Carbonite Inc
Form 10-Q
August 03, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

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

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

Two Avenue de Lafayette, Boston, Massachusetts 02111
(Address of principal executive offices, including ZIP code)
(617) 587-1100
(Registrant’s telephone number, including area code)

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 ý 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 ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	ý
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	¨
Emerging growth company	o		

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

Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of July 31, 2018, there were 33,613,857 shares of the registrant’s Common Stock, par value $0.01 per share, outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
Carbonite, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

	June 30, 2018	December 31, 2017
	(in thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 70,982	$ 128,231
Trade accounts receivable, less allowances for doubtful accounts of $1,617 and $994	32,078	22,219
Prepaid expenses and other current assets	10,620	6,823
Total current assets	113,680	157,273
Property and equipment, net	36,587	28,790
Other assets	12,337	804
Acquired intangible assets, net	134,770	44,994
Goodwill	155,341	80,958
Total assets	$ 452,715	$ 312,819
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,820	$ 10,842
Accrued compensation	9,989	9,892
Accrued expenses and other current liabilities	18,922	11,783
Current portion of deferred revenue	121,032	100,241
Total current liabilities	155,763	132,758
Long-term debt	194,992	111,819
Deferred revenue, net of current portion	27,682	24,273
Other long-term liabilities	5,876	5,704
Total liabilities	384,313	274,554
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, $0.01 par value; 6,000,000 shares authorized; no shares issued	—	—
Common stock, $0.01 par value; 45,000,000 shares authorized; 30,770,414 shares issued and 28,839,379 shares outstanding at June 30, 2018; 30,130,856 shares issued and 28,182,094 shares outstanding at December 31, 2017	308	301
Additional paid-in capital	243,077	233,343
Treasury stock, at cost (1,931,035 and 1,948,762 shares as of June 30, 2018 and December 31, 2017, respectively)	(26,867)	(26,616)
Accumulated other comprehensive income	1,091	581
Accumulated deficit	(149,207)	(169,344)
Total stockholders' equity	68,402	38,265
Total liabilities and stockholders' equity	$ 452,715	$ 312,819

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands, except share and per share amounts)			
Revenue:				
Services	$68,814	$ 51,050	$123,388	$101,165
Product	8,920	7,984	18,372	14,968
Total revenue	77,734	59,034	141,760	116,133
Cost of revenue:				
Services	18,358	$ 15,266	33,688	$30,549
Product	374	921	931	1,367
Amortization of intangible assets	4,325	2,124	6,750	3,750
Total cost of revenue	23,057	18,311	41,369	35,666
Gross profit	54,677	40,723	100,391	80,467
Operating expenses:				
Research and development	15,719	10,927	28,238	21,254
General and administrative	13,460	10,954	27,920	23,723
Sales and marketing	22,086	22,963	41,946	46,034
Amortization of intangible assets	3,652	532	4,591	982
Restructuring charges	41	—	903	—
Total operating expenses	54,958	45,376	103,598	91,993
Loss from operations	(281)	(4,653)	(3,207)	(11,526)
Interest expense	(3,420)	(2,373)	(6,021)	(2,595)
Interest income	169	134	413	154
Other income (expense), net	183	915	195	1,195
Loss before income taxes	(3,349)	(5,977)	(8,620)	(12,772)
Provision (benefit) for income taxes	2,338	403	(14,877)	(13,987)
Net (loss) income	$(5,687)	$ (6,380)	$6,257	$1,215
Net (loss) income per common share:				
Basic	$(0.20)	$ (0.23)	$0.22	$0.04
Diluted	$(0.20)	$ (0.23)	$0.20	$0.04
Weighted-average number of common share outstanding:				
Basic	28,628,173	27,525,647	28,485,695	27,672,804
Diluted	28,628,173	27,525,647	30,885,633	28,354,616

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Net (loss) income	$(5,687)	$(6,380)	$6,257	$1,215
Other comprehensive income (loss):				
Foreign currency translation adjustments	1,149	(1,423)	510	(1,667)
Total other comprehensive income (loss)	1,149	(1,423)	510	(1,667)
Total comprehensive (loss) income	$(4,538)	$(7,803)	$6,767	$(452)

