laws, regulations, accounting principles or interpretations thereof; or
- future earnings being lower than anticipated in countries where we have lower statutory tax rates and higher than anticipated earnings in countries where we have higher statutory tax rates.

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

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

As of December 31, 2017, we had federal, state, and foreign net operating loss carryforwards, or NOLs, of \$107.9 million, \$72.7 million, and \$6.1 million, respectively, available to offset future taxable income, which expire in various years through 2037 if not utilized. A lack of future taxable income would adversely affect our ability to utilize these NOLs before they expire. Under the provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, substantial changes in our ownership may limit the amount of pre-change NOLs that can be utilized annually in the future to offset taxable income. Section 382 of the Internal Revenue Code, or Section 382, imposes limitations on a company's ability to use NOLs if a company experiences a more-than-50-percent ownership change over a three-year testing period. Based upon our analysis as of December 31, 2017, there was no ownership change experienced during 2017. If changes in our ownership occur in the future, our ability to use NOLs may be further limited. For these reasons, we may not be able to utilize a material portion of the NOLs, even if we achieve profitability. If we are limited in our ability to use our NOLs in future years in which we have taxable income, we will pay more taxes than if we were able to fully utilize our NOLs. This could adversely affect our operating results and the market price of our common stock.

Changes in U.S. tax laws could have a material adverse effect on our business, cash flow, results of operations or financial conditions.

The Tax Cuts and Jobs Act, which has been passed by the U.S. Congress and signed by the President, contains many significant changes to the U.S. federal income tax laws, the consequences of which have not yet been determined.

Changes in corporate tax rates, the realizability of the net deferred tax assets relating to our U.S. operations, the taxation of foreign earnings, and the deductibility of expenses contained in the Tax Cuts and Jobs Act or other tax reform legislation could have a material impact on the value of our deferred tax assets, could result in significant one-time charges in the current or future taxable years, and could increase our future U.S. tax expense. Furthermore, changes to the taxation of undistributed foreign earnings could change our future intentions regarding reinvestment of such earnings. The foregoing items could have a material adverse effect on our business, cash flow, results of operations or financial conditions.

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

We anticipate that our efforts to expand internationally will entail the marketing and advertising of our services and brand and the development of localized websites. We do not have substantial experience in selling our solutions in international markets or in conforming to the local cultures, standards, or policies necessary to successfully compete in those markets, and we must invest significant resources in order to do so. We may not succeed in these efforts or

achieve our customer acquisition

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or other goals. For some international markets, customer preferences and buying behaviors may be different, and we may use business or pricing models that are different from our traditional subscription model to provide cloud backup and related services to customers. Our revenue from new foreign markets may not exceed the costs of establishing, marketing, and maintaining our international solutions, and therefore may not be profitable on a sustained basis, if at all.

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

- localization of our solutions, including translation into foreign languages and adaptation for local practices and regulatory requirements;
- lack of experience in other geographic markets;
- strong local competitors;
- cost and burden of complying with, lack of familiarity with, and unexpected changes in foreign legal and regulatory requirements, including consumer and data privacy laws;
- difficulties in managing and staffing international operations;
- potentially adverse tax consequences, including the complexities of transfer pricing, foreign value added or other tax systems, double taxation and restrictions, and/or taxes on the repatriation of earnings;
- dependence on third parties, including channel partners with whom we do not have extensive experience;
- compliance with the Foreign Corrupt Practices Act, economic sanction laws and regulations, export controls, and other U.S. laws and regulations regarding international business operations;
- increased financial accounting and reporting burdens and complexities;
- political, social, and economic instability abroad, terrorist attacks, and security concerns in general; and
- reduced or varied protection for intellectual property rights in some countries.

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

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

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

Risks Related to Intellectual Property

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

There is frequent litigation in the software and technology industries based on allegations of infringement or other violations of intellectual property rights. Any such claims or litigation may be time-consuming and costly, divert management

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resources, require us to change our services, require us to credit or refund subscription fees, or have other adverse effects on our business. Many companies are devoting significant resources to obtaining patents that could affect many aspects of our business. Third parties may claim that our technologies or solutions infringe or otherwise violate their patents or other intellectual property rights.

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

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

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

Our future success and competitive position depend in large part on our ability to protect our intellectual property and proprietary technologies. We rely on a combination of trademark, patent, copyright, and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection and may not now or in the future provide us with a competitive advantage. Carbonite, the Carbonite Logo, MAILSTORE, DOUBLETAKE and EVAULT as well as other marks, are registered trademarks of Carbonite, Inc. in numerous countries throughout the world. The Carbonite trademark is subject to registrations covering over 40 countries. Carbonite also has additional registrations and pending applications for additional marks in the U.S. and other countries. We cannot assure you that any future trademark registrations will be issued for pending or future applications or that any registered trademarks will be enforceable or provide adequate protection of our proprietary rights. We currently have 67 issued patents and pending applications worldwide. We cannot assure you that any patents will issue from any such patent applications, that patents that issue from such applications will give us the protection that we seek, or that any such patents will not be challenged, invalidated, or circumvented. Any patents that may issue in the future from our pending or future patent applications may not provide sufficiently broad protection and may not be enforceable in actions against alleged infringers. To counter infringement or unauthorized use, we may be required to file patent infringement claims, which can be expensive and time-consuming to litigate. In addition, in an infringement proceeding, a court may decide that a patent of ours is not valid or is unenforceable, or may refuse to stop others from using the technology at issue on the grounds that our patent(s) do not cover such technology. An adverse determination of any litigation or defense proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly and could put our patent applications at risk of not being issued. There can be no assurance that the steps that we take will be adequate to protect our technologies and intellectual property, that our trademark and patent applications will lead to registered trademarks or issued patents, that others will not develop or patent similar or superior technologies, solutions, or services, or that our trademarks, patents, and other intellectual property will not be challenged, invalidated, or circumvented by others. Furthermore, effective trademark, patent, copyright, and trade secret protection may not be available in every country in which our services are available or where we have employees or independent contractors. In addition, the legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights in internet-related industries are uncertain and still evolving. If our efforts to protect our technologies and intellectual property are inadequate, the value of our brand and other intangible assets may be diminished and competitors may be able to mimic our solutions and methods of operations. Any of these events could have a material adverse effect on our business, financial

condition, and operating results.

Confidentiality agreements with employees and others may not adequately prevent disclosure of our trade secrets and proprietary information. Failure to protect our proprietary information could make it easier for third parties to compete with our solutions and harm our business.

We have devoted substantial resources to the development of our proprietary technologies and related processes. In order to protect our proprietary technologies and processes, we rely in part on trade secret laws and confidentiality agreements with our employees, licensees, independent contractors, and other advisors. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential

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information. In addition, others may independently discover our trade secrets, in which case we would not be able to assert trade secret rights, or develop similar technologies and processes. Further, laws in certain jurisdictions may afford little or no trade secret protection, and any changes in, or unexpected interpretations of, the intellectual property laws in any country in which we operate may compromise our ability to enforce our intellectual property rights. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure or inability to obtain or maintain trade secret protection or otherwise protect our proprietary rights could adversely affect our business.

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

A portion of the technologies licensed by us to our customers incorporates so-called “open source” software, and we may incorporate open source software in the future. Such open source software is generally licensed by its authors or other third parties under open source licenses. These licenses may subject us to certain unfavorable conditions, including requirements that we offer our solutions that incorporate the open source software for no cost, that we make publicly available source code for modifications or derivative works we create based upon, incorporating, or using the open source software, and/or that we license such modifications or derivative works under the terms of the particular open source license. Additionally, if a third-party software provider has incorporated open source software into software that we license from such provider, we could be required to disclose any of our source code that incorporates or is a modification of such licensed software. If an author or other third party that distributes open source software that we use or license were to allege that we had not complied with the conditions of the applicable license, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, enjoined from the sale of our solutions that contained the open source software, and required to comply with the foregoing conditions. Any of the foregoing could disrupt the distribution and sale of our solutions and harm our business.

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

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

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

We have registered domain names for websites, or URLs, that we use in our business, such as www.carbonite.com. If we are unable to maintain our rights in these domain names, our competitors or other third parties could capitalize on our brand recognition by using these domain names for their own benefit. In addition, although we own the Carbonite domain name under various global top level domains such as .com and .net, as well as under various country-specific domains, we might not be able to, or may choose not to, acquire or maintain other country-specific versions of the Carbonite domain name or other potentially similar URLs. Domain names similar to ours have already been registered in the U.S. and elsewhere, and our competitors or other third parties could capitalize on our brand recognition by using domain names similar to ours. The regulation of domain names in the U.S. and elsewhere is generally conducted by internet regulatory bodies and is subject to change. If we lose the ability to use a domain name in a particular country, we may be forced to either incur significant additional expenses to market our solutions within that country, including the development of a new brand and the creation of new promotional materials, or elect not to sell our solutions in that country. Either result could substantially harm our business and operating results. Regulatory bodies could establish additional top-level domains, appoint additional domain name registrars, or modify the requirements for holding domain names. As a result, we may not be able to acquire or maintain the domain names that utilize the name Carbonite in all of the countries in which we currently conduct or intend to conduct business. Further, the

relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights varies among jurisdictions and is unclear in some jurisdictions. We may be unable to prevent third parties from acquiring and using domain names that infringe, are similar to, or otherwise decrease the value of, our brand or our trademarks. Protecting and enforcing our rights in our domain names and determining the rights of others may require litigation, which could result in substantial costs, divert management attention, and not be decided favorably to us.

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Material defects or errors in our software could harm our reputation, result in significant costs to us, and impair our ability to sell our solutions.

The software applications underlying our solutions are inherently complex and may contain material defects or errors, particularly when first introduced or when new versions or enhancements are released. We have from time to time found defects or errors in our solutions, and new defects or errors in our existing solutions may be detected in the future by us or our customers. The costs incurred in correcting such defects or errors may be substantial and could harm our operating results. In addition, we rely on hardware purchased or leased and software licensed from third parties to offer our solutions. Any defects in, or unavailability of, our or third-party software or hardware that cause interruptions to the availability of our solutions could, among other things:

- cause a reduction in revenue or delay in market acceptance of our solutions;
- require us to issue credits or refunds to our customers or expose us to claims for damages;
- cause us to lose existing customers and make it more difficult to attract new customers;
- divert our development resources or require us to make extensive changes to our solutions or software, which would increase our expenses;
- increase our technical support costs; and
- harm our reputation and brand.

Risks Related to Ownership of our Common Stock

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

Shares of our common stock were sold in our initial public offering in August 2011 at a price of \$10.00 per share, and our common stock has subsequently traded as high as \$27.00 and as low as \$5.75. The market price for shares of our common stock could be subject to significant fluctuations in response to various factors, most of which are beyond our control. Some of the factors that may cause the market price for shares of our common stock to fluctuate include:

- price and volume fluctuations in the overall stock market from time to time;
- fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- actual or anticipated fluctuations in our key operating metrics, financial condition, and operating results;
- loss of existing customers or inability to attract new customers;
- actual or anticipated changes in our growth rate;
- announcements of technological innovations or new offerings by us or our competitors;
- our announcement of actual results for a fiscal period that are lower than projected or expected or our announcement of revenue or earnings guidance that is lower than expected;
- changes in estimates of our financial results or recommendations by securities analysts;
- failure of any of our solutions to achieve or maintain market acceptance;
- changes in market valuations of similar companies;
- success of competitive solutions or services;
- changes in our capital structure, such as future issuances of securities or the incurrence of debt;
- announcements by us or our competitors of significant solutions or services, contracts, acquisitions, or strategic alliances;
- regulatory developments in the U.S. or foreign countries;

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- actual or threatened litigation involving us or our industry;
- additions or departures of key personnel;
- general perception of the future of the cloud backup market or our solutions;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- sales of our shares of common stock by our existing stockholders;
- changes in general economic, industry, and market conditions; and
- major changes in our Board of Directors or management or departures of key personnel.

In addition, the stock market in general, and the market for internet-related companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. Such litigation, if instituted against us, could result in very substantial costs, divert our management's attention and resources, and harm our business, financial condition, and operating results. In addition, recent fluctuations in the financial and capital markets have resulted in volatility in securities prices.

Our failure to raise additional capital or generate the cash flows necessary to expand our operations and invest in our business could reduce our ability to compete successfully and depress the market price of our common stock.

Although we currently anticipate that our available funds will be sufficient to meet our cash needs for the next 12 months, we may require additional financing in the future. Our ability to obtain financing will depend, among other things, on our development efforts, business plans, operating performance and condition of the capital markets at the time we seek financing. If we need to raise additional funds, we may not be able to obtain debt or equity financing on favorable terms, if at all. If we raise additional equity financing, our stockholders may experience significant dilution of their ownership interests, and the per share value of our common stock could decline. If we engage in debt financing, we may be required to accept terms that restrict our ability to incur additional indebtedness and force us to maintain specified liquidity or other ratios. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

- develop or enhance our solutions;
- continue to expand our development, sales, and marketing organizations;
- acquire complementary technologies, solutions, or businesses;
- expand our operations in the U.S. or internationally;
- hire, train, and retain employees;
- respond to competitive pressures or unanticipated working capital requirements; or
- continue our operations.

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

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

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

We have never declared or paid any cash dividends on our common stock and do not intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth and continuing operations. Therefore, you are not likely to receive any dividends on your shares of common stock for the foreseeable future and the success of an investment in shares of our common stock will depend upon any future appreciation in their value. Our common stock may not appreciate in value or even maintain the price at which our stockholders have purchased their shares.

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

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

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

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

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

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

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

would be adversely affected.

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

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

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a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;

no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;

the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death, or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;

the ability of our board of directors to determine to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;

a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;

the requirement that a special meeting of stockholders may be called only by the chairman of the board of directors, the chief executive officer, or the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action;

limiting the liability of, and providing indemnification to, our directors and officers;

controlling the procedures for the conduct and scheduling of stockholder meetings;

providing the board of directors with the express power to postpone previously scheduled annual meetings of stockholders and to cancel previously scheduled special meetings of stockholders;

providing that directors may be removed prior to the expiration of their terms by stockholders only for cause; and advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

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

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Principal Office Locations

Our corporate headquarters and executive offices are located in Boston, Massachusetts, in a 52,588 square-foot facility under a lease expiring on December 31, 2024. In addition, we operate a 26,019 square-foot facility in Salt Lake City, Utah under a lease expiring on December 31, 2024, and a 22,685 square-foot facility in Indianapolis, Indiana under a lease expiring on June 30, 2025. We also have additional offices throughout the United States and in various international locations. These additional office leases expire between 2018 and 2022.

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

Data Centers

Our principal data centers are located in Ashburn, Virginia; Chandler, Arizona; and Phoenix, Arizona. We have additional data centers throughout the United States and in various international locations. Our data center leases expire between 2018 and 2023. We have capacity headroom built into our primary leases to accommodate infrastructure growth within the lease periods should we need to add more space or power to our existing footprint.

ITEM 3. LEGAL PROCEEDINGS

See Note 12 - Commitments and Contingencies – Litigation to our consolidated financial statements included in this Annual Report for information concerning litigation. In addition to the lawsuit involving Realtime Data LLC, from time to time, we have been and may become involved in legal proceedings arising in the ordinary course of our business. Although the results of litigation and claims cannot be predicted with certainty, we are not presently involved in any other legal proceeding in which the outcome, if determined adversely to us, would be expected to have a material adverse effect on our business, operating results, or financial condition. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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PART II

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

Market Information

Our common stock is traded on The NASDAQ Global Market under the symbol "CARB." The following table shows the high and low sale prices per share of our common stock as reported on The NASDAQ Global Market for the periods indicated:

	2017		2016	
	High	Low	High	Low
First Quarter	\$21.50	\$15.30	\$10.01	\$6.50
Second Quarter	\$24.60	\$18.20	\$10.62	\$7.30
Third Quarter	\$24.35	\$18.55	\$15.48	\$9.30
Fourth Quarter	\$27.00	\$21.35	\$19.63	\$14.10

Holders

As of February 28, 2018, we had approximately 23 holders of record of our common stock. This does not include the number of persons whose stock is held in nominee or "street" name accounts through brokers.

Dividends

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

Securities Authorized for Issuance under Equity Compensation Plans

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

Recent Sales of Unregistered Securities

Not applicable.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs (3)
October 1, 2017 - October 31, 2017	—	\$—	—	\$ 5,214,409
November 1, 2017 - November 30, 2017	11,762	\$ 22.75	—	\$ 5,214,409
December 1, 2017 - December 31, 2017	11,762	\$ 23.65	—	\$ 5,214,409
Total	23,524		—	

(1) During the three months ended December 31, 2017, 23,524 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.

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Performance Graph

The following performance graph compares the cumulative total return to stockholders on our common stock for the period from December 31, 2012 through December 31, 2017 against the cumulative total return of The NASDAQ Composite Index and The NASDAQ-100 Technology Sector Index. The comparison assumes \$100 was invested in our common stock and each of the indices upon the closing of trading on December 31, 2012 and assuming the reinvestment of dividends, if any. We have never declared or paid any cash dividends on our common stock and does not anticipate paying any cash dividends in the foreseeable future.

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

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

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ITEM 6. SELECTED FINANCIAL DATA

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

The consolidated statements of operations data for the years ended December 31, 2017, 2016, and 2015 and the consolidated balance sheets data as of December 31, 2017 and 2016 are derived from our audited consolidated financial statements included elsewhere in this Annual Report. The consolidated statements of operations data for the years ended December 31, 2014 and 2013 and the consolidated balance sheets data as of December 31, 2015, 2014 and 2013 are derived from our audited consolidated financial statements not included in this Annual Report. Historical results are not necessarily indicative of the results to be expected in the future.

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands, except share and per share data)				
Consolidated statements of operations data:					
Revenue	\$239,462	\$206,986	\$136,616	\$122,620	\$107,194
Cost of revenue (1)	70,067	60,937	38,784	38,567	34,881
Gross profit	169,395	146,049	97,832	84,053	72,313
Operating expenses (1):					
Research and development	46,160	33,298	28,085	24,132	20,919
General and administrative	43,331	41,332	37,265	17,862	14,275
Sales and marketing	90,922	73,347	53,671	49,882	47,349
Restructuring charges	1,047	856	469	762	322
Total operating expenses	181,460	148,833	119,490	92,638	82,865
Loss from operations	(12,065)	(2,784)	(21,658)	(8,585)	(10,552)
Interest and other income (expense), net	(6,866)	(122)	40	45	8
Other income (expense), net	1,252	190	105	(443)	(6)
Loss before income taxes	(17,679)	(2,716)	(21,513)	(8,983)	(10,550)
(Benefit) provision for income taxes	(13,677)	1,383	102	367	55
Net loss	(4,002)	(4,099)	(21,615)	(9,350)	(10,605)
Basic and diluted net loss per share attributable to common stockholders	\$(0.14)	\$(0.15)	\$(0.80)	\$(0.35)	\$(0.41)
Weighted-average number of common shares used in computing basic and diluted net loss per share	27,779,098	27,028,636	27,187,910	26,816,879	26,166,554

(1) Stock-based compensation included in the consolidated statements of operations data above was as follows:

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Cost of revenue	\$1,061	\$807	\$730	\$539	\$508
Research and development	1,969	868	1,171	1,285	955
General and administrative	7,827	6,161	7,226	3,216	2,250
Sales and marketing	1,885	1,064	1,089	1,025	1,064

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	As of December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Consolidated balance sheet data:					
Cash and cash equivalents	\$128,231	\$59,152	\$63,936	\$46,084	\$50,392
Working capital (deficit)	24,515	(28,647)	(28,217)	(23,767)	(11,080)
Total assets	312,819	144,759	125,990	131,754	109,161
Deferred revenue, including current portion	124,514	107,591	98,703	91,424	84,000
Total liabilities	274,554	138,925	124,917	117,216	96,340
Total stockholders' equity	38,265	5,834	1,073	14,538	12,821

	Years Ended December 31,					
	2017	2016	2015	2014	2013	
	(in thousands, except percentage data)					
Key metrics:						
Bookings	\$245,864	\$209,284	\$144,106	\$128,183	\$115,988	
Annual retention rate	87	% 86	% 84	% 83	% 84	%
Renewal rate	85	% 84	% 82	% 80	% 80	%
Adjusted free cash flow	\$20,233	\$18,180	\$14,274	\$15,072	\$5,974	

Refer to Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Key Business Metrics below for the definitions of these key metrics. Bookings and adjusted free cash flow are financial data that are not calculated in accordance with GAAP. The tables below provide 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.

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 life of the subscription period. Management uses bookings and adjusted free cash flow as measures of our operating performance; for planning purposes, including the preparation of our annual operating budget; to allocate resources to enhance the financial performance of our business; to evaluate the effectiveness of our business strategies; to provide consistency and comparability with past financial performance; to determine capital requirements; to facilitate a comparison of our results with those of other companies; and in communications with our Board of Directors concerning our financial performance. We also use bookings and adjusted free cash flow as factors when determining management's incentive compensation. Management believes that the use of bookings and adjusted free cash flow provides consistency and comparability with our past financial performance, facilitates period-to-period comparisons of operations, and also facilitates comparisons with other peer companies, many of which use similar non-GAAP financial measures to supplement their GAAP results.

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

are:

bookings do not reflect our receipt of payment from customers;

- adjusted free cash flow does not reflect our future requirements for contractual commitments to vendors;

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adjusted free cash flow does not reflect the non-cash component of employee compensation or depreciation and amortization of property and equipment; and other companies in our industry may calculate bookings or free cash flow or similarly titled measures differently than we do, limiting their usefulness as comparative measures.

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

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Revenue	\$239,462	\$206,986	\$136,616	\$122,620	\$107,194
Add change in deferred revenue, net of foreign exchange (excluding acquired and divested deferred revenue)	6,402	2,298	7,490	5,563	8,794
Bookings	\$245,864	\$209,284	\$144,106	\$128,183	\$115,988

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Cash provided by operating activities	\$31,330	\$13,165	\$13,197	\$22,678	\$14,625
Subtract capital expenditures	(17,351)	(6,582)	(9,730)	(14,495)	(9,801)
Free cash flow	13,979	6,583	3,467	8,183	4,824
Add payments related to corporate headquarter relocation	—	—	1,309	3,872	—
Add acquisition-related payments	5,707	9,989	1,406	2,053	—
Add hostile takeover-related payments	—	—	1,791	100	—
Add CEO transition payments	—	—	29	634	—
Add restructuring-related payments	359	341	—	—	—
Add cash portion of lease exit charge	—	343	887	230	1,150
Add litigation-related payments	188	924	5,385	—	—
Adjusted free cash flow	\$20,233	\$18,180	\$14,274	\$15,072	\$5,974

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

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

Overview

We provide backup, disaster recovery, high availability and workload migration technology (the "Carbonite Data Protection Platform"). The Carbonite Data Protection Platform supports businesses in locations around the world with secure and scalable global cloud infrastructure. We continue to invest in strategic acquisitions and integrate these acquisitions into our portfolio of data protection solutions, in order to expand our addressable market and increase our strategic importance to customers.

We derive the majority of our revenue from subscription fees with consistently strong retention rates. The remainder of our revenue is derived from software arrangements, which often contain multiple revenue elements, such as software licenses, hardware, professional services and post-contract customer support. We sell our solutions globally, and our customers primarily come from the following primary 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.

On January 31, 2017, we completed the acquisition of all the outstanding capital stock of DoubleTake Software, Inc. for a purchase price of \$65.9 million. In addition, on August 14, 2017, we entered into an asset purchase agreement with Datacastle Corporation for a purchase price of \$9.6 million pursuant to which we acquired all the assets associated with Datacastle's cloud data backup, caching and analytics software and services for data protection purposes. As discussed below, we recently entered into an agreement to acquire all of the issued and outstanding capital stock of Mozy, Inc., a cloud backup service for businesses and consumers. 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 addition, we expect to invest heavily in our operations to support our anticipated growth. In October 2017, we initiated a restructuring program ("2017 Plan") to streamline operations and reduce operating costs. We recorded restructuring charges of \$1.0 million for employee severance related to the reduction of our workforce. We estimate that we will incur restructuring charges between \$1.5 million and \$2.1 million related to the employee severance under the 2017 Plan. Activities under the 2017 Plan are expected to be substantially completed by the end of the first half of 2018.

We generally defer revenue over our customers' subscription periods but expense marketing costs as incurred. As a result of these factors, 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 its lifecycle. We generally incur customer acquisition costs and capital equipment costs in advance of subscriptions while recognizing revenue ratably over the terms 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.

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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 Item 6. Selected Financial Data for a reconciliation to the most comparable financial measures presented in accordance with GAAP.

Bookings. We calculate bookings as revenue recognized during a particular period plus the change in total deferred revenue, excluding deferred revenue recorded in connection with acquisitions and divestitures, net of foreign exchange 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 life of the subscription period.

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

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

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

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

Performance Highlights

For the years ended December 31, 2017, 2016 and 2015, we had the following results:

We generated revenue of \$239.5 million, \$207.0 million, and \$136.6 million, respectively. Revenue increased by \$32.5 million, or 16%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016, and \$70.4 million, or 52%, for the year ended December 31, 2016, as compared to the year ended December 31, 2015.

Cash flow from operations was \$31.3 million, \$13.2 million, and \$13.2 million, respectively.

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

	Years Ended December 31,		
	2017	2016	2015
Key metrics (1):	(in thousands, except percentage data)		
Bookings	\$245,864	\$209,284	\$144,106
Annual retention rate	87	% 86	% 84
Renewal rate	85	% 84	% 82
Adjusted free cash flow	\$20,233	\$18,180	\$14,274

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

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

	Years Ended December 31,			2017	2016
	2017	2016	2015	versus 2016	versus 2015
	(in thousands)			%	%
Business	\$ 164,051	\$ 124,363	\$ 54,471	32 %	128 %
Consumer	81,813	84,921	89,635	(4)%	(5)%
Total bookings	\$245,864	\$209,284	\$144,106	17 %	45 %

Our bookings increased by \$36.6 million for the year ended December 31, 2017, compared to the corresponding period in 2016, primarily due to the inclusion of bookings from the acquisition of DoubleTake during 2017 and increased sales of higher priced business solutions. Our bookings increased by \$65.2 million for the year ended December 31, 2016, compared to the corresponding period in 2015, primarily due to our acquisition of EVault and increased sales of our higher priced business solutions. We continue to focus on growing our relationships with active reseller partners, with bookings related to sales of business solutions representing 67% of total bookings for the year ended December 31, 2017, up from 59% in the year ended December 31, 2016 and 38% in the year ended December 31, 2015. We expect these trends to continue and therefore expect bookings for our business solutions to continue to represent an increasing percentage of total bookings. Our total bookings growth rate for the year ended December 31, 2017 was impacted by a decline in our growth rates in consumer bookings. We do not expect this trend to continue, as we expect an increase in consumer bookings growth rates in the upcoming year.

Adjusted free cash flow for the year ended December 31, 2017 increased by \$2.1 million compared to the year ended December 31, 2016, primarily due to the timing of payments, partially offset by an increase in purchases of property, plant and equipment related to the capital investments in our data centers. Adjusted free cash flow for the year ended December 31, 2016 increased by \$3.9 million compared to the year ended December 31, 2015, primarily due to a \$3.1 million decrease in purchases of property, plant and equipment.

Key Components of our Consolidated Statements of Operations

Revenue

We derive our revenue principally from subscription fees related to our service solutions as well as the sale of software arrangements, which often contain multiple revenue elements, such as software licenses, hardware, professional services and post-contract customer support. We initially record a customer subscription fee as deferred revenue and then recognize it as revenue ratably, on a daily basis, over the life of the subscription period.

Cost of revenue

Cost of revenue consists primarily of costs associated with our data center operations and customer support centers, including wages and benefits for personnel, depreciation of equipment, amortization of developed technology, rent, utilities and broadband, cost of hardware, 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 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.

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 and new suites of our solutions, while not changing the underlying technology. The majority of our research and development employees and contractors are located at our corporate headquarters in the U.S. and at our office in Canada. We expect that research and

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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. We expect that sales and marketing expenses will continue to increase in absolute dollars on an annual 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 Annual Report for additional information.

Results of Operations

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

	Years Ended December 31,		
	2017	2016	2015
	(% of revenue)		
Consolidated statements of operations data:			
Revenue	100.0 %	100.0 %	100.0 %
Cost of revenue	29.3	29.4	28.4
Gross profit	70.7	70.6	71.6
Operating expenses:			
Research and development	19.3	16.1	20.6
General and administrative	18.1	20.0	27.3
Sales and marketing	38.0	35.4	39.3
Restructuring charges	0.4	0.4	0.3
Total operating expenses	75.8	71.9	87.5
Loss from operations	(5.1)	(1.3)	(15.9)
Interest (expense) income, net	(2.8)	(0.1)	—
Other (expense) income, net	0.5	0.1	0.2
Loss before income taxes	(7.4)	(1.3)	(15.7)
(Benefit) provision for income taxes	(5.7)	0.7	0.1
Net loss	(1.7)%	(2.0)%	(15.8)%

Comparison of Years Ended December 31, 2017, 2016, and 2015**Revenue**

Years Ended December 31,			2017 versus	2016 versus	
2017	2016	2015	2016	2015	
			Amount %	Amount %	
(in thousands, except percentage data)					
Revenue	\$ 239,462	\$ 206,986	\$ 136,616	\$ 32,476 15.7 %	\$ 70,370 51.5 %

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Revenue increased by \$32.5 million, or 16%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to the inclusion of revenue from our recently acquired DoubleTake product offerings and increased sales of higher priced business solutions, partially offset by a decline in our growth rates in consumer revenue. Revenue increased by \$70.4 million, or 52%, for the year ended December 31, 2016, as compared to the year ended December 31, 2015, primarily due to our acquisition of EVault and increased sales of our higher priced business solutions. Revenue from our business solutions were approximately \$155.8 million in 2017 compared to \$118.4 million in 2016 and \$46.1 million in 2015.

Cost of revenue, gross profit, and gross margin

	Years Ended December 31,			2017 versus 2016		2016 versus 2015	
	2017	2016	2015	Amount	%	Amount	%
	(in thousands, except percentage data)						
Cost of revenue	\$70,067	\$60,937	\$38,784	\$9,130	15.0 %	\$22,153	57.1 %
Percent of revenue	29.3 %	29.4 %	28.4 %				
Components of cost of revenue:							
Personnel-related costs	\$25,992	\$23,513	\$13,853	\$2,479	10.5 %	\$9,660	69.7 %
Hosting and depreciation costs	20,528	21,758	19,553	(1,230)	(5.7)%	2,205	11.3 %
Amortization	8,179	2,632	1,281	5,547	210.8 %	1,351	105.5 %
Software and other	15,368	13,034	4,097	2,334	17.9 %	8,937	218.1 %
Total cost of revenue	\$70,067	\$60,937	\$38,784	\$9,130	15.0 %	\$22,153	57.1 %
Gross profit	\$169,395	\$146,049	\$97,832	\$23,346	16.0 %	\$48,217	49.3 %
Gross margin	70.7 %	70.6 %	71.6 %				

Our gross margin increased to 70.7% from 70.6% for the year ended December 31, 2017 as compared to the year ended December 31, 2016, driven principally by an increased percentage of our revenues derived from higher margin business solutions and efficiencies realized in our data centers.

Our gross margin decreased to 70.6% from 71.6% for the year ended December 31, 2016, as compared to the year ended December 31, 2015, primarily due to sales of our EVault solutions, which have a lower gross margin than our other business solutions, partially offset by efficiencies realized in our data centers and our customer support organization.

Cost of revenue increased by \$9.1 million for the year ended December 31, 2017, as compared to the year ended December 31, 2016, driven largely by the costs of sales of our DoubleTake offerings and amortization. Amortization increased by \$5.5 million, mainly related to additional developed technology amortization associated with the DoubleTake acquisition in January 2017. Personnel-related costs increased by \$2.5 million associated with supporting our customers. Software and other costs increased \$2.3 million associated with an increase of \$1.8 million for software and support contracts and \$0.7 million increase in consulting expenses. These increases were partially offset by a decrease in hosting and depreciation costs of \$1.2 million associated with efficiencies realized in our data centers. Cost of revenue increased by \$22.2 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015, driven largely by the costs of sales of our EVault offerings. The increase in software and other costs was driven principally by an increase of \$5.1 million in additional software, royalty and consulting largely associated with our EVault service offerings, \$2.8 million of hardware costs for customers who purchased an appliance. Amortization increased by \$1.4 million related to additional amortization of intangible assets associated with the EVault acquisition in January 2016. Personnel-related costs increased \$9.7 million due to additional headcount to deliver our EVault service offerings and support our customers. Hosting and depreciation costs increased \$2.2 million primarily due to \$1.2 million in increased rent and \$0.9 million of increased broadband costs to support our hosting infrastructure.

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Operating expenses

Research and development

	Years Ended December 31,			2017 versus		2016 versus	
	2017	2016	2015	2016	Amount %	2015	Amount %
	(in thousands, except percentage data)						
Research and development	\$ 46,160	\$ 33,298	\$ 28,085	\$ 12,862	38.6 %	\$ 5,213	18.6 %
Percent of revenue	19.3	% 16.1	% 20.6	%		%	
Components of research and development:							
Personnel-related costs	\$ 34,207	\$ 25,418	\$ 21,179	\$ 8,789	34.6 %	\$ 4,239	20.0 %
Third-party outsourcing costs	1,747	1,230	3,498	517	42.0 %	(2,268)	(64.8)%
Hosting, outside contractors and other	10,206	6,650	3,408	3,556	53.5 %	3,242	95.1 %
Total research and development	\$ 46,160	\$ 33,298	\$ 28,085	\$ 12,862	38.6 %	\$ 5,213	18.6 %

Research and development expenses increased by \$12.9 million for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to an increase of personnel-related costs of \$8.8 million associated with additional research and development headcount driven by the inclusion of acquired DoubleTake and Datacastle research and development employees and an increase of \$1.1 million in stock-based compensation expense associated with new grants. The increase in hosting, consulting and other expenses was driven by an increase of \$2.2 million of consulting and independent contractor expenses associated with enhancing the functionality and ease of use of our solutions and \$0.8 million of acquisition and integration-related expenses associated with the acquisition of DoubleTake. Additionally, third party outsourcing costs increased by \$0.5 million.

Research and development expenses increased by \$5.2 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015, primarily as a result of the increase in research and development personnel associated with the EVault acquisition. In addition, an initiative to decrease dependency on outsourced development contributed to the increase in personnel related costs and the reduction in third party outsourcing costs. The increase in hosting, consulting and other expenses was driven by \$1.0 million of additional facility and depreciation costs, \$0.9 million of consulting and acquisition and \$0.6 million of integration-related expenses.

General and administrative

	Years Ended December 31,			2017 versus		2016 versus	
	2017	2016	2015	2016	Amount %	2015	Amount %
	(in thousands, except percentage data)						
General and administrative	\$ 43,331	\$ 41,332	\$ 37,265	\$ 1,999	4.8 %	\$ 4,067	10.9 %
Percent of revenue	18.1	% 20.0	% 27.3	%		%	
Components of general and administrative:							
Personnel-related costs	\$ 24,515	\$ 21,471	\$ 17,687	\$ 3,044	14.2 %	\$ 3,784	21.4 %
Professional fees	11,503	11,255	16,451	248	2.2 %	(5,196)	(31.6)%
Consulting, taxes and other	7,313	8,606	3,127	(1,293)	(15.0)%	5,479	175.2 %
Total general and administrative	\$ 43,331	\$ 41,332	\$ 37,265	\$ 1,999	4.8 %	\$ 4,067	10.9 %

General and administrative expenses increased by \$2.0 million for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily as a result of increased personnel-related costs associated with additional headcount to support our overall growth and an increase of \$1.7 million in stock-based compensation expense associated with new grants. The decrease in consulting, taxes and other expenses related to a decrease of \$1.7 million in one-time transactional tax expense owed to foreign tax authorities, a decrease in bad debt expense of \$1.1 million, partially offset by an increase in consulting and independent contractor expenses of \$0.6 million and amortization of intangibles of \$0.2 million. Professional fees remained relatively consistent for the year ended December 31, 2017 compared to the year ended December 31, 2016.

General and administrative expenses increased by \$4.1 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015, primarily as a result of an increase in general and administrative personnel

associated with the EVault acquisition. For the year ended December 31, 2016, consulting, taxes and other increased by \$5.5 million driven principally by \$1.5 million in one-time transactional tax expenses and increased costs associated with the EVault acquisition.

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Professional fees decreased because of a \$7.8 million decrease in litigation and hostile takeover defense costs, partially offset by an increase of \$1.6 million in acquisition-related costs and \$1.1 million in audit and tax-related expenses.

Sales and marketing

	Years Ended December 31,			2017 versus	2016 versus
	2017	2016	2015	2016	2015
				Amount %	Amount %
	(in thousands, except percentage data)				
Sales and marketing	\$ 90,922	\$ 73,347	\$ 53,671	\$ 17,575 24.0 %	\$ 19,676 36.7 %
Percent of revenue	38.0	% 35.4	% 39.3	%	%