NEW RELIC, INC.
Form 10-Q
February 04, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2015

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: 001-36766

New Relic, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**26-2017431**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

188 Spear Street, Suite 1200

San Francisco, California 94105

(Address of principal executive offices, including zip code)

(650) 777-7600

(Registrant s telephone number, including area code)

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 x No ¨

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

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of January 29, 2016, there were 49,545,812 shares of the registrant s common stock, par value $0.001 per share, outstanding.

NEW RELIC, INC.

Form 10-Q Quarterly Report

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as may, will, should, shall, might, expects, plans, anticipates intends, target, projects, contemplates, believes, estimates, predicts, potential, or continue or the neg words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

our future financial performance, including our revenue, cost of revenue, gross profit, gross margin, operating expenses, ability to generate positive cash flow, and ability to achieve and maintain profitability;

the sufficiency of our cash and cash equivalents to meet our working capital, capital expenditure, and liquidity needs;

our ability to attract and retain customers to use our products, to optimize the pricing for our products, and to expand our sales to our customers;

the evolution of technologies affecting our products and markets;

our ability to innovate and provide a superior user experience and our intentions and strategy with respect thereto;

our ability to successfully expand in our existing markets and into new markets, including international markets;

the attraction and retention of key personnel;

our ability to effectively manage our growth and future expenses;

our ability to maintain, protect, and enhance our intellectual property;

worldwide economic conditions and their impact on spending; and our ability to comply with modified or new laws and regulations applying to our business, including privacy and data security regulations.

We caution you that the foregoing list does not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, operating results, and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the section titled Risk Factors and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. 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. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NEW RELIC, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

(Unaudited)

	December 31, 2015	March 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 71,901	$ 105,257
Short-term investments	119,105	95,503
Accounts receivable, net of allowance for doubtful accounts of $478 and $282, respectively	23,408	13,813
Prepaid expenses and other current assets	5,676	4,299
Total current assets	220,090	218,872
Property and equipment, net	40,398	35,397
Restricted cash	8,023	4,623
Goodwill	11,828	2,053
Intangible assets, net	3,919	2,300
Other assets, non-current	1,583	1,466
Total assets	$ 285,841	$ 264,711
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 6,630	$ 4,969
Accrued compensation and benefits	8,893	6,288
Other current liabilities	4,516	3,623
Deferred revenue	55,370	29,185
Total current liabilities	75,409	44,065
Deferred rent, non-current	4,770	4,638
Deferred revenue, non-current	2,689	124
Other liabilities, non-current	1,616	1,014
Total liabilities	84,484	49,841

Commitments and contingencies (Note 6)				
Stockholders equity:				
Common stock, $0.001 par value; 100,000 shares authorized at December 31, 2015 and March 31, 2015; 49,684 shares and 47,377 shares issued at December 31, 2015 and March 31, 2015; and 49,424 shares and 47,117 shares outstanding at December 31, 2015 and March 31, 2015		50		47
Treasury stock - at cost (260 shares)		(263)		(263)
Additional paid-in capital		381,634		346,671
Accumulated other comprehensive (loss) income		(171)		15
Accumulated deficit		(179,893)		(131,600)
Total stockholders equity		201,357		214,870
Total liabilities and stockholders equity	$	285,841	$	264,711

See notes to condensed consolidated financial statements.

NEW RELIC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	**2014**	**2015**	**2014**
Revenue	$ 47,744	$ 29,029	$ 128,817	$ 77,003
Cost of revenue	9,744	5,940	26,562	15,001
Gross profit	38,000	23,089	102,255	62,002
Operating expenses:				
Research and development	12,015	6,410	31,385	16,659
Sales and marketing	35,153	25,460	93,201	63,094
General and administrative	9,070	6,864	26,014	17,464
Total operating expenses	56,238	38,734	150,600	97,217
Loss from operations	(18,238)	(15,645)	(48,345)	(35,215)
Other income (expense):				
Interest income	158	47	448	65
Interest expense	(20)	(54)	(47)	(83)
Other expense, net	(163)	(381)	(196)	(195)
Loss before income taxes	(18,263)	(16,033)	(48,140)	(35,428)
Income tax provision (benefit)	92	(104)	153	(104)
Net loss	$ (18,355)	$ (15,929)	$ (48,293)	$ (35,324)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.37)	$ (0.70)	$ (1.01)	$ (1.94)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	48,953	22,847	48,001	18,182

See notes to condensed consolidated financial statements.

NEW RELIC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended December 31,				Nine Months Ended December 31,			
		2015		2014		2015		2014
Net loss	$	(18,355)	$	(15,929)	$	(48,293)	$	(35,324)
Other comprehensive loss:								
Unrealized loss on available-for-sale securities, net of tax		(213)		(52)		(186)		(52)
Comprehensive loss	$	(18,568)	$	(15,981)	$	(48,479)	$	(35,376)

See notes to condensed consolidated financial statements.

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NEW RELIC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended December 31,	
	2015	2014
Cash flows from operating activities:		
Net loss:	$ (48,293)	$ (35,324)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	11,058	6,089
Stock-based compensation expense	16,603	7,592
Other	817	208
Changes in operating assets and liabilities, net of acquisition of business:		
Accounts receivable	(10,010)	(6,754)
Prepaid expenses and other assets	(1,265)	(1,443)
Accounts payable	859	(777)
Accrued compensation and benefits and other liabilities	4,068	2,936
Deferred rent	199	771
Deferred revenue	28,750	13,273
Net cash provided by (used in) operating activities	2,786	(13,429)
Cash flows from investing activities:		
Purchases of property and equipment	(8,119)	(10,628)
Acquisition of business, net of cash acquired	(5,498)	(2,262)
Increase in restricted cash	(3,400)	(25)
Purchases of short-term investments	(80,046)	(37,189)
Proceeds from sale and maturity of short-term investments	55,692	
Capitalized software development costs	(5,316)	(6,667)
Net cash used in investing activities	(46,687)	(56,771)
Cash flows from financing activities:		
Proceeds from issuances of preferred stock, net of issuance costs		97,243
Proceeds from initial public offering, net of issuance costs		120,601
Principal payments on debt		(271)
Proceeds from issuance of common stock	10,545	914
Net cash provided by financing activities	10,545	218,487
Net increase (decrease) in cash and cash equivalents	(33,356)	148,287
Cash and cash equivalents, beginning of period	105,257	19,453

Cash and cash equivalents, end of period	$ 71,901	$ 167,740
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 76	$ 91
Noncash investing and financing activities:		
Issuance of common stock for the acquisition of business	$ 6,777	$ 1,826
Conversion of preferred stock warrants to common stock warrants	$	$ 631
Net exercise of preferred stock warrants in connection with the initial public offering	$	$ 280
Property and equipment purchased but not paid yet	$ 1,227	$ 1,052
Accrued initial public offering costs	$	$ 677

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Description of Business and Summary of Significant Accounting Policies

Description of Business New Relic, Inc. (the Company or New Relic) was incorporated in Delaware on February 20, 2008. The Company is a software-as-a-service provider of software analytics products which allow users to monitor software performance with .NET, Java, JavaScript, Node.js, PHP, Python, and Ruby applications deployed either in a cloud or in a data center. New Relic s software analytics products enable developers and operation teams to monitor, troubleshoot, and optimize their applications.

Basis of Presentation These unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2015, as filed with the SEC on May 28, 2015 (the Annual Report). There have been no changes to the Company s significant accounting policies described in the Annual Report that have had a material impact on its condensed consolidated financial statements and related notes, except for the adoption of ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*. Please refer to Recent Accounting Pronouncements below for additional details of the adoption and impact of this standard update.

In the opinion of management, the unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, comprehensive loss and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year ending March 31, 2016. The condensed consolidated balance sheet as of March 31, 2015 included herein was derived from the audited financial statements as of that date.

Initial Public Offering In December 2014, New Relic completed its initial public offering (IPO) in which the Company issued and sold 5,750,000 shares of common stock at a public offering price of $23.00 per share. The Company received aggregate proceeds of approximately $123.0 million from the sale of shares of common stock, net of underwriters discounts and commissions, but before deducting paid and unpaid offering expenses of approximately $3.1 million.

The sale of common stock in the IPO triggered the weighted average anti-dilution provisions set forth in the Company s amended and restated certificate of incorporation. At the IPO price of $23.00 per share, the per share conversion rate for the Company s Series F convertible preferred stock into common stock was approximately 1:1.02. The conversion rate for the Company s Series A, Series B, Series C, Series D, and Series E convertible preferred stock was 1:1. As a result of the IPO, the 24,813,343 shares of the Company s convertible preferred stock outstanding automatically converted into 24,885,778 shares of the Company s common stock.

Use of Estimates The preparation of the Company s condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of income and expenses during the reporting period. These estimates are based on information available as of the date of the condensed consolidated financial statements; therefore, actual results could differ from management s estimates.

Concentration of Risk At December 31, 2015, there was no customer that represented more than 10% of the Company s accounts receivable balance. One customer accounted for 12% of the Company s accounts receivable balance as of March 31, 2015. There were no customers that individually exceeded 10% of the Company s revenue during the three and nine months ended December 31, 2015 and 2014.

Short-term Investments Short-term investments consist of money market funds, certificates of deposit, commercial paper, U.S. treasury securities, U.S. agency securities, and corporate debt securities and are classified as available-for-sale securities. The Company has classified its investments as current based on the nature of the investments and their availability for use in current operations. Available-for-sale securities are carried at fair value with unrealized gains and losses reported as a component of accumulated other comprehensive income, while realized gains and losses and other-than-temporary impairments are reported within the statement of operations. For the periods presented, realized and unrealized gains and losses on investments were not material. An impairment charge is recorded in the consolidated statements of operations for declines in fair value below the cost of an individual investment that are deemed to be other than temporary. The Company assesses whether a decline in value is temporary based on the length of time that the fair market value has been below cost, the severity of the decline and the intent and ability to hold or sell the investment. The Company did not identify any investments as other-than-temporarily impaired as of December 31, 2015 and March 31, 2015.

Business Combinations The Company recognizes identifiable assets acquired and liabilities assumed at their acquisition date fair value. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, its estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill to the extent that the Company identifies adjustments to the preliminary purchase price allocation. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company s condensed consolidated statements of operations. There has been no such adjustment as of December 31, 2015.

Goodwill Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets. Goodwill is evaluated for impairment annually in the third quarter of the Company s fiscal year, and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. Triggering events that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of goodwill or a significant decrease in expected cash flows. Since inception through December 31, 2015, the Company did not have any goodwill impairment.

Intangible Assets Intangible assets consist of identifiable intangible assets, primarily developed technology, resulting from the Company s acquisitions. Acquired intangible assets are recorded at cost, net of accumulated amortization. Intangible assets are amortized on a straight-line basis over their estimated useful lives.

Recent Accounting Pronouncements In May 2014, the Financial Accounting Standards Board (FASB) issued new guidance related to the recognition and reporting of revenue that establishes a comprehensive new revenue recognition model designed to depict the transfer of goods or services to a customer in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. The guidance allows for the use of either the full or modified retrospective transition method, and the standard will be effective for the Company in its fiscal year beginning April 1, 2018; early adoption is permitted for the fiscal year beginning April 1, 2017. The Company is currently evaluating the impact of this new standard on its condensed consolidated financial statements, as well as which transition method the Company intends to use.

In August 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern*. The update is intended to define management s responsibility to evaluate whether there is substantial doubt about an organization s ability to continue as a going concern and to provide related footnote disclosures. The standard will be effective for the Company in the fiscal year beginning April 1, 2016; early adoption is permitted. The Company is currently evaluating the impact of this new standard on its disclosures within the notes to the condensed consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, *Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer s Accounting for Fees Paid in a Cloud Computing Arrangement*, which provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the arrangement does not include a software license, then the customer should account for the arrangement as a service contract. The standard will be effective for the Company in the fiscal year beginning April 1, 2016; early adoption is permitted. The standard may be applied on either a prospective or retrospective basis. The Company is currently evaluating adoption methods and whether this standard will have a material impact on its condensed consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*, which eliminates the requirement to restate prior period financial statements for measurement period adjustments. ASU 2015-16 requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The standard will be effective for the Company in the fiscal year beginning April 1, 2016; early adoption is permitted. The Company is currently evaluating the impact of this new standard on its condensed consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, which eliminates the current requirement to present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. Instead, entities will be required to classify all deferred tax assets and liabilities as noncurrent. The Company early adopted this accounting standard update, on a prospective basis, during the third quarter of fiscal year 2016. All deferred tax assets and liabilities, as of December 31, 2015, have been classified as noncurrent in the accompanying Condensed Consolidated Balance Sheets and the notes thereto. The adoption during the quarter resulted in a $0.9 million decrease in current deferred tax liabilities and a $0.9 million increase to non-current deferred tax liabilities. No prior periods were retrospectively adjusted.

2. Business Combination

Opsmatic, Inc.

In October 2015, the Company completed the acquisition of Opsmatic, Inc. (Opsmatic), a provider of live-state server configuration monitoring across dynamic cloud infrastructure, pursuant to which the Company acquired all of the capital stock of Opsmatic for $5.5 million in cash, up to 161,116 shares of the Company s common stock, a portion of which are subject to forfeiture in the event of certain indemnification claims by the Company, and 12,008 restricted stock units (RSUs) with fair values of $39.15 per share, resulting in an aggregate purchase price of $12.3 million. Of the total purchase price, $2.5 million was allocated to acquired technology and an immaterial amount to net assets acquired, with the excess $9.8 million of the purchase price over the fair value of net tangible and intangible assets acquired recorded as goodwill. The Company also recognized transaction costs of approximately $0.4 million, which is included in general and administrative expense in its condensed consolidated statements of operations for the nine months ended December 31, 2015. The Opsmatic technology complements the Company s existing server and infrastructure monitoring capabilities. The acquisition has been accounted for as a business combination under the acquisition method. Goodwill generated from the acquisition is attributable to expected synergies from future growth and potential future monetization opportunities, and is not deductible for tax purposes. Pro forma revenue and results of operations have not been presented because the historical results of Opsmatic were not material to the Company s condensed consolidated financial statements in any period presented.

The acquisition also included an obligation to issue up to 98,115 shares of its common stock, with an aggregate grant date fair value of $3.8 million, to certain employees of Opsmatic, contingent upon their continuous employment with the Company. As such, compensation expense will be recorded on a straight-line basis over the respective service period of 30 months. As of December 31, 2015, 50,079 of these shares were issued, all of which are subject to repurchase by the Company.

Few Ducks, S.L.

In October 2014, the Company closed the acquisition of Few Ducks, S.L., (Ducksboard), a provider of real-time dashboards for tracking business metrics from a broad set of application sources, pursuant to which the Company acquired all of the capital stock of Ducksboard for 121,493 shares of the Company s common stock, all of which were issued upon the conclusion of the indemnity holdback period, and $2.3 million in cash resulting in an aggregate purchase price of $4.2 million. Of the total purchase price, $2.8 million was allocated to identifiable intangible assets and $0.7 million to net liabilities assumed, with the excess $2.1 million of the purchase price over the fair value of net tangible liabilities assumed and intangible assets acquired recorded as goodwill. The addition of the Ducksboard technology complements the Company s visualization expertise and the Company believes it will readily expand the sources of data that are available to customers via the Company s Software Analytics data cloud. The Company accounted for the acquisition of Ducksboard as a purchase of a business. Goodwill generated from the acquisition is attributable to expected synergies from future growth and potential future monetization opportunities, and is not deductible for tax purposes. Pro forma revenue and results of operations have not been presented because the historical results of Ducksboard were not material to the Company s condensed consolidated financial statements in any period presented.

In connection with the acquisition, the Company also agreed to issue up to 128,507 shares of its common stock, with an aggregate grant date fair value of $1.9 million, to certain former employees of Ducksboard, contingent upon their continuous employment with the Company. From the date of acquisition, compensation expense is recorded on a straight-line basis over the respective service period of three years. As of December 31, 2015, 38,566 of these shares were issued.

3. Fair Value Measurements

The following tables present information about the Company s financial assets measured at fair value on a recurring basis as of December 31, 2015 and March 31, 2015 based on the three-tier fair value hierarchy (in thousands):

	Fair Value Measurements as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Description:				
Money market funds	$ 36,117	$	$	$ 36,117
Corporate notes and bonds		25,359		25,359
U.S. treasury securities	2,289			2,289
U.S. government agencies		97,285		97,285
Restricted cash - money market funds	8,023			8,023
Total	$ 46,429	$ 122,644	$	$ 169,073
Included in cash and cash equivalents				$ 41,945
Included in short-term investments				$ 119,105
Included in restricted cash				$ 8,023

	Fair Value Measurements as of March 31, 2015			
	Level 1	Level 2	Level 3	Total
Description:				
Money market funds	$ 56,455	$	$	$ 56,455
Certificates of deposit		1,800		1,800
Commercial paper		30,288		30,288
Corporate notes and bonds		38,715		38,715
U.S. treasury securities	500			500
U.S. government agencies		33,199		33,199
Restricted cash - money market funds	4,623			4,623
Total	$ 61,578	$ 104,002	$	$ 165,580
Included in cash and cash equivalents				$ 65,454
Included in short-term investments				$ 95,503
Included in restricted cash				$ 4,623

There were no transfers between fair value measurement levels during the three and nine months ended December 31, 2015.

In September 2015, the Company executed a $3.4 million letter of credit in connection with a lease signed in June 2015. The cash collateralized letter of credit is classified as restricted cash on the condensed consolidated balance sheet as of December 31, 2015.

Level 3 instruments in prior periods consisted solely of the Company s preferred stock warrant liability. Prior to the IPO, outstanding warrants to purchase shares of the Company s Series A and Series D convertible preferred stock were classified as other liabilities. The initial liability recorded was adjusted for changes in the fair values of the Company s preferred stock warrants during each reporting period and was recorded as a component of other income (expense), net in the statement of operations. The Company estimated the fair values of these warrants using the Black-Scholes option-pricing model, based on the inputs for the estimated fair value of the underlying convertible preferred stock at the valuation measurement date, the remaining contractual term of the warrant, risk-free interest rates, expected dividend rates and expected volatility of the price of the underlying convertible preferred stock. These estimates were based on subjective assumptions. During the three and nine months ended December 31, 2014, the Company recognized charges in the amount of $0.3 million and $82,000, respectively, which were recorded as other expense in the Company s condensed consolidated statements of operations. Upon the closing of the IPO in December 2014, the Company ceased recording any further related periodic fair value adjustments.

Gross unrealized gains or losses for cash equivalents and available-for-sale marketable securities as of December 31, 2015 and March 31, 2015 were not material. As of December 31, 2015 and March 31, 2015, there were no securities that were in an unrealized loss position for more than 12 months.

The following table classifies the Company s available-for-sale short-term investments by contractual maturities as of December 31, 2015 and March 31, 2015 (in thousands):

	December 31, 2015	March 31, 2015
Due in one year	$ 92,793	$ 53,287
Due in one to two years	26,312	42,216
Total	$ 119,105	$ 95,503

For certain other financial instruments, including accounts receivable, accounts payable and other current liabilities, the carrying amounts approximate their fair value due to the relatively short maturity of these balances.

4. Property and Equipment

Property and equipment, net, consisted of the following (in thousands):

	December 31, 2015	March 31, 2015
Computers, software, and equipment	$ 4,037	$ 2,985
Site operation equipment	12,691	6,383
Furniture and fixtures	914	868
Leasehold improvements	21,854	20,513
Capitalized software development costs	27,759	21,402
Total property and equipment	67,255	52,151
Less: accumulated depreciation and amortization	(26,857)	(16,754)
Total property and equipment, net	$ 40,398	$ 35,397

Depreciation and amortization expense related to property and equipment was $3.7 million and $2.4 million for the three months ended December 31, 2015 and 2014, respectively, and $10.2 million and $5.9 million for the nine months ended December 31, 2015 and 2014, respectively.

5. Goodwill and Purchased Intangibles Assets

The changes in the carrying amount of goodwill for the nine months ended December 31, 2015 are as follows (in thousands):

Goodwill as of March 31, 2015	$ 2,053
Goodwill acquired	9,775
Goodwill as of December 31, 2015	$ 11,828

Purchased intangible assets subject to amortization as of December 31, 2015 consist of the following (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining Useful Life
				(In years)
Developed technology	$ 4,900	$ (1,139)	$ 3,761	2.83
Customer relationships	100	(61)	39	0.75
Other intangible assets	300	(181)	119	0.75
	$ 5,300	$ (1,381)	$ 3,919	

Purchased intangible assets subject to amortization as of March 31, 2015 consist of the following (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining Useful Life
				(In years)
Developed technology	$ 2,400	$ (400)	$ 2,000	2.50
Customer relationships	100	(25)	75	1.50
Other intangible assets	300	(75)	225	1.50
	$ 2,800	$ (500)	$ 2,300	

Amortization expense of purchased intangible assets was $0.4 million and $0.2 million for the three months ended December 31, 2015 and 2014, respectively, and $0.9 million and $0.2 million for the nine months ended December 31, 2015 and 2014, respectively.

Estimated future amortization expense as of December 31, 2015 is as follows (in thousands):

2016 (remaining 3 months)	$ 467
2017	$ 1,733
2018	$ 1,233
2019	$ 486
	$ 3,919

6. Commitments and Contingencies

Leases The Company leases office space under non-cancelable operating lease agreements, which expire from 2017 through 2023.

In June 2015, the Company entered into an eight-year lease with respect to office space within a building located in San Francisco, California, pursuant to which the Company leases approximately 14,067 square feet and will lease an additional approximately 42,201 square feet on June 1, 2016.

Deferred Rent Certain of the Company s operating leases contain rent holidays, allowances, and rent escalation provisions. For these leases, the Company recognizes the related rental expense on a straight-line basis over the life of the lease from the date the Company takes possession of the office and records the difference between amounts charged to operations and amounts paid as deferred rent. These rent holidays, allowances, and rent escalations are considered in determining the straight-line expense to be recorded over the lease term. As of December 31, 2015 and March 31, 2015, $5.1 million and $4.9 million was recorded as deferred rent, respectively.

Rent expense, net of sublease income, for operating leases was $1.7 million and $1.3 million for the three months ended December 31, 2015 and 2014, respectively, and $4.7 million and $3.9 million for the nine months ended December 31, 2015 and 2014, respectively.

Future minimum lease payments under non-cancelable operating leases as of December 31, 2015 were as follows (in thousands):

Years Ending March 31,	Operating Leases	
2016 (remaining 3 months)	$	1,731
2017		8,406
2018		10,251
2019		10,454
2020		10,744
Thereafter		22,951
Total minimum future lease payments	$	64,537

Purchase Commitments As of December 31, 2015 and March 31, 2015, the Company had purchase commitments of $3.2 million and $3.6 million, respectively, for specific contractual services.

Legal Proceedings From time to time, the Company may become involved in various legal proceedings in the ordinary course of its business, and may be subject to third-party infringement claims.

On November 5, 2012, CA, Inc. filed suit against the Company in the United States District Court, Eastern District of New York for alleged patent infringement. CA, Inc. s complaint against the Company claims that certain aspects of the Company s products infringe certain patents held by CA, Inc. Discovery is complete in the case, and the court has ruled on summary judgment motions filed by both parties. A trial date has not been set as of December 31, 2015. The Company cannot at this time predict the likely outcome of this proceeding or estimate the amount or range of loss or possible loss that may arise from it. The Company has not accrued any loss related to the outcome of this case as of December 31, 2015.

In the normal course of business, the Company may agree to indemnify third parties with whom it enters into contractual relationships, including customers, lessors, and parties to other transactions with the Company, with respect to certain matters. The Company has agreed, under certain conditions, to hold these third parties harmless against specified losses, such as those arising from a breach of representations or covenants, other third-party claims that the Company s products when used for their intended purposes infringe the intellectual property rights of such other third parties, or other claims made against certain parties. To date, the Company has not incurred any costs as a result of such obligations and has not accrued any liabilities related to such obligations in the condensed consolidated financial statements. In addition, the Company indemnifies its officers, directors, and certain key employees while they are serving in good faith in their respective capacities. The Company does not currently believe there is a reasonable possibility that a loss may have been incurred under these indemnification obligations. To date, there have been no claims under any such indemnification provisions.

7. Common Stock and Stockholders Equity

Common stock authorized Upon the completion of the IPO, the Company s certificate of incorporation was amended and restated to increase the amount of common stock authorized for issuance from 55,000,000 to 100,000,000 common shares with a par value of $0.001 per share.

Employee Stock Purchase Plan The Company s board of directors adopted, and the Company s stockholders approved, the Company s 2014 Employee Stock Purchase Plan (the ESPP), which became effective in December 2014. The ESPP initially reserved and authorized the issuance of up to 1,000,000 shares of common stock. The ESPP provides that the number of shares reserved and available for issuance under the ESPP will automatically increase each April, beginning on April 1, 2015, by the lesser of 500,000 shares, 1% of the number of the Company s common stock shares issued and outstanding on the immediately preceding March 31, or such lesser number of shares as determined by the Company s board of directors. As of December 31, 2015, there were 1,471,169 shares available for issuance under the ESPP. The first offering period under the ESPP commenced on August 15, 2015. For the nine months ended December 31, 2015, no shares of common stock were purchased under the ESPP.

2008 Equity Incentive Plan The Company s board of directors adopted the 2008 Equity Incentive Plan (the 2008 Plan) in February 2008. The 2008 Plan was terminated in connection with the IPO, and accordingly, no shares are available for future issuance under this plan. The 2008 Plan continues to govern outstanding awards granted thereunder.

2014 Equity Incentive Plan The Company s board of directors adopted, and the Company s stockholders approved, the Company s 2014 Equity Incentive Plan (the 2014 Plan), which became effective in December 2014. The 2014 Plan serves as the successor to the Company s 2008 Plan. The 2014 Plan initially reserved and authorized the issuance of 5,000,000 shares of the Company s common stock. Additionally, shares not issued or subject to outstanding grants under the 2008 Plan upon its termination became available under the 2014 Plan, resulting in a total of 5,184,878 available shares under the 2014 Plan as of the effective date of the 2014 Plan. Pursuant to the terms of the 2014 Plan, any shares subject to outstanding stock options or other stock awards under the 2008 Plan that (i) expire or terminate for any reason prior to exercise or settlement, (ii) are forfeited because of the failure to meet a contingency or condition required to vest such shares or otherwise return to the Company or (iii) are reacquired, withheld (or not issued) to satisfy a tax withholding obligation in connection with an award or to satisfy the purchase price or exercise price of a stock award will become available for issuance pursuant to awards granted under the 2014 Plan. The 2014 Plan provides that the number of shares reserved and available for issuance under the plan will automatically increase each April 1, beginning on April 1, 2015, by 5% of the outstanding number of shares of the Company s common stock shares issued and outstanding on the immediately preceding March 31, or such lesser number of shares as determined by the Company board of directors. As of December 31, 2015, there were 6,526,991 shares available for issuance under the 2014 Plan.

The following table summarizes the Company s stock option and RSU award activities for the nine months ended December 31, 2015 (in thousands, except per share information):

	Options Outstanding				RSUs Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value	Number of Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding - April 1, 2015	9,422	$ 10.08	7.9	$ 231,964	723	$ 23.87	3.5	$ 25,098
Stock options granted	621	32.92						
RSUs granted					1,008	33.48		
Stock options exercised	(1,921)	5.49		56,534				
RSUs vested					(123)	25.07		
Stock options canceled/forfeited	(545)	15.77						
RSUs canceled/forfeited					(107)	26.97		
Outstanding - December 31, 2015	7,577	$ 12.71	6.7	$ 179,964	1,501	$ 30.01	3.3	$ 54,682

Restricted Stock Awards The Company granted restricted stock awards to two directors for an aggregate of 100,000 shares of its common stock in August 2013 and 40,000 shares of common stock in May 2014, each of which vests over four years, subject to the continued service relationship with the Company, or become fully vested upon a change of control. The grant date fair value of the restricted stock awards was $0.9 million or $9.37 per share for awards granted in August 2013, and $0.7 million or $16.93 per share for awards granted in May 2014. Stock-based compensation expense recognized related to these restricted stock awards was $0.1 million for each of the three months ended December 31, 2015 and 2014, respectively, and $0.3 million for each of the nine months ended December 31, 2015 and 2014, respectively. The Company recognizes the expense using a straight-line basis over the requisite service periods of the award. As of December 31, 2015, 83,332 shares were vested.

Stock Options Granted to Nonemployees The Company granted 12,069 shares and 60,175 shares to nonemployee consultants during the three months ended December 31, 2015 and 2014, respectively, and 23,676 shares and 110,175 shares to nonemployee consultants during the nine months ended December 31, 2015 and 2014, respectively. The Company recorded stock-based compensation expense of $0.2 million and $0.3 million for the three months ended December 31, 2015 and 2014, respectively, and $0.7 million and $0.4 million for the nine months ended December 31, 2015 and 2014, respectively.

Stock-Based Compensation Expense Stock-based compensation expense for both employees and nonemployees was $6.4 million and $3.4 million for the three months ended December 31, 2015 and 2014, respectively, and $16.6 million and $7.6 million for the nine months ended December 31, 2015 and 2014, respectively. Stock-based compensation expense attributed to cost of revenue, research and development, sales and marketing, and general and administrative expenses were as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
Cost of revenue	$ 333	$ 166	$ 893	$ 359
Research and development	1,684	721	4,223	1,178
Sales and marketing	2,588	1,474	6,634	3,378
General and administrative	1,751	1,065	4,853	2,677
Total stock-based compensation expense	$ 6,356	$ 3,426	$ 16,603	$ 7,592

As of December 31, 2015, unrecognized stock-based compensation cost related to outstanding unvested stock options was $33.6 million, which is expected to be recognized over a weighted-average period of approximately 2.5 years. As of December 31, 2015, unrecognized stock-based compensation cost related to outstanding unvested stock awards was $44.4 million, which is expected to be recognized over a weighted-average period of approximately 3.1 years.

8. Income Taxes

The Company is subject to income tax in the United States as well as other tax jurisdictions in which it conducts business. Earnings from non-U.S. activities are subject to local country income tax. The Company does not provide for federal income taxes on the undistributed earnings of its foreign subsidiaries as such earnings are to be reinvested indefinitely.

The Company recorded an income tax provision of $0.1 million and an income tax benefit of $0.1 million for the three months ended December 31, 2015 and 2014, respectively, and an income tax provision of $0.2 million and an income tax benefit of $0.1 million for nine months ended December 31, 2015 and 2014, respectively, related to foreign income taxes and state minimum taxes. Based on the available objective evidence during the three and nine months ended December 31, 2015, the Company believes it is more likely than not that the tax benefits of U.S. losses incurred during the three and nine months ended December 31, 2015 may not be realized. Accordingly, the Company did not record the tax benefits of U.S. losses incurred during the three and nine months ended December 31, 2015. The primary difference between the effective tax rate and the local statutory tax rate relates to the valuation allowance on the Company’s U.S. losses, foreign tax rate differences, and amortization of a deferred charge associated with the intercompany transfer of intellectual property from prior periods.

As of December 31, 2015, the total amount of gross unrecognized tax benefits was $2.3 million, all of which would affect the Company’s effective tax rate if recognized before consideration of any valuation allowance. As of December 31, 2015, the Company had an immaterial amount related to the accrual of interest and penalties. During the nine months ended December 31, 2015, the Company’s gross unrecognized tax benefits increased by $0.5 million, none of which would affect the Company’s effective tax rate if recognized. The Company does not have any tax positions as of December 31, 2015 for which it is reasonably possible that the total amount of gross unrecognized tax benefits will significantly increase or decrease within the next 12 months.

9. Net Loss Per Share

Basic loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the period, less shares subject to repurchase, and excludes any dilutive effects of employee share-based awards and warrants. Diluted net loss per common share is computed giving effect to all potential dilutive common shares, including common stock issuable upon exercise of stock options and unvested restricted common stock. As the Company had net losses for each of the three and nine months ended December 31, 2015 and 2014, all potential common shares were determined to be anti-dilutive.

The following table sets forth the computation of net loss per share attributable to common stockholders, basic and diluted (in thousands, except per share amounts):

	Three Months Ended December 31,	**Nine Months Ended December 31,**

	2015	2014	2015	2014
Numerator:				
Net loss	$ (18,355)	$ (15,929)	$ (48,293)	$ (35,324)
Denominator:				
Weighted average shares used to compute net loss per share attributable to common stockholder, basic and diluted	48,953	22,847	48,001	18,182
Net loss per share basic and diluted	$ (0.37)	$ (0.70)	$ (1.01)	$ (1.94)

The following outstanding options, unvested shares, warrants, and ESPP shares were excluded (as common stock equivalents) from the computation of diluted net loss per common share for the periods presented as their effect would have been antidilutive (in thousands):

	As of December 31,	
	2015	2014
Options to purchase common stock	7,577	9,516
Common stock reserved for issuance in connection with acquisition	90	
Restricted stock units	1,501	669
Warrants		28
ESPP shares	67	
	9,235	10,213

10. Revenue by Geographic Location

The following table shows the Company s revenue by geographic areas, as determined based on the billing address of its customers (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
United States	$ 32,041	$ 19,123	$ 86,229	$ 51,258
EMEA	9,045	5,704	24,726	14,671
APAC	3,741	2,310	9,945	6,093
Other	2,917	1,892	7,917	4,981
Total revenue	$ 47,744	$ 29,029	$ 128,817	$ 77,003

Substantially all of the Company s long-lived assets were attributable to operations in the United States as of December 31, 2015 and March 31, 2015.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. When reviewing the discussion below, you should keep in mind the substantial risks and uncertainties that could impact our business. In particular, we encourage you to review the risks and uncertainties described in Part II, Item 1A Risk Factors included elsewhere in this report. These risks and uncertainties could cause actual results to differ materially from those projected in forward-looking statements contained in this report or implied by past results and trends. Forward-looking statements are statements that attempt to forecast or anticipate future developments in our business, financial condition or results of operations. See the section titled Special Note Regarding Forward-Looking Statements in this report. These statements, like all statements in this report, speak only as of their date (unless another date is indicated), and we undertake no obligation to update or revise these statements in light of future developments.

Overview

We are defining a new category of enterprise software we call Software Analytics. Our cloud-based platform and suite of products enables organizations to collect, store, and analyze massive amounts of software data in real time. We design all our products to be highly intuitive and frictionless; they are easy to deploy, and customers can rapidly, often within minutes, realize benefits and results. Technology users can use our products to quickly find and fix performance problems as well as prevent future issues. Business users such as product managers can get answers to how their new product launch is being received, or how a pricing change impacted customer retention, without waiting for help from IT. Software developers can build better applications faster, as they can see how their software will perform and is actually performing for end-users.

Since our formation in 2007, we have invested in building an integrated platform that enables organizations to collect, store and analyze massive amounts of data from their software in real time. We launched our first product offering, New Relic APM (Application Performance Management) for Ruby, in 2008. Since then, we broadened our product offerings to support a wide variety of programming languages and frameworks, with Java in 2009, PHP and .NET in 2010, and Python in 2011. In 2011, we released New Relic Servers to provide server monitoring for the cloud and data centers. In 2013, we released New Relic Mobile to support mobile by providing native mobile application performance management for the iOS and Android mobile operating systems. We also launched support for Node.js, a programming language, and New Relic Plugins (formerly New Relic Platform) to enable third parties to integrate with our platform. In March 2014, we launched New Relic Insights to leverage big data analytics. During the quarter ended December 31, 2014, we released New Relic Browser to improve browser-side performance and New Relic Synthetics to enable our users to test their software through simulated usage.

We sell our products primarily through direct sales and marketing channels utilizing a wide range of online and offline sales and marketing activities. The majority of our users visit our website, create an account, and deploy our software. Upon deployment, most users experience our full-featured products with a 14-day or 30-day free trial, enabling them to realize the benefits of our products, after which they have the option to purchase one or more of our subscription plans. During and after the trial period, our direct sales team engages with the user to convert the user into a paid business account. Many users initially subscribe to one of our products to address a particular use case and broaden the usage of our products as they become more familiar with our products. Most of our customers to date have been small to medium-sized organizations, and many of our customers to date have made purchasing decisions without interacting with our sales or other personnel. For larger organizations, our sales team focuses on leveraging users in existing accounts to broaden our footprint across the organization.

We offer access to our platform and suite of products under subscription plans that also include service and support. We offer a variety of pricing plans based on the particular product purchased by an account, number of servers monitored, number of applications monitored, or number of mobile devices monitored. Our plans typically have terms of one year, although some of our customers commit for shorter or longer periods. We recognize revenue from subscription fees ratably over the service period. Most of our customers pay us on a monthly basis. As a result, our deferred revenue at any given period of time has historically been relatively low. As we sell more to larger organizations, we expect to invoice more of our customers on a less frequent basis, and, therefore, we expect our deferred revenue to increase over time. However, due to our mix of subscription plans and billing frequencies, we do not believe that changes in our deferred revenue in a given period are directly correlated with our revenue growth.

We have grown rapidly in recent periods, with revenue for the three months ended December 31, 2015 and 2014 of $47.7 million and $29.0 million, respectively, representing year-over-year growth of 64%. For the nine months ended December 31, 2015 and 2014, our revenue was $128.8 million and $77.0 million, respectively, representing year-over-year growth of 67%. We expect that the rate of growth in our revenue will decline over the long term as our business scales, even if our revenue continues to grow in absolute terms. We have continued to make significant expenditures and investments, including in personnel-related costs, sales and marketing, infrastructure and operations, and have incurred net losses in each period since our inception, including net losses of $18.4 million and $15.9 million for the three months ended December 31, 2015 and 2014, respectively, and $48.3 million and $35.3 million for the nine months ended December 31, 2015 and 2014, respectively. Our accumulated deficit as of December 31, 2015 was $179.9 million.

Our employee headcount has increased to 870 employees as of December 31, 2015 from 579 as of December 31, 2014, and our number of paid business accounts to 13,126 from 11,270 over the same period, and we plan to continue to aggressively invest in the growth of our business to take advantage of our market opportunity. We intend to continue to increase our investment in sales and marketing, as we further expand our sales teams, increase our marketing activities, and grow our international operations, particularly as we increase our sales to larger organizations.

Internationally, we currently offer our products in Europe, Middle East, and Africa, or EMEA, Asia-Pacific, or APAC, and other non-U.S. locations, as determined based on the billing address of our customers, and our revenue from those regions constituted 19%, 8%, and 6%, respectively, of our revenue for the three months ended December 31, 2015, and 20%, 8%, and 7%, respectively, of our revenue for the three months ended December 31, 2014. Our revenue from the EMEA, APAC, and other non-U.S. regions constituted 19%, 8%, and 6%, respectively, of our revenue for each of the nine months ended December 31, 2015 and 2014. We believe there is further opportunity to increase our international revenue overall and as a proportion of our revenue, and we are increasingly investing in our international operations and intend to invest in further expanding our footprint in international markets. At the same time, the regulatory framework for privacy and security issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. For instance, the European Union Court of Justice, or ECJ, ruled on October 6, 2015 that the U.S.-EU Safe Harbor Framework upon which we have in the past relied upon to allow for the transfer of personal data when doing business in the European Economic Area, or EEA, was no longer deemed to be a valid method of compliance with requirements set forth in the Data Protection Directive (and member states implementations thereof) regarding the transfer of data outside of the EEA. We have begun to undertake efforts to conform transfers of personal data from the EEA based on current regulatory obligations, the guidance of data protection authorities, and evolving best practices. These efforts may involve substantial expense and distraction from other aspects of our business. Despite this, we may be unsuccessful in establishing conforming means of transferring such data from the EEA, including due to ongoing legislative activity, which may, among other things, limit or decrease customer adoption and retention, expose us to additional liabilities in connection with compliance and related requirements, and harm our business and operating results.

To support the growth of our customer adoption, we also intend to increase our investment in our support organization and infrastructure. In addition, we plan to continue to invest in our research and development organization to enhance and further develop our products. While these areas represent significant opportunities for us, we also face significant risks and challenges that we must successfully address in order to sustain the growth of our business and improve our operating results. Due to our continuing investments to grow our business, in advance of and in preparation for our expected increase in sales and expansion of our paid business accounts, we are continuing to incur expenses in the near term from which we may not realize any long-term benefit. In addition, any investments that we make in sales and marketing or other areas will occur in advance of our experiencing any benefits from such investments, so it may be difficult for us to determine if we are efficiently allocating our resources in these areas. As a result, we have never achieved profitability and we do not expect to be profitable for the foreseeable future.

Further, our reported revenue, operating results, and cash flows for a given period may not be indicative of future results due to our limited operating history and fluctuations in the number of new employees, the rate of our expansion, the timing of expenses we incur to grow our business and operations, levels of competition, and market demand for our products.

Factors Affecting Our Performance

Market Adoption of Our Products. We are defining a new category of software, which we refer to as Software Analytics. Our success is dependent on the market adoption of this emerging category of software, which may not yet be well understood by the market. For the foreseeable future, we expect that our revenue growth will be primarily driven by the pace of adoption and penetration of our products and we will incur significant expenses associated with educating the market about the benefits of our products.

Increasing the Number of Paid Business Accounts. Our future growth is dependent on our ability to increase the number of accounts that pay us to use our products. Most users experience our products with a free trial after which they have the option to purchase one or more of our subscription plans. We believe that we have a significant competitive advantage as our users experience the ease of installation and the full set of features that our products deliver during the free trial period.

Retention and Expansion within Paid Business Accounts. A key factor in our success is the retention and expansion of our subscription agreements with our existing customers. In order for us to continue to grow our business, it is important to generate additional revenue from our existing customers, and we do this in several ways. As we improve our existing products and introduce new products, we believe that the demand for our products will generally grow. We also believe that there is a significant opportunity for us to increase the number of subscriptions we sell to our current customers as they become more familiar with our products and adopt our products to address additional business use cases.

Investment in Sales and Marketing. We expect to continue to invest aggressively in sales and marketing to drive additional revenue. Any investments that we make in sales and marketing will occur in advance of our experiencing any benefits from such investments, so it may be difficult for us to determine if we are efficiently allocating our resources. As we continue to focus sales and marketing investments more heavily towards large organizations, this may require more of our resources. In addition, we expect our sales cycle to be longer and less predictable with respect to larger customers, which may delay realization of future sales. We also intend to increase our sales and marketing investment in international markets, such as Europe, and those markets may take longer and be more costly to develop than the U.S. market.

Key Operating Metrics

We review the following key metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions:

Number of Paid Business Accounts and Number of Paid Business Accounts with Annual Recurring Revenue over $5,000. We believe that our ability to increase our number of paid business accounts is one indicator of our market penetration, the growth of our business and our potential future prospects. We define the number of paid business accounts at the end of any particular period as the number of accounts at the end of the period as identified by a unique account identifier for which we have recognized revenue on the last day of the period indicated. A single organization or customer may have multiple paid business accounts for separate divisions, segments, or subsidiaries. We had 13,126 paid business accounts as of December 31, 2015.

As a subset of this metric, we believe that our number of paid business accounts with annual recurring revenue over $5,000 is one indicator of our business as it relates to the acquisition of larger accounts within our overall customer base, including our market penetration of larger mid-market and enterprise customers, as well as deeper penetration into our existing customer base. We had 5,581 paid business accounts with annual recurring revenue of at least $5,000 as of December 31, 2015, which was a 34.9% increase compared to 4,137 paid business accounts with annual recurring revenue of at least $5,000 as of December 31, 2014. We believe this increase reflects our continued focus of a greater proportion of our sales and marketing efforts on mid-market and enterprise customers, which would result in an increase to the value of larger paid business accounts. We expect the rate at which we add paid business accounts with annual recurring revenue over $5,000 to decrease over time as a result of deeper penetration into the enterprise market.

Annualized Revenue per Average Paid Business Account. We believe that our annualized revenue per average paid business account is another indicator of our business as it relates to the acquisition of larger accounts within our overall customer base, including our market penetration of larger mid-market and enterprise customers, as well as deeper penetration into our existing customer base. We define our annualized revenue per average paid business account as the annualized revenue for the current period divided by the average of the number of paid business accounts at the end of the current period and the end of the prior period.

Our annualized revenue per average paid business account for the quarter ended December 31, 2015 grew to $14,710, an increase of 38%, from $10,624 for the quarter ended December 31, 2014. We believe this increase reflects our continued focus on mid-market and enterprise customers, which we expect will result in our annualized revenue per average paid business account to continue to increase over the near term.

Dollar-Based Net Expansion Rate. Our ability to generate revenue is dependent on our ability to maintain and grow our relationships with our existing customers. We track our performance in this area by measuring our dollar-based net expansion rate. Our dollar-based net expansion rate increases when customers increase their use of our products, use additional products, or upgrade to a higher subscription tier. Our dollar-based net expansion rate is reduced when customers decrease their use of our products, use fewer products, or downgrade to a lower subscription tier.

Our dollar-based net expansion rate compares our recurring subscription revenue from customers from one period to the next. We measure our dollar-based net expansion rate on a monthly basis because many of our customers change their subscriptions more frequently than quarterly or annually. To calculate our annual dollar-based net expansion rate, we first establish the base period monthly recurring revenue from all our customers at the end of a month. This represents the revenue we would contractually expect to receive from those customers over the following month, without any increase or reduction in any of their subscriptions. We then (i) calculate the actual monthly recurring revenue from those same customers at the end of that following month; then (ii) divide that following month s recurring revenue by the base month s recurring revenue to arrive at our monthly net expansion rate; then (iii) calculate a quarterly net expansion rate by compounding the net expansion rates of the three months in the quarter; and then (iv) calculate our annualized net expansion rate by compounding our quarterly net expansion rate over an annual period.

The quarterly fluctuations in our dollar-based net expansion rate are primarily driven by transactions within a particular quarter in which certain paid business accounts from larger subscription customers either significantly upgrade or significantly downgrade their subscriptions and by increased sales to existing customers in particular quarters due to sales and marketing campaigns in a particular quarter. In addition, we believe that the composition of our customer base also has an impact on the net expansion rate, such that a relative increase in the number of paid business accounts from larger enterprises versus small to medium-sized organizations will tend to increase our quarterly net expansion rate and a relative increase in the number or paid business accounts from small to medium-sized organizations versus larger enterprises will tend to decrease the quarterly net expansion rate, as smaller businesses tend to cancel subscriptions more frequently than larger enterprises. This rate is also impacted by factors including, but not limited to new product introductions, promotional activity, mix of customer size and the variable timing of renewals.

Our annualized dollar-based net expansion rate declined modestly to 128.7% for the three-month period ending December 31, 2015 from 131.7% for the three-month period ending December 31, 2014. In the period ending December 31, 2015, we did not have any new paid product introductions, while in the period ending December 31, 2014, we benefited from two new paid product introductions, the Browser and Synthetics offerings in the market, which drove a higher than normal level of net expansion activity.

Key Components of Results of Operations

Revenue

We offer access to our products under subscription plans that include service and support for one or more of our products. For our paying customers, we offer a variety of pricing plans based on the particular product purchased by an account, number of servers monitored, number of applications monitored, or number of mobile devices monitored. Our plans typically have terms of one year, although some of our customers commit for shorter periods. We invoice most of our customers on a monthly basis. As a result, our deferred revenue has historically been relatively low. As we begin to sell more to larger organizations, we expect to invoice more of our customers on a less frequent basis, and therefore, we expect our deferred revenue to increase over time.

Cost of Revenue

Cost of revenue consists of expenses relating to data center operations, hosting-related costs, payment processing fees, depreciation and amortization, consulting costs, and salaries and benefits of operations and global customer support personnel. Salaries and benefits costs associated with our operations and global customer support personnel consist of salaries, benefits, bonuses, and stock-based compensation. We plan to continue increasing the capacity, capability, and reliability of our infrastructure to support the growth of our customer adoption and the number of products we offer.

Gross Profit and Margin

Gross profit is revenue less cost of revenue. Gross margin is gross profit expressed as a percentage of revenue. Our gross margin has been, and will continue to be affected by, a number of factors, including the timing and extent of our investments in our operations and global customer support personnel, hosting-related costs, and the amortization of capitalized software. We expect that our gross margin will decline modestly over the long term, although we expect our gross margin to fluctuate from period to period as a result of these factors.

Operating Expenses

Personnel costs, which consist of salaries, benefits, bonuses, stock-based compensation and, with regard to sales and marketing expenses, sales commissions, are the most significant component of our operating expenses. We also incur other non-personnel costs such as an allocation of our general overhead expenses.

Research and Development. Research and development expenses consist primarily of personnel costs and an allocation of our general overhead expenses. We continue to focus our research and development efforts on adding new features and products, and increasing the functionality and enhancing the ease of use of our existing products. We capitalize the portion of our software development costs that meets the criteria for capitalization.

We plan to continue to hire employees for our engineering, product management, and design teams to support our research and development efforts. As a result, we expect our research and development expenses to continue to increase in absolute dollars for the foreseeable future. However, we expect our research and development expenses to decrease modestly as a percentage of our revenue over the long term, although our research and development expenses may fluctuate from period to period depending on fluctuations in our revenue and the timing and extent of our research and development expenses.

Sales and Marketing. Sales and marketing expenses consist of personnel costs for our sales, marketing, and business development employees and executives. Commissions are expensed in the period when a customer contract is executed. Sales and marketing expenses also include the costs of our marketing and brand awareness programs.

We plan to continue investing in sales and marketing globally by increasing the number of our sales personnel, expanding our domestic and international marketing activities, building brand awareness, and sponsoring additional marketing events. We expect our sales and marketing expenses to continue to increase in absolute dollars and continue to be our largest operating expense category for the foreseeable future. However, we expect our sales and marketing expenses to decrease as a percentage of our revenue over the long term, although our sales and marketing expenses may fluctuate from period to period depending on fluctuations in our revenue and the timing and extent of our sales and marketing expenses.

General and Administrative. General and administrative expenses consist primarily of personnel costs for our administrative, legal, human resources, information technology, finance and accounting employees, and executives. Also included are non-personnel costs, such as legal and other professional fees.

We plan to continue to expand our business both domestically and internationally, and we expect to increase the size of our general and administrative function to support the growth of our business. We also expect that we will continue to incur additional general and administrative expenses as a result of being a publicly traded company. As a result, we expect our general and administrative expenses to continue to increase in absolute dollars for the foreseeable future. However, we expect our general and administrative expenses to decrease modestly as a percentage of our revenue over the long term, although our general and administrative expense may fluctuate from period to period depending on fluctuations in our revenue and the timing and extent of our general and administrative expenses, such as litigation costs.

Other Income (Expense), Net

Other income (expense), net consists primarily of the re-valuation of our convertible preferred stock warrant liability, interest income, interest expense, and foreign exchange gains and losses.

Results of Operations

The following tables summarize our consolidated statements of operations data for the periods presented and as a percentage of our revenue for those periods.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
	(in thousands, except per share data)			
Revenue	$ 47,744	$ 29,029	$ 128,817	$ 77,003
Cost of revenue (1)	9,744	5,940	26,562	15,001
Gross profit	38,000	23,089	102,255	62,002
Operating expenses:				
Research and development (1)	12,015	6,410	31,385	16,659
Sales and marketing (1)	35,153	25,460	93,201	63,094
General and administrative (1)	9,070	6,864	26,014	17,464

Total operating expenses	56,238	38,734	150,600	97,217
Loss from operations	(18,238)	(15,645)	(48,345)	(35,215)
Other income (expense):				
Interest income	158	47	448	65
Interest expense	(20)	(54)	(47)	(83)
Other expense, net	(163)	(381)	(196)	(195)
Loss before income taxes	(18,263)	(16,033)	(48,140)	(35,428)
Income tax provision (benefit)	92	(104)	153	(104)
Net loss	$ (18,355)	$ (15,929)	$ (48,293)	$ (35,324)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.37)	$ (0.70)	$ (1.01)	$ (1.94)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	48,953	22,847	48,001	18,182

(1) Includes stock-based compensation expense as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
	(in thousands)			
Cost of revenue	$ 333	$ 166	$ 893	$ 359
Research and development	1,684	721	4,223	1,178
Sales and marketing	2,588	1,474	6,634	3,378
General and administrative	1,751	1,065	4,853	2,677
Total stock-based compensation expense	$ 6,356	$ 3,426	$ 16,603	$ 7,592

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
	(as a percentage of revenue)			
Revenue	100%	100%	100%	100%
Cost of revenue (1)	20	20	21	19
Gross profit	80	80	79	81
Operating expenses:				
Research and development (1)	25	22	24	22
Sales and marketing (1)	74	88	72	82
General and administrative (1)	19	24	20	23
Total operating expenses	118	134	116	127
Loss from operations	(38)	(54)	(37)	(46)
Other income (expense):				
Interest income				
Interest expense				
Other expense, net		(1)		
Loss before income taxes	(38)	(55)	(37)	(46)
Income tax provision (benefit)				
Net loss	(38%)	(55%)	(37%)	(46%)

(1) Includes stock-based compensation expense as follows:

	Three Months Ended December 31,	Nine Months Ended December 31,

	2015	2014	2015	2014
		(as a percentage of revenue)		
Cost of revenue	1%	1%	1%	1%
Research and development	3	2	3	2
Sales and marketing	5	5	5	4
General and administrative	4	4	4	3
Total stock-based compensation expense	13%	12%	13%	10%

Revenue

	Three Months Ended December 31,		Change		Nine Months Ended December 31,		Change	
	2015	2014	Amount	%	2015	2014	Amount	%
				(dollars in thousands)				
United States	$ 32,041	$ 19,123	$ 12,918	68%	$ 86,229	$ 51,258	$ 34,971	68%
EMEA	9,045	5,704	3,341	59%	24,726	14,671	10,055	69%
APAC	3,741	2,310	1,431	62%	9,945	6,093	3,852	63%
Other	2,917	1,892	1,025	54%	7,917	4,981	2,936	59%
Total revenue	$ 47,744	$ 29,029	$ 18,715	64%	$ 128,817	$ 77,003	$ 51,814	67%

Revenue increased $18.7 million, or 64%, in the three months ended December 31, 2015 compared to the same period of 2014. The increase was a result of an increase in the number of paid business accounts, which increased to 13,126 at December 31, 2015 from 11,270 at December 31, 2014, and an increase in product adoption by existing paid business accounts. Our revenue from EMEA increased $3.3 million, or 59%, in the three months ended December 31, 2015 compared to the same period of 2014, and our revenue from APAC increased $1.4 million, or 62%, in the three months ended December 31, 2015 compared to the same period of 2014, as a result of an increase in the number of paid business accounts and an increase in product adoption by existing paid business accounts located in these geographic regions.

Revenue increased $51.8 million, or 67%, in the nine months ended December 31, 2015 compared to the same period of 2014. The increase was a result of an increase in the number of paid business accounts, which increased to 13,126 at December 31, 2015 from 11,270 at December 31, 2014, and an increase in product adoption by existing paid business accounts. Our revenue from EMEA increased $10.1 million, or 69%, in the nine months ended December 31, 2015 compared to the same period of 2014, and our revenue from APAC increased $3.9 million, or 63%, in the nine months ended December 31, 2015 compared to the same period of 2014, as a result of anIGN="right">15.1

Commerce	11.8
Enterprise	8.6
High Tech	(1.6)
Public Sector	2.0
Total net increase	$35.9

A significant portion of the increase in revenues for the three months ended March 31, 2011 as compared to prior period was driven by traffic growth from customers in our media and entertainment and commerce verticals. The revenues from this traffic growth were partially offset by reduced prices charged to our customers. The increase in revenues from our commerce customers was principally due to increased purchases of value-added services. In our high tech vertical, we experienced a decrease in revenues driven by lower software download volumes. The increase in revenues from public sector customers was primarily attributable to entering into new contracts with government agencies.

For the three months ended March 31, 2011, approximately 30% of our revenues were derived from our operations located outside of the United States, of which 18% was derived from Europe. For the three months ended March 31, 2010, approximately 28% of our revenues was derived from our operations outside of the United States, of which 18% was derived from Europe. No single country outside of the United States accounted for 10% or more of revenues during these periods. For each of the three months ended March 31, 2011 and 2010, resellers accounted for 18% of revenues. For each of the three months ended March 31, 2011 and 2010, no customer accounted for 10% or more of revenues.

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Cost of Revenues. Cost of revenues includes fees paid to network providers for bandwidth and co-location of our network equipment. Cost of revenues also includes payroll and payroll-related costs and stock-based compensation expense for network operations personnel, cost of software licenses, depreciation of network equipment used to deliver our services and amortization of internal-use software.

Cost of revenues was comprised of the following (in millions):

	For the Three Months Ended March 31,	
	2011	2010
Bandwidth and service-related fees	$ 22.0	$ 18.5
Co-location fees	30.0	20.3
Payroll and related costs of network operations personnel	3.8	3.1
Stock-based compensation, including amortization of prior capitalized amounts	2.6	2.6
Depreciation and impairment of network equipment	22.9	16.6
Amortization of internal-use software	7.8	6.4
Total cost of revenues	$ 89.1	$ 67.5

Cost of revenues increased 32%, or $21.6 million, to $89.1 million for the three months ended March 31, 2011 as compared to $67.5 million for the three months ended March 31, 2010. This increase was primarily due to an increase in co-location costs as we deployed more servers worldwide; an increase in depreciation expense of network equipment and amortization of internal-use software as we continued to invest in our infrastructure; and an increase in amounts paid to network providers for bandwidth due to higher traffic levels, partially offset by reduced bandwidth costs per unit.

Cost of revenues during the three months ended March 31, 2011 and 2010 also included credits received of approximately $1.3 million and $1.1 million, respectively, from settlements and renegotiated contracts entered into in connection with billing disputes related to bandwidth contracts. Credits of this nature may occur in the future; however, the timing and amount of future credits, if any, are unpredictable.

We have long-term purchase commitments for bandwidth usage and co-location services with various network and Internet service providers. For the remainder of 2011 and for the years ending December 31, 2012, 2013, 2014 and 2015, we estimate that the minimum commitments related to bandwidth usage and co-location services under agreements currently in effect are approximately $63.9 million, $14.8 million, $1.8 million, $45,000 and $33,000 respectively.

We believe that cost of revenues will increase during the remaining quarters of 2011 as compared to the three-month period ended March 31, 2011. We expect to deploy more servers and to deliver more traffic on our network, which would result in higher expenses associated with the increased traffic and co-location fees; however, such costs are likely to be partially offset by lower bandwidth costs per unit. Additionally, for the remaining quarters of 2011, we anticipate increases in depreciation expense related to our network equipment and amortization of internal-use software development costs, along with increased payroll and related costs, as we continue to make investments in our network with the expectation that our customer base will continue to expand.

Research and Development. Research and development expenses consist primarily of payroll and related costs and stock-based compensation expense for research and development personnel who design, develop, test and enhance our services and our network. Research and development costs are expensed as incurred, except certain internal-use software development costs eligible for capitalization. During the three months ended March 31, 2011 and 2010, we capitalized software development costs of $9.9 million and $6.5 million, respectively, net of impairments. These development costs consisted of external consulting expenses and payroll and payroll-related costs for personnel involved in the development of internal-use software used to deliver our services and operate our network. Additionally, during the three months ended March 31, 2011, we capitalized $1.8 million of stock-based compensation as compared to $1.4 million during the three months ended March 31, 2010. These capitalized internal-use software costs are amortized to cost of revenues over their estimated useful lives of two years.

Research and development expenses decreased 4%, or $0.6 million, to $12.6 million for the three months ended March 31, 2011 as compared to $13.2 million for the three months ended March 31, 2010. The decrease during the three months ended March 31, 2011 as compared to the same period in 2010 was due to higher capitalized salaries and a decrease in stock-based compensation, partially offset by an increase in payroll and related costs.

The following table quantifies the changes in the various components of our research and development expenses for the periods presented (in millions):

	For the Three Months Ended March 31, 2011 as compared to 2010	
Payroll and related costs	$	3.9
Stock-based compensation		(1.2)
Capitalized salaries and other expenses		(3.3)
Total net decrease	$	(0.6)

We believe that research and development expenses, in absolute dollar terms, will increase in the remaining quarters of 2011 as compared to the first quarter of 2011 because we expect to continue to hire additional development personnel in order to make improvements in our core technology, develop new services and make refinements to our existing service offerings.

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

Sales and marketing expenses increased 7%, or $3.7 million, to $53.4 million for the three months ended March 31, 2011 as compared to $49.7 million for the three months ended March 31, 2010. The increase in sales and marketing expenses during the three months ended March 31, 2011 as compared to the same period in 2010 was primarily due to an increase in payroll and related costs such as commissions, partially offset by a decrease in stock-based compensation.

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

	For the Three Months Ended March 31, 2011 as compared to 2010	
Payroll and related costs	$	6.7
Stock-based compensation		(2.2)
Marketing and related costs		(0.4)
Other expenses		(0.4)
Total net increase	$	3.7

We believe that sales and marketing expenses will increase, in absolute dollar terms, during the remaining quarters of 2011 as compared to the first quarter of 2011 due to an expected increase in commissions on higher forecasted sales of our services and an increase in payroll and related costs due to continued headcount growth in our sales and marketing organization.

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

payroll, stock-based compensation expense and other related costs, including expenses for executive, finance, business applications, network management, human resources and other administrative personnel;

depreciation and amortization of property and equipment we use internally;

fees for professional services;

rent and other facility-related expenditures for leased properties;

provision for doubtful accounts;

insurance costs; and

non-income related taxes.

General and administrative expenses increased 11%, or $4.4 million, to $43.9 million for the three months ended March 31, 2011 as compared to $39.6 million for the three months ended March 31, 2010. The increase in general and administrative expenses for the three months ended March 31, 2011 as compared to the same period in 2010 was primarily due to an increase in payroll and related costs, facilities and related costs and other expenses such as purchases of small furniture and equipment at amounts below our capitalization policy. These increases were partially offset by reductions in legal fees and non-income taxes.

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

	For the Three Months Ended March 31, 2011 as compared to 2010
Payroll and related costs	$ 3.3
Stock-based compensation	0.2
Depreciation and amortization	0.2
Facilities-related costs	1.6
Legal fees	(0.9)
Non-income taxes	(0.9)
Consulting and advisory services	(0.6)
Other expenses	1.5
Total net increase	$ 4.4

During the remaining quarters of 2011, we expect general and administrative expenses to increase, in absolute dollar terms, as compared to the first quarter of 2011 due to anticipated higher payroll and related costs attributable to increased hiring as well as facilities and related costs.

Amortization of Other Intangible Assets. Amortization of other intangible assets consists of amortization of intangible assets acquired in business combinations and amortization of acquired license rights. Amortization of other intangible assets increased 4%, or $0.2 million, to $4.3 million for the three months ended March 31, 2011 as compared to $4.1 million for the three months ended March 31, 2010. The increase in amortization of other intangible assets for the three months ended March 31, 2011 as compared to the same period in 2010 was primarily due to the amortization of assets related to our acquisition of substantially all of the assets and liabilities of Velocitude during the second quarter of 2010. Based on our intangible assets at March 31, 2011, we expect amortization of other intangible assets to be approximately $12.6 million for the remainder of 2011, and $15.9 million, $13.1 million, $7.6 million and $5.1 million for fiscal years 2012, 2013, 2014 and 2015, respectively.

Interest Income. Interest income includes interest earned on invested cash balances and marketable securities. Interest income decreased 9%, or $0.3 million, to $3.0 million for the three months ended March 31, 2011, as compared to $3.3 million for the three months ended March 31, 2010. The decrease was due to lower interest rates earned on our investments during the comparable periods.

Interest Expense. Interest expense includes interest paid on our debt obligations as well as amortization of deferred financing costs. Interest expense was $0.7 million for the three months ended March 31, 2010. As of March 31, 2011, we had no outstanding indebtedness requiring the payment of interest.

Other Expense, net. Other (expense) income, net primarily represents net foreign exchange gains and losses incurred, gains from legal settlements, and other non-operating (expense) income items. Other expense, net for the three months ended March 31, 2011 increased to $1.0 million as compared to $0.1 million of expense for the three months ended March 31, 2010. The increase in the first quarter of 2011 as compared to the same period in 2010 was primarily due to exchange rate fluctuations. Other expense, net may fluctuate in the future based upon movements in foreign exchange rates, the outcome of legal proceedings, or other events.

Provision for Income Taxes. For the three months ended March 31, 2011 and 2010, our effective income tax rate, including discrete items, was 32.2% and 40.4%, respectively. For the three months ended March 31, 2011, the effective income tax rate was lower than the federal statutory tax rate mainly due to the composition of income in foreign jurisdictions. For the three months ended March 31, 2010, the effective income tax rate was higher than the federal statutory tax rate mainly due to the effects of accounting for stock-based compensation in accordance with the authoritative guidance for share-based payments, and state income tax expense. The effective income tax rate is based upon the estimated income for the year, the estimated composition of the income in different jurisdictions and discrete adjustments, if any, in the applicable quarterly periods, including settlements of tax audits or assessments, the resolution or identification of tax position uncertainties, and acquisitions of other companies. Provision for income taxes decreased 13%, or $3.7 million, to $24.1 million for the three months ended March 31, 2011 as compared to $27.8 million for the three months ended March 31, 2010. The decrease in the three months ended March 31, 2011 as compared to the same period in 2010 was mainly due to the composition of income in foreign jurisdictions.

While we expect our effective income tax rate for the remaining quarters of 2011 to remain relatively consistent with the rate in the first quarter of 2011, this expectation does not take into consideration the effect of any potential discrete items to be recorded in the future. The effective tax rate could be materially different depending on the nature and timing of dispositions of incentive stock options and other employee equity awards. Further, our effective tax rate may fluctuate within a fiscal year and from quarter to quarter, due to items arising from discrete events, including settlements of tax audits and assessments, the resolution or identification of tax position uncertainties and acquisitions of other companies. In 2010, due to our continued utilization of available NOLs and tax credit carryforwards, our tax payments were significantly lower than our recorded income tax provision. We expect to utilize substantially all of our tax credit carryforwards in 2011. Once we have done so, the amount of cash tax payments we make will increase over those made in previous years.

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

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

Non-GAAP Measures

In addition to the traditional financial measurements that are reflected in our financial statements that have been prepared in accordance with GAAP, we also compile and monitor certain non-GAAP financial measures related to the performance of our business. We typically discuss the non-GAAP financial measures described below on our quarterly public earnings release calls. A non-GAAP financial measure is a numerical measure of a company s historical or future financial performance that excludes amounts that are included in the most directly comparable measure calculated and presented in the GAAP statement of operations.

We believe that making available the non-GAAP financial measures described below helps investors to gain a meaningful understanding of our past performance and future prospects, especially when comparing such results to previous periods, forecasts or competitors financial statements. Our management uses these non-GAAP measures, in addition to GAAP financial measures, as the basis for measuring our core operating performance and comparing such performance to that of prior periods and to the performance of our competitors. These measures are also used by management in its financial and operational decision-making.

We consider normalized net income and normalized net income per diluted common share to be important indicators of our overall performance as they eliminate the effects of events that are either not part of our core operations or are non-cash. We define normalized net income as net income determined in accordance with GAAP excluding the following pre-tax items: amortization of other acquired intangible assets, stock-based compensation expense, stock-based compensation reflected as a component of amortization of capitalized internal-use software, restructuring charges and benefits, acquisition related costs and benefits, certain gains and losses on investments and loss on early extinguishment of debt.

The following table reconciles GAAP net income to normalized net income and normalized net income per diluted share for the three months ended March 31, 2011 and 2010:

	Unaudited For the Three Months Ended March 31,	
	2011	2010
	(in thousands, except per share data)	
Net income	$ 50,617	$ 40,878
Amortization of other intangible assets	4,277	4,108
Stock-based compensation	15,712	19,108
Amortization of capitalized stock-based compensation	2,065	1,875
Acquisition related costs (benefits)	(440)	
Total normalized net income	$ 72,231	$ 69,969
Normalized net income per diluted share	$ 0.38	$ 0.35
Shares used in per share calculations	191,383	189,013

We consider Adjusted EBITDA to be another important indicator of our operational strength and the performance of our business and a good measure of our historical operating trend. Adjusted EBITDA eliminates items that are either not part of our core operations or do not require a cash outlay. We define Adjusted EBITDA as net income determined in accordance with GAAP excluding interest, income taxes, depreciation and amortization of tangible and intangible assets, stock-based compensation expense, stock-based compensation

reflected as a component of amortization of capitalized internal-use software, restructuring charges and benefits, acquisition related costs and benefits, certain gains and losses on investments, foreign exchange gains and losses, loss on early extinguishment of debt, and gains or losses on legal settlements.

The following table reconciles GAAP net income to Adjusted EBITDA for the three months ended March 31, 2011 and 2010:

	Unaudited For the Three Months Ended March 31,	
	2011	2010
	(in thousands)	
Net income	$ 50,617	$ 40,878
Amortization of other intangible assets	4,277	4,108
Stock-based compensation	15,712	19,108
Amortization of capitalized stock-based compensation	2,065	1,875
Acquisition related costs (benefits)	(440)	
Interest income, net	(2,960)	(2,662)
Provision for income taxes	24,056	27,759
Depreciation and amortization	34,792	26,977
Other loss, net	1,035	75
Adjusted EBITDA	$ 129,154	$ 118,118

These non-GAAP financial measures should be used in addition to and in conjunction with results presented in accordance with GAAP.

Liquidity and Capital Resources

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

As of March 31, 2011, our cash, cash equivalents and marketable securities, which consisted of corporate debt securities, U.S. Treasury and government agency securities, commercial paper, corporate debt securities, and student loan-backed ARS, totaled $1.26 billion. We place our cash investments in instruments that meet high credit quality standards, as specified in our investment policy. Our investment policy also limits the amount of our credit exposure to any one issue or issuer and seeks to manage these assets to achieve our goals of preserving principal, maintaining adequate liquidity at all times, and maximizing returns subject to our investment policy.

We held approximately $136.8 million and $150.8 million in par value of ARS as of March 31, 2011 and December 31, 2010, respectively. The ARS are primarily AAA-rated bonds, most of which are guaranteed by the U.S. government as part of the Federal Family Education Loan Program through the U.S. Department of Education. None of the ARS in our portfolio are mortgage-based or collateralized debt obligations. In mid-February 2008, all of our ARS experienced failed auctions, which failures continued throughout the period ended March 31, 2011. As a result, we have been unable to liquidate most of our holdings of ARS. Based on our ability to access our cash and other short-term investments, our expected operating cash flows, and our other sources of cash, we do not anticipate the current lack of liquidity on these investments to have a material impact on our financial condition or results of operations in 2011 or the foreseeable future.

Net cash provided by operating activities was $88.5 million for the three months ended March 31, 2011, compared to $87.8 million for the three months ended March 31, 2010. The slight increase in cash provided by operating activities for the three months ended March 31, 2011 as compared to the same period in 2010 was primarily due to a reduction in cash used in working capital and an increase in net income, partially offset by a reduction in the provision for deferred income taxes and an increase in our excess tax benefits from stock-based compensation. We expect that cash provided by operating activities will increase as a result of an expected increase in cash collections related to anticipated higher revenues, partially offset by an anticipated increase in operating expenses that requires cash outlays such as salaries and higher commissions.

Net cash used in investing activities was $74.5 million for the three months ended March 31, 2011, compared to $80.2 million for the three months ended March 31, 2010. Cash used in investing activities for the three months ended March 31, 2011 reflects purchases of short- and long-term marketable securities of $275.6 million, and purchases of property and equipment of $46.2 million, including $10.6 million related to the capitalization of internal-use software development costs. Amounts attributable to these purchases and investments were offset, in part, by proceeds from sales and maturities of short- and long-term marketable securities of $247.3 million. Cash used in investing activities for the three months ended March 31, 2010 reflects purchases of short- and long-term marketable securities of $232.1 million, purchases of property and equipment of $35.2 million, including $7.0 million related to the capitalization of internal-use software development costs and an increase in other investments of $0.5 million. Amounts attributable to these purchases and investments were offset, in part, by proceeds from sales and maturities of marketable securities of $187.6 million. For fiscal year 2011, we expect total capital expenditures, a component of cash used in investing activities, to be approximately 16% of total revenues for the year, which reflects our plan to continue expansion of our network capacity to meet expected future traffic growth. We expect to fund such capital expenditures through cash generated from operations.

Net cash used in financing activities was $30.7 million for the three months ended March 31, 2011, as compared to $15.0 million in net cash used in financing activities for the three months ended March 31, 2010. Cash used in financing activities during the three months ended March 31, 2011 consisted of $43.7 million related to a common stock repurchase program we initiated in April 2009 and extended in April 2010, as described more fully below. This was offset by cash provided by financing activities for the three months ended March 31, 2011 of $9.0 million related to excess tax benefits resulting from the exercise of stock options and vesting of RSUs and proceeds of $4.0 million from the issuance of common stock upon exercises of stock options under our stock option plans. Cash used in financing activities during the three months ended March 31, 2010 consisted of $22.2 million related to our common stock repurchase program. This was offset by cash provided by financing activities during the three months ended March 31, 2010 of $3.2 million related to excess tax benefits resulting from the exercise of stock options and vesting of RSUs and proceeds of $4.0 million from the issuance of common stock upon exercises of stock options under our stock option plans.

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

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

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010
Cash, cash equivalents and marketable securities balance as of December 31, 2010 and 2009, respectively	$ 1,243.4	$ 1,061.5
Changes in cash, cash equivalents and marketable securities:		
Receipts from customers	291.1	250.7
Payments to vendors	(154.4)	(131.0)
Payments for employee payroll	(93.1)	(70.0)
Stock option exercises	4.0	4.0
Cash used in business acquisition	(0.2)	
Common stock repurchases	(43.7)	(22.2)
Realized and unrealized gains on marketable investments and other investment-related assets, net	1.1	0.1
Interest income	3.0	3.3
Other	6.0	
Net increase	13.8	34.9
Cash, cash equivalents and marketable securities balance as of March 31, 2011 and 2010, respectively	$ 1,257.2	$ 1,096.4

On April 29, 2009, we announced that our Board of Directors had authorized a one-year stock repurchase program permitting purchases of up to $100.0 million of our common stock from time to time on the open market or in privately-negotiated transactions. In April 2010, the Board of Directors authorized a $150.0 million, one-year extension of such stock repurchase program. During the three months ended March 31, 2011, we repurchased 1.0 million shares of common stock for an aggregate of $42.8 million at an average price of $41.60 per share. During the three months ended March 31, 2010, we repurchased $0.8 million shares of common stock for an aggregate of $21.9 million at an average price of $26.26 per share. In April 2011, the Board of Directors authorized a second, one-year $150.0 million extension of such stock repurchase program which began in May 2011; unused amounts from the prior year s authorization may not be carried over to this new extension. The timing and amount of any future share repurchases will be determined by our management based on its evaluation of market conditions and other factors. We may choose to suspend or discontinue the repurchase program at any time. Any purchases made under the program will be reflected as an increase in cash used in financing activities. See Item 2 of Part II of this quarterly report on Form 10-Q for more detailed information about our repurchases.

We believe, based on our present business plan, that our current cash, cash equivalents and marketable securities and forecasted cash flows from operations will be sufficient to meet our cash needs for working capital and capital expenditures for at least the next 24 months. If the assumptions underlying our business plan regarding future revenue and expenses change, if we are unable to liquidate our marketable securities, or if unexpected opportunities or needs arise, we may seek to raise additional cash by selling equity or debt securities. We may not, however, be able to sell equity or debt securities on terms we consider reasonable, or at all. If additional funds are raised through the issuance of equity or debt securities, these securities could have rights, preferences and privileges senior to those accruing to holders of common stock, and the terms of any such debt could impose restrictions on our operations. The sale of additional equity or convertible debt securities could result in additional dilution to our existing stockholders. See Risk Factors elsewhere in this quarterly report on Form 10-Q for a discussion of additional factors that could affect our liquidity.

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Contractual Obligations, Contingent Liabilities and Commercial Commitments

The following table presents our contractual obligations and commercial commitments, as of March 31, 2011, for the next five years and thereafter (in millions):

Contractual Obligations		Payments Due by Period			
as of March 31, 2011	Total	Less than 12 Months	12-36 Months	36-60 Months	More than 60 Months
Bandwidth and co-location agreements	$ 80.6	$ 72.5	$ 8.1	$	$
Real estate operating leases	158.8	25.6	62.7	32.5	38.0
Open vendor purchase orders	81.6	81.6			
Total	$ 321.0	$ 179.7	$ 70.8	$ 32.5	$ 38.0

In accordance with authoritative guidance issued by the Financial Accounting Standards Board, or FASB, as of March 31, 2011, we had unrecognized tax benefits of $16.1 million, which included approximately $4.5 million of accrued interest and penalties. We do not expect to recognize any of these tax benefits in 2011. We are not, however, able to provide a reasonably reliable estimate of the timing of future payments relating to these unrecognized tax benefits and related obligations.

Letters of Credit

As of March 31, 2011, we had $5.1 million in outstanding irrevocable letters of credit in favor of third-party beneficiaries, primarily related to facility leases. Approximately $0.1 million of these letters of credit are collateralized by restricted marketable securities, of which $51,000 are classified as short-term marketable securities and $45,000 are classified as long-term marketable securities on the consolidated balance sheet at March 31, 2011. The restrictions on these marketable securities lapse as we fulfill our obligations or as such obligations expire as provided by the letters of credit. These restrictions are expected to lapse through August 2014. The remaining $5.0 million of irrevocable letters of credit are unsecured and are expected to remain in effect until December 2019.

Off-Balance Sheet Arrangements

We have entered into indemnification agreements with third parties, including vendors, customers, landlords, our officers and directors, shareholders of acquired companies, joint venture partners and third parties to which we license technology. Generally, these indemnification agreements require us to reimburse losses suffered by a third party due to various events, such as lawsuits arising from patent or copyright infringement or our negligence. These indemnification obligations are considered off-balance sheet arrangements in accordance with the authoritative guidance for guarantor s accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others. See also Note 11 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2010 for further discussion of these indemnification agreements. The fair value of guarantees issued or modified during the three months ended March 31, 2011 was determined to be immaterial.

As of March 31, 2011, we did not have any additional material off-balance sheet arrangements.

Litigation

We are party to litigation that we consider to be routine and incidental to our business and certain non-routine legal proceedings. Management does not expect the results of any of these routine actions to have a material impact on our financial condition or results of operations. See Legal Proceedings in Item 1 of Part II of this quarterly report on Form 10-Q and Note 14 to our unaudited consolidated financial statements elsewhere in this quarterly report on Form 10-Q for further discussion on litigation, including any developments related to material non-routine proceedings that have arisen since the filing of our annual report on Form 10-K.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Our exposure to market risk for changes in interest rates relates primarily to our debt and investment portfolio. In our investment portfolio, we do not use derivative financial instruments. We place our investments with high-quality issuers and, by policy, limit the amount of risk by investing primarily in money market funds, U.S. Treasury obligations, high-quality corporate and municipal obligations and certificates of deposit. Our investment policy also limits the amount of our credit exposure to any one issue or issuer and seeks to manage these assets to achieve our goals of preserving principal, maintaining adequate liquidity at all times and maximizing returns subject to our investment policy.

At March 31, 2011, we held $136.8 million in par value of ARS that have experienced failed auctions, which has prevented us from liquidating those investments. Due to these liquidity issues, we used a discounted cash flow analysis to determine the estimated fair value of these ARS investments. Such analysis considered the timing of expected future successful auctions, the impact of extended periods of maximum interest rates, collateralization of underlying security investments and the creditworthiness of the issuer. The discounted cash flow analysis as of March 31, 2011 assumed a weighted average discount rate of 2.96% and expected term of five years. The discount rate was determined using a proxy based upon the current market rates for recent debt offerings. The expected term was based on management s estimate of future liquidity. As a result, as of March 31, 2011, we have estimated an aggregate loss of $12.3 million, related to the impairment of ARS deemed to be temporary and included in accumulated other comprehensive income (loss) within stockholders equity. The impact for the three months ended March 31, 2011 was a pre-tax gain of $1.3 million, included in accumulated other comprehensive loss within stockholders equity related to ARS having impairments deemed to be temporary. The aggregate gain in the fair value of ARS experienced in the three months ended March 31, 2011 was primarily due to redemption of $14.1 million at par value of ARS during the three months ended March 31, 2011.

Our valuation of the ARS is sensitive to market conditions and management s judgment and could change significantly based on the assumptions used. If, as of March 31, 2011, we assumed an expected term of three years or seven years and discount rate of 2.96% the gross unrealized loss on the $136.8 million in par value of ARS classified as available-for-sale would have been $7.5 million or $16.9 million, respectively. If we had assumed an expected term of five years and discount rate of 1.96% or 3.96%, the gross unrealized loss on the $136.8 million in par value of ARS classified as available-for-sale would have been $6.0 million or $18.2 million, respectively.

We have operations in Europe, Asia, Australia and India. As a result, we are exposed to fluctuations in foreign exchange rates. Additionally, we may continue to expand our operations globally and sell to customers in foreign locations, which may increase our exposure to foreign exchange fluctuations. We do not have any foreign currency hedge contracts.

Concentrations of credit risk with respect to accounts receivable are limited to certain customers to which we make substantial sales. Our customer base consists of a large number of geographically dispersed customers diversified across numerous industries. To reduce risk, we routinely assess the financial strength of our customers. Based on such assessments, we believe that our accounts receivable credit risk exposure is limited. As of March 31, 2011, no customer had an account receivable balance greater than 10% of accounts receivable. As of December 31, 2010, one customer had an account receivable balance greater than 10% of accounts receivable. We believe that, at March 31, 2011, concentration of credit risk related to accounts receivable is not significant.

Item 4. *Controls and Procedures*

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2011. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2011, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

See Item 3 of part I of our annual report on Form 10-K for the year ended December 31, 2010 for a discussion of legal proceedings. There were no material developments in such legal proceedings during the quarter ended March 31, 2011.

Item 1A. ***Risk Factors***

The following are certain of the important factors, among others, that could cause our actual operating results to differ materially from those indicated or suggested by forward-looking statements made in this quarterly report on Form 10-Q or presented elsewhere by management from time to time. We have not made any material changes in the risk factors previously disclosed in our annual report on Form 10-K for the year ended December 31, 2010.

The markets in which we operate are highly competitive, and we may be unable to compete successfully against new entrants with innovative approaches and established companies with greater resources.

We compete in markets that are intensely competitive, highly fragmented and rapidly changing. We have experienced and expect to continue to experience increased competition. As we expand into new areas to address the evolving nature of the Internet, we may face competition from new and different companies. Many of these potential competitors, as well as some of our current ones, have longer operating histories, greater name recognition, broader customer relationships and substantially greater financial, technical and marketing resources than we do. Other competitors may attract customers by offering less-sophisticated versions of services than we provide at lower prices than those we charge. Given the relative ease with which some customers can potentially switch to another content delivery network provider, any differentiated offerings or lower pricing by competitors could lead to a rapid loss of customers. More nimble competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. In addition, current or potential competitors may bundle their offerings with other services, software or hardware in a manner that may discourage website owners from purchasing any service we offer.

Potential customers may decide to purchase or develop their own hardware, software and other technology solutions rather than rely on an external provider like Akamai. As a result, our competitors include hardware manufacturers, software companies and other entities that offer Internet-related solutions that are not service-based. It is an important component of our growth strategy to educate enterprises and government agencies about our services and to convince them to entrust their content and applications to an external service provider, and Akamai in particular. If we are unsuccessful in such efforts, our business could suffer.

Ultimately, increased competition of all types could result in price and revenue reductions, lower gross margins, loss of customers and loss of market share, which could materially and adversely affect our business, financial condition and results of operations.

If we are unable to continue to innovate and respond to emerging technological trends and customers changing needs, our operating results may suffer.

The market for our services is characterized by rapidly changing technology, evolving industry standards and new product and service introductions. For example, individuals are increasingly using mobile devices to access Internet content. Our ability to provide new and innovative solutions to address challenges posed by mobile users and other developments is important to our future growth; other companies are also looking to offer Internet-related solutions, such as cloud computing, to generate growth. These other companies may develop technological or business model innovations in the markets we seek to address that are, or are perceived to be, equivalent or superior to our services. In addition, our customers business models may change in ways that we do not anticipate and these changes could reduce or eliminate our customers needs for our services. Our operating results depend on our ability to adapt to market changes and develop and introduce new services into existing and emerging markets. The process of developing new technologies is complex and uncertain; we must commit significant resources to developing new services or enhancements to our existing services before knowing whether our investments will result in services with sufficient demand to justify the investment or that the market will accept. Furthermore, we may not execute successfully our technology initiatives because of errors in planning or timing, technical hurdles that we fail to overcome in a timely fashion, misunderstandings about market demand or a lack of appropriate resources.

Prices we have been charging for some of our services have declined in recent years. This decline may continue in the future as a result of, among other things, existing and new competition in the markets we serve.

In recent quarters, we have lowered the prices we charge many of our customers for our content delivery services in order to remain competitive. This has been particularly true for the digital media services. Consequently, our historical revenue rates may not be indicative of future revenues based on comparable traffic volumes. In addition, our operating expenses have increased on an absolute basis in each of 2008, 2009 and 2010. If we are unable to sell our services at acceptable prices relative to our costs or if we are unsuccessful with our strategy of selling additional services and features to new or existing content delivery customers, our revenues and gross margins will decrease, and our business and financial results will suffer.

Failure to increase our revenues and keep our expenses consistent with revenues could prevent us from maintaining profitability at recent levels or at all.

Our revenue growth rate may decline in 2011 as a result of a number of factors including increasing competition, the inevitable decline in growth rates as our revenues increase to higher levels and macroeconomic factors affecting certain aspects of our business. We also believe our gross margins will decrease because we have large fixed expenses and expect to continue to incur significant bandwidth, co-location and other expenses, including increased depreciation on network equipment purchased in recent years. As a result, we may not be able to continue to maintain our current level of profitability in 2011 or on a quarterly or annual basis thereafter.

There are numerous factors that could, alone or in combination with other factors, impede our ability to increase revenues and/or moderate expenses, including:

market pressure to decrease our prices;

significant increases in bandwidth costs or other operating expenses;

failure to increase sales of our core services;

increased competition;

any failure of our current and planned services and software to operate as expected;

loss of any significant customers or loss of existing customers at a rate greater than we increase our number of, and sales to, new customers or our sales to existing customers;

unauthorized use of or access to content delivered over our network or network failures;

the exhaustion of the supply of IPv4 addresses and the inability of Akamai or other Internet users to transition successfully or in a timely manner to IPv6;

failure of a significant number of customers to pay our fees on a timely basis or at all or failure to continue to purchase our services in accordance with their contractual commitments; and

inability to attract high-quality customers to purchase and implement our current and planned services.

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

Our business has been and could continue to be affected by general global economic and market conditions. Weakness in the United States and/or worldwide economy has had and could continue to have a negative effect on our operating results, including decreases in revenues and operating cash flows. In particular, weakness in the online advertising market has affected and could continue to affect the success of our Internet advertising-related initiatives and could have a negative impact on our media and other customers. To the extent customers are unable to profitably monetize the content we deliver on their behalf, they may reduce or eliminate the traffic we deliver on their behalf. Such reductions in traffic would lead to a reduction in our revenues. Additionally, in a down-cycle economic environment, we may experience the negative effects of increased competitive pricing pressure, customer loss, slow down in commerce over the Internet and corresponding decrease in traffic delivered over our network and failures by customers to pay amounts owed to us on a timely basis or at all. Suppliers on which we rely for servers, bandwidth, co-location and other services could also be negatively impacted by economic conditions that, in turn, could have a negative impact on our operations or expenses. There can be no assurance, therefore, that worsening economic conditions or a prolonged or recurring recession will not have a significant adverse impact on our operating results.

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

We have continued to grow, diversify and evolve our business both in the United States and internationally. It is unclear, however, whether such growth will continue. In the event of a slowing or decline in our rate of growth, we must also address the challenges of establishing an appropriate organizational size and structure while maintaining the quality of our services. If we are unable to do so, our profitability could be reduced.

As a result of the diversification of our business, personnel growth, acquisitions and international expansion in recent years, many of our employees are now based outside of our Cambridge, Massachusetts, headquarters. However, nearly all management decisions are made by a relatively small group of individuals based primarily at our headquarters. If we are unable to appropriately increase management depth and decentralize our decision making at rates commensurate with our actual or desired growth rates, we may not be able to achieve our financial or operational goals. In addition, if we are unable to effectively manage a large and geographically dispersed group of employees, our business may be adversely affected.

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

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

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

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

Our business is dependent on providing our customers with fast, efficient and reliable distribution of applications and content over the Internet. For our core services, we currently provide a standard guarantee that our networks will deliver Internet content 24 hours a day, 7 days a week, 365 days a year. If we do not meet this standard, affected customers will be entitled to credits. Our network or services could be disrupted by numerous events, including natural disasters, unauthorized access to our servers, failure or refusal of our third-party network providers to provide the necessary capacity, power losses and intentional disruptions of our services, such as disruptions caused by software viruses or attacks by unauthorized users. In addition, there have been and in the future may be attempts to gain unauthorized access to our information technology systems in order to steal information about our technology, financial data or other information or take other actions that would be damaging to us. Although we have taken steps to prevent such disruptions and security breaches, there can be no assurance that attacks by unauthorized users will not be attempted in the future, that our security measures will be effective, or that a successful attack would not be damaging. Any widespread interruption of the functioning of our network or services would reduce our revenues and could harm our business, financial results and reputation. Any successful breach of the security of our information systems could lead to the unauthorized release of valuable confidential information, including trade secrets, material nonpublic information about our financial condition and sensitive data that others could use to compete against us. Such consequences would likely harm our business and reputation.

We may have insufficient transmission and server capacity, which could result in interruptions in our services and loss of revenues.

Our operations are dependent in part upon transmission capacity provided by third-party telecommunications network providers. In addition, our distributed network must be sufficiently robust to handle all of our customers traffic particularly in the event of unexpected surges in HD video traffic. We believe that, absent extraordinary circumstances, we have access to adequate capacity to provide our services; however, there can be no assurance that we are adequately prepared for unexpected increases in bandwidth demands by our customers. The bandwidth we have contracted to purchase may become unavailable for a variety of reasons, including payment disputes or network providers going out of business. Any failure of these network providers to provide the capacity we require, due to financial or other reasons, may result in a reduction in, or interruption of, service to our customers and ultimately loss of those customers. If we are unable to obtain transmission capacity on terms commercially acceptable to us or at all, our business and financial results could suffer. In recent years, it has become increasingly expensive to collocate, or house, our servers at network facilities. We expect this trend to continue. These increased expenses have made, and will make, it more costly for us to expand our operations and more difficult for us to maintain or improve our gross margins. If we are unable to deploy on a timely and cost-effective basis enough servers to meet the needs of our customer base or effectively manage the functioning of those servers, we may lose customers. In addition, damage or destruction of, or other denial of access to, a facility where our servers are housed could result in a reduction in, or interruption of, service to our customers.

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

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

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

We have completed numerous acquisitions in recent years. If attractive acquisition opportunities arise in the future, we may seek to enter into additional business combinations or purchases. Acquisitions and combinations are accompanied by a number of risks, including the difficulty of integrating the operations and personnel of the acquired companies, the potential disruption of our ongoing business, the potential distraction of management, expenses related to the acquisition and potential unknown liabilities associated with acquired businesses. Any inability to integrate completed acquisitions or combinations in an efficient and timely manner could have an adverse impact on our results of operations. In addition, we may not be able to recognize any expected synergies or benefits in connection with a future acquisition or combination. If we are not successful in completing acquisitions or combinations that we may pursue in the future, we may incur substantial expenses and devote significant management time and resources without a successful result. In addition, future acquisitions could require use of substantial portions of our available cash or result in dilutive issuances of securities. We may also enter into other types of strategic relationships that involve technology sharing or close cooperation with other companies. Such relationships can be distracting to management and require the investment of significant amounts of money without a guaranteed return on investment or realization of significant, or any, benefits.

Our stock price has been volatile.

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

- quarterly variations in operating results and announcements of innovations;
- introduction of new products, services and strategic developments by us or our competitors;
- business combinations and investments by us or our competitors;
- variations in our revenue, expenses or profitability;
- market speculation about whether we are a takeover target;
- changes in financial estimates and recommendations by securities analysts;
- failure to meet the expectations of public market analysts;

disruptions to our services or unauthorized access to our information technology systems;

unfavorable media coverage;

macro-economic factors;

repurchases of shares of our common stock;

our customers   inability to access equity and credit markets;

performance by other companies in our industry; and

geopolitical conditions such as acts of terrorism or military conflicts.

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

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

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

Future changes in financial accounting standards may adversely affect our reported results of operations.

A change in accounting standards can have a significant effect on our reported results. New accounting pronouncements and interpretations of existing accounting pronouncements have occurred and may occur in the future. These new accounting pronouncements may adversely affect our reported financial results.

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

A portion of our revenues arises from international operations. Revenues generated and expenses incurred by our international subsidiaries are often denominated in the currencies of the local countries. As a result, our consolidated U.S. dollar financial statements are subject to fluctuations due to changes in exchange rates as the financial results of our international subsidiaries are translated from local currencies into U.S. dollars. In addition, our financial results are subject to changes in exchange rates that impact the settlement of transactions in non-local currencies.

A substantial portion of our marketable securities are invested in auction rate securities. Continued failures in the auctions for these securities may affect our liquidity.

We held $136.8 million in par value of auction rate securities, or ARS, as of March 31, 2011, which represented approximately 11% of our total short- and long-term marketable securities of $1.26 billion as of that date. ARS are securities that are structured to allow for short-term interest rate resets but with contractual maturities that can be well in excess of ten years. At the end of each reset period, which typically occurs every seven to 35 days, investors can sell or continue to hold the securities at par. Beginning in February 2008, the majority of ARS in the marketplace, including the ARS that we hold in our portfolio, failed auction due to sell orders exceeding buy orders. Such failures resulted in the interest rate on these ARS resetting to predetermined rates in accordance with the underlying loan agreement, and such predetermined rates might be lower than the current market rate of interest. In the event we need to liquidate our investments in these types of securities including for purposes of funding our operations, we will not be able to do so until a future auction on these investments in which demand equals or exceeds the supply of such securities being offered, the issuer redeems the outstanding securities, a buyer is found outside the auction process, the securities mature or there is a default requiring immediate payment from the issuer. These alternative liquidation measures may require that we sell our ARS at a substantial discount to par value. In the future, should the ARS we hold be subject to prolonged auction failures and we determine that the decline in value of ARS is other-than-temporary, we would recognize a loss in our consolidated statement of operations, which could be material. In addition, any future failed auctions may adversely impact the liquidity of our investments and our ability to fund our operations. Furthermore, if one or more of the issuers of the ARS held in our portfolio are unable to successfully close future auctions and their credit ratings deteriorate, we may be required to adjust the carrying value of these investments through additional impairment charges, which could be material. We may also incur significant legal and related expenses in connection with efforts to require one or more of the investment advisors that sold us ARS to provide liquidity for these securities. There can be no assurance that any such efforts would be successful.

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

Our future success depends upon the continued services of our executive officers and other key technology, sales, marketing and support personnel who have critical industry experience and relationships. There is significant competition for talented individuals in the regions in which our primary offices are located. This affects both our ability to retain key employees and hire new ones. None of our officers or key employees is bound by an employment agreement for any specific term. We compensate our officers and employees in part through equity incentives, including stock options. Some of these stock options held by our officers and employees have exercise prices in excess of the current market price of our common stock, which has diminished the retentive value of such options. The loss of the services of any of our key employees could hinder or delay the implementation of our business model and the development and introduction of, and negatively impact our ability to sell, our services.

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

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

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

cease selling, incorporating or using products or services that incorporate the challenged intellectual property;

pay substantial damages and incur significant litigation expenses;

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

- redesign products or services.

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

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

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

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

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

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

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

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

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

- increased expenses associated with marketing services in foreign countries;
- currency exchange rate fluctuations and limitations on the repatriation and investment of funds;
- unexpected changes in regulatory requirements resulting in unanticipated costs and delays;
- interpretations of laws or regulations that would subject us to regulatory supervision, additional costs, or require us to exit a country, which could have a negative impact on the quality of our services or our results of operations;
- uncertainty regarding liability for content or services;
- adjusting to different employee/employer relationships and different regulations governing such relationships;
- difficulty in staffing, developing and managing foreign operations as a result of distance, language and cultural differences;
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable; and
- potentially adverse tax consequences.

If we are required to seek additional funding, such funding may not be available on acceptable terms or at all.

If we seek to acquire significant businesses or technologies or require more cash to fund our future plans, we may need to obtain funding from outside sources. The current economic environment makes it difficult for companies to obtain financing, particularly raising debt financing or implementing credit facilities. Therefore, we may not be able to raise additional capital, which could limit future actions we may want to take. Even if we were to find outside funding sources, we might be required to issue securities with greater rights than the securities we have outstanding today or issue debt that places restrictions on our future activities. We might also be required to take other actions that could lessen the value of our common stock, including borrowing money on terms that are not favorable to us.

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

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

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

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

Laws and regulations that apply to data flows, communications and commerce over the Internet are becoming more prevalent. In particular, the growth and development of the market for online business has prompted calls for more stringent tax, consumer protection, security, anti-discrimination and privacy laws, both in the United States and abroad, that may impose additional burdens on companies conducting business online or providing Internet-related services such as ours. The adoption of any of these measures could negatively affect both our business directly as well as the businesses of our customers, which could reduce their demand for our services. In addition, domestic and international government attempts to regulate the operation of the Internet could negatively impact our business.

Local tax laws that might apply to our servers, which are located in many different jurisdictions, could require us to pay additional taxes in those jurisdictions, which could adversely affect our continued profitability. We have recorded certain tax reserves to address potential exposures involving our sales and use and franchise tax positions. These potential tax liabilities result from the varying application of statutes, rules, regulations and interpretations by different jurisdictions. Our reserves, however, may not be adequate to cover our total actual liability. As a government contractor, we are also subject to numerous laws and regulations. If we fail to comply with applicable requirements, then we could face penalties, contract terminations and damage to our reputation. We also may be required to devote substantial resources to the development and improvement of procedures to ensure compliance with applicable regulations.

Global climate change could adversely impact our business.

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

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

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

A classified board structure so that only approximately one-third of our board of directors is up for re-election in any one year;

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

Stockholders must provide advance notice to nominate individuals for election to the board of directors or to propose matters that can be acted upon at a stockholders meeting; such provisions may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer s own slate of directors or otherwise attempting to obtain control of our company; and

Our board of directors may issue, without stockholder approval, shares of undesignated preferred stock; the ability to issue undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

In addition, our Board of Directors has adopted a stockholder rights plan the provisions of which could make it more difficult for a potential acquirer of Akamai to consummate an acquisition transaction without the approval of our Board of Directors. Further, as a Delaware corporation, we are also subject to certain Delaware anti-takeover provisions. Under Delaware law, a corporation may not engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction. Our board of directors could rely on Delaware law to prevent or delay an acquisition of us.

A class action lawsuit has been filed against us and an adverse resolution of such action could have a material adverse effect on our financial condition and results of operations in the period in which the lawsuit is resolved.

We are named as a defendant in a purported class action lawsuit filed in 2001 alleging that the underwriters of our initial public offering received undisclosed compensation in connection with our initial public offering of common stock in violation of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. We are also a nominal defendant in a related lawsuit alleging violations of Section 16 of the Securities Exchange of 1934, as amended, by such underwriters and our officers and directors. See Part I, Item 3 of our annual report on Form 10-K for the year ended December 31, 2010 for more information. Any conclusion of these matters in a manner adverse to us could have a material adverse affect on our financial position and results of operations.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

Issuer Purchases of Equity Securities

Period(1)	(a) Total Number of Shares Purchased(2)	(b) Average Price Paid per Share(3)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(4)	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under Plans or Programs(5)
January 1, 2011 January 31, 2011	250,951	$ 48.54	250,951	$ 79,558,763
February 1, 2011 February 28, 2011	238,700	$ 44.23	238,700	$ 68,999,904
March 1, 2011 March 31, 2011	539,500	$ 37.21	539,500	$ 48,922,541
Total	1,029,151	$ 41.60	1,029,151	

(1) Information is based on settlement dates of repurchase transactions.

(2) Consists of shares of our common stock, par value $0.01 per share. All repurchases were made pursuant to a previously-announced program (see note 4 below). All repurchases were made in open market transactions under the terms of a Rule 10b5-1 plan adopted by us.

(3) Includes commissions paid.

(4) In April 2009, we announced that our Board of Directors had authorized a one-year stock repurchase program for up to $100.0 million of our common stock from time to time on the open market or in privately negotiated transactions. In addition, in April 2010, the Board of Directors approved a $150.0 million one-year extension of the stock repurchase program. See Note 8 to our unaudited consolidated financial statements included elsewhere in this quarterly report on Form 10-Q.

(5) Dollar amounts represented reflect $250.0 million minus the total aggregate amount purchased in such month and all prior months during which the repurchase program was in effect and aggregate commissions paid in connection therewith.

Item 6. ***Exhibits***

The exhibits filed as part of this quarterly report on Form 10-Q are listed in the exhibit index immediately preceding the exhibits and are incorporated herein.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Akamai Technologies, Inc.	
May 10, 2011	By:	/s/ J. Donald Sherman **J. Donald Sherman** **Chief Financial Officer**

(Duly Authorized Officer, Principal Financial Officer)

EXHIBIT INDEX

Exhibit 31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/ Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/ Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
Exhibit 32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document.**
101.SCH	XBRL Taxonomy Extension Schema Document.**
101.CAL	XBRL Taxonomy Calculation Linkbase Document.**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.**
101.LAB	XBRL Taxonomy Label Linkbase Document.**
101.PRE	XBRL Taxonomy Presentation Linkbase Document.**

** submitted electronically herewith

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations for the three months ended March 31, 2011 and March 31, 2010, (ii) Condensed Consolidated Balance Sheets at March 31, 2011 and December 31, 2010, (iii) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and September 30, 2010 and (iv) Notes to Condensed Consolidated Financial Statements.

In accordance with Rule 406T of Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, is deemed not filed for purposes of section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.