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

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

	Six Months Ended June 30, 2018	2017
	(in thousands)	
Operating activities		
Net income	$6,257	$1,215
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,763	10,392
Amortization of deferred costs	931	—
Gain on disposal of equipment	(141)	(928)
Impairment of capitalized software	653	—
Stock-based compensation expense	8,478	5,965
Benefit for deferred income taxes	(16,317)	(14,964)
Non-cash interest expense related to amortization of debt discount	3,101	1,466
Other non-cash items, net	64	(249)
Changes in assets and liabilities:		
Accounts receivable	(6,437)	(89)
Prepaid expenses and other current assets	(1,541)	(193)
Other assets	(3,771)	(137)
Accounts payable	(3,895)	627
Accrued expenses and other current liabilities	2,549	(2,340)
Other long-term liabilities	53	120
Deferred revenue	9,099	9,548
Net cash provided by operating activities	16,846	10,433
Investing activities		
Purchases of property and equipment	(7,795)	(10,039)
Proceeds from sale of property and equipment and businesses	534	855
Proceeds from maturities of derivatives	1,680	370
Purchases of derivatives	(1,403)	(2,433)
Payment for intangibles	(1,250)	—
Payment for acquisition, net of cash acquired	(144,597)	(60,198)
Net cash used in investing activities	(152,831)	(71,445)
Financing activities		
Proceeds from exercise of stock options	942	3,337
Proceeds from issuance of treasury stock under employee stock purchase plan	1,215	—
Payments of withholding taxes in connection with restricted stock unit vesting	(1,184)	(1,009)
Proceeds from long-term borrowings, net of debt issuance costs	88,068	177,797
Payments on long-term borrowings	(10,000)	(39,200)
Repurchase of common stock	—	(14,964)
Net cash provided by financing activities	79,041	125,961
Effect of currency exchange rate changes on cash	(305)	863
Net (decrease) increase in cash, cash equivalents and restricted cash	(57,249)	65,812
Cash, cash equivalents and restricted cash, beginning of period	128,231	59,287
Cash, cash equivalents and restricted cash, end of period	$70,982	$125,099

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

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

Supplemental disclosure of cash flow information		
Cash paid for income taxes	$524	$616
Supplemental disclosure of non-cash investing and financing activities:		
Capitalization of stock-based compensation	$39	$112
Acquisition of property and equipment included in accounts payable and accrued expenses	$(5)	$(1,050)
Issuance of common stock for acquisition	$—	$5,733
Accrued payment for intangibles	$4,500	$—

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

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

1. Nature of Business

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

2. Basis of Presentation

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

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

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

Reclassifications

The Company has reclassified certain prior period amounts in its condensed consolidated statements of cash flows to conform to the current period presentation. The reclassification relates to separately presenting the benefit for deferred income taxes, which was previously included in the change in other long-term liabilities caption. For the six months ended June 30, 2017, the Company reclassified $15.0 million into the benefit for deferred income taxes caption. Additionally, the Company adopted Accounting Standard Updated ("ASU") 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (“ASU 2016-18”), effective January 1, 2018, which is applied retrospectively by reclassifying restricted cash to be presented with cash and cash equivalents on the condensed consolidated statement of cash flows.

The Company has reclassified certain prior period amounts in its condensed consolidated statements of operations to conform to the current period presentation. The reclassification relates to separately presenting amortization of intangible assets previously included within general and administrative and sales and marketing. For the three months ended June 30, 2017, the Company reclassified $0.1 million from general and administrative and $0.4 million from sales and marketing into the amortization of intangible assets caption within operating expenses. For the six months ended June 30, 2017, the Company reclassified $0.2 million from general and administrative and $0.8 million from sales and marketing into the amortization of intangible assets caption within operating expenses.

The Company has reclassified certain prior period amounts in its condensed consolidated balance sheets to conform to the current period presentation. The reclassification relates to separately presenting accrued compensation which was previously included in the accrued expenses and other current liabilities caption. As of December 31, 2017, the Company reclassified $9.9 million from accrued expenses and other current liabilities into the accrued compensation caption.

Recently Adopted Accounting Standards

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

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) ("Topic 606"), which updated guidance and disclosure requirements for recognizing revenue. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The revenue standard is based on the principle that revenue should be recognized to depict the transfer of promised

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

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

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

Cash and cash equivalents subject to contractual restrictions and not readily available for use are classified as restricted cash. As of December 31, 2016, the restricted cash balance of $0.1 million related to a security deposit maintained for certain office space that was subleased to third parties. As of June 30, 2018 and December 31, 2017, the Company did not have a restricted cash balance reported within the condensed consolidated balance sheets.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize the assets and liabilities on their balance sheet for the rights and obligations created by most leases and continue to recognize expenses on their income statements over the lease term. It will also require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. The guidance is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the effect of the standard on its consolidated financial statements, and expects that upon adoption a significant lease obligation and right to use asset will be recognized. Refer to Note 12 - Commitments and Contingencies for additional information related to the Company’s lease obligations.

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

In June 2018, the FASB issued ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting. The standard requires entities to apply the requirements of Topic 718 to share-based payment transactions for acquiring goods and services from nonemployees. This amendment is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity’s adoption date of Topic 606. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

3. Revenue Recognition

On January 1, 2018, the Company adopted Topic 606 applying the modified retrospective method to all contracts that were not completed as of January 1, 2018. Where applicable, the Company utilized the practical expedient and reflected the aggregate effect of all contract modifications that occurred prior to adoption as they related to performance obligations (both satisfied and remaining) and determination and allocation of the transaction price. Under the modified retrospective method, results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the applicable accounting in effect for those periods.

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The adoption of the Topic 606 did not significantly impact the majority of the Company's offerings. Under the new guidance, the Company's revenue recognition associated with term licenses and software contracts with a minimum monthly royalty commitment is accelerated. Further, the Company has begun capitalizing certain incremental costs incurred in obtaining contracts with customers as an asset on the condensed consolidated balance sheets. These costs were previously expensed in the period they were incurred. The Company recorded a $13.9 million increase to retained earnings as of January 1, 2018, due to the cumulative impact of adopting Topic 606 on revenue from contracts with customers. Upon adoption, trade accounts receivable, net increased $2.2 million and deferred revenue decreased $4.0 million. Prepaid expenses and other current assets increased $1.5 million and other assets increased by $6.6 million primarily related to the capitalization of sales commissions. Deferred tax liabilities increased by $0.4 million due to temporary differences between the accounting and tax carrying values of the capitalized commissions. The impact of adopting Topic 606 to revenues for the three month and six month periods ended June 30, 2018 was an increase of $0.7 million and $1.5 million, respectively.

Changes in Accounting Policies as a result of adopting Topic 606

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

Under Topic 606, the Company recognizes revenue following a five step model, as outlined below:

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

Identifying the Contract

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

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

Performance Obligations and Timing of Revenue Recognition

Service Revenue

The Company offers “Software-as-a-Service” ("SaaS") and "Hardware-as-a-Service" ("HaaS") offerings. Most notably, the Company offers the customer the right to access its software through its SaaS offering, where the Company hosts the software and the customer is granted access via the web. Control of the software does not transfer in these types of arrangements and is therefore not considered a distinct performance obligation. Revenues related to the SaaS offerings are recorded over the performance period of the service. HaaS arrangements are accounted for under the guidance provided in ASC 840, Leases.

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

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

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

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Product Revenue

The Company sells different types of on-premise data protection and migration software, licensed on a term or perpetual basis, and as royalty arrangements. License arrangements generally include maintenance and support services, but the software is fully functional upon delivery and is considered to be a distinct performance obligation. Revenues from product licenses are recorded when control of the product has been transferred to the customer.

The Company also offers hardware on a standalone basis or in conjunction with the Company’s software. Hardware sales are recorded as revenue when control is transferred to the customer.

Determining the Transaction Price

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

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

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

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

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

Allocating the Transaction Price

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

Product licenses - Product licenses are not sold on a standalone basis. The Company establishes the SSP of product licenses using a residual approach after first establishing the SSP of the associated maintenance and support. Maintenance and support is sold on a standalone basis as annual renewals, and because an economic relationship exists between product licenses and maintenance and support, the Company has concluded that the residual method to estimate the SSP of product licenses sold on both a perpetual and term basis is an appropriate allocation of the transaction price.

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

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

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Disaggregation of Revenue

The following table depicts disaggregated revenue for the three and six months ended June 30, 2018, by type, customer type, sales channel, timing of revenue recognition, and geography (in thousands):

	Three months ended June 30, 2018			Six months ended June 30, 2018		
	Products	Services	Total	Products	Services	Total
Customer type						
Consumer	$(6)	$23,997	$23,991	$—	$44,940	$44,940
Business	8,926	44,817	53,743	18,372	78,448	96,820
Total	$8,920	$68,814	$77,734	$18,372	$123,388	$141,760
Sales channel						
Direct	$1,038	$45,995	$47,033	$2,081	$83,876	$85,957
Indirect	7,882	22,819	30,701	16,291	39,512	55,803
Total	$8,920	$68,814	$77,734	$18,372	$123,388	$141,760
Timing of revenue recognition						
Transferred at a point in time	$8,920	$—	$8,920	$18,372	$—	$18,372
Transferred over time	—	68,814	68,814	—	123,388	123,388
Total	$8,920	$68,814	$77,734	$18,372	$123,388	$141,760
Geography						
United States	$3,644	$61,013	$64,657	$8,294	$110,010	$118,304
Other	5,276	7,801	13,077	10,078	13,378	23,456
Total	$8,920	$68,814	$77,734	$18,372	$123,388	$141,760

Contract Assets and Liabilities

Contract assets are rights to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditional on something other than the passage of time. Contract assets are transferred to accounts receivable once the rights become unconditional. The Company did not have contract assets as of June 30, 2018.

Contract liabilities (deferred revenue) primarily consist of billings and payments received in advance of revenue recognition. The Company primarily bills and collects payments from customers for its services in advance on a monthly and annual basis. The Company initially records fees associated with performance obligations delivered over time as deferred revenue and then recognizes revenue as performance obligations are satisfied. The Company classifies deferred revenue as current or noncurrent based on the timing revenue recognition. Changes in contract liabilities for the six months ended June 30, 2018 are as follows (in thousands):

	Deferred Revenue (Short-term)	Deferred Revenue (Long-term)
Balance as of January 1, 2018	$ 96,243	$ 24,273
Increase, net	24,789	3,409
Balance as of June 30, 2018	$ 121,032	$ 27,682

For the three and six months ended June 30, 2018, revenue recognized related to deferred revenue at January 1, 2018 was approximately $31.4 million and $68.8 million, respectively. Additionally, for the three and six months ended June 30, 2018, the Company recognized $5.5 million and $6.8 million of revenue from deferred revenue related to the acquisition of Mozy, Inc. ("Mozy") on March 19, 2018, respectively.

On June 30, 2018, the Company had $161.8 million of remaining performance obligations. This amount does not include any variable consideration for sales or usage-based royalties. The Company expects to recognize 56.0% percent of its remaining performance obligations as revenue in the year ended December 31, 2018, an additional

44.0% percent for the year ended December 31, 2019 and the balance thereafter.

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Accounts Receivable, Net

Accounts receivable, net, are amounts due from customers where there is an unconditional right to consideration. Unbilled receivables of $3.6 million and $4.8 million are included in this balance at January 1, 2018 and June 30, 2018, respectively. The payment of consideration related to these unbilled receivables is subjected only to the passage of time.

Contract Costs

The Company also considered Topic 606 subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers (“subtopic 340-40”). Prior to adoption of Topic 606, the Company expensed costs to obtain and fulfill contracts with customers as incurred. Under subtopic 340-40, the Company capitalizes incremental costs incurred in obtaining contracts with customers if the amortization period is greater than one year. For costs that the Company would have capitalized and amortized over one year or less, the Company has elected to apply the practical expedient and expense these contract costs as incurred. These costs consist primarily of commissions paid when contracts are signed. For the three and six months ended June 30, 2018, the Company capitalized $2.0 million and $4.1 million in costs to obtain contracts with customers, respectively, which are amortized on a straight-line basis over the period of benefit. The Company has defined the period of benefit to be the average customer life of six years. For the three and six months ended June 30, 2018, the Company had amortization expense of $0.5 million and $0.9 million related to deferred costs, respectively. Amortization expense is included in sales and marketing expense in the condensed consolidated statements of operations. As of June 30, 2018, the Company has $2.2 million and $9.0 million in current and non-current deferred costs of obtaining contracts with customers, respectively.

Financial Statement Impact of Adopting Topic 606

The Company adopted Topic 606 using the modified retrospective method. The cumulative effect of applying the new guidance to all contracts with customers that were not completed as of January 1, 2018 was recorded as an adjustment to accumulated deficit as of the adoption date. The following table summarizes the effects of adopting Topic 606 on the Company's condensed consolidated balance sheet as of June 30, 2018 (in thousands):

	June 30, 2018		
	As reported under Topic 606	Adjustments	Balances under Prior GAAP
Trade accounts receivable, net	$32,078	$ (3,420)	$28,658
Prepaid expenses and other current assets	10,620	(2,185)	8,435
Other assets	12,337	(9,000)	3,337
Accrued expenses and other current liabilities	18,922	(116)	18,806
Current portion of deferred revenue	121,032	2,823	123,855
Deferred revenue, net of current portion	27,682	715	28,397
Other long-term liabilities	5,876	(351)	5,525
Accumulated other comprehensive income	1,091	104	1,195
Accumulated deficit	(149,207)	(17,780)	(166,987)

The following table summarizes the effects of adopting Topic 606 on the Company's condensed consolidated income statement for the three and six months ended June 30, 2018 (in thousands, except per share amounts):

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	As reported under Topic 606	Adjustments	Balances under Prior GAAP	As reported under Topic 606	Adjustments	Balances under Prior GAAP
Revenue	$77,734	$ (729)	$77,005	$141,760	$ (1,450)	$140,310

General and administrative	13,460	—	13,460	27,920	(594)	27,326
Sales and marketing	22,086	1,472	23,558	41,946	3,160	45,106
Provision (benefit) for income taxes	2,338	(110)	2,228	(14,877)	(116)	(14,993)
Net (loss) income	(5,687)	(2,091)	(7,778)	6,257	(3,900)	2,357
Net (loss) income per share - basic	(0.20)	(0.07)	(0.27)	0.22	(0.14)	0.08
Net (loss) income per share - diluted	(0.20)	(0.07)	(0.27)	0.20	(0.12)	0.08

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The adjustment to the general and administrative caption above relates to a sale of assets recorded in the six months ended June 30, 2018. The deferred revenue divested as part of the sale was $0.6 million higher under prior GAAP. This resulted in an adjustment between Topic 606 and prior GAAP related to the $0.6 million change in deferred revenue and gain (loss) on the sale of the assets.

The adoption of ASC 606 did not affect the Company's reported total amounts of cash flows from operating, investing and financing activities in its condensed consolidated statement of cash flows.

Revision of Prior Period Amounts

The Company has revised certain prior period amounts in its condensed consolidated statements of operations. In connection with the Company's adoption of Topic 606, the Company determined that product revenue has historically exceeded 10% of total revenue and therefore should have been previously stated separately from services revenue. The Company has revised to correctly present the services and products components of revenue and cost of revenue in the condensed consolidated statements of operations for the three and six months ended June 30, 2017. The revision also includes presenting as a separate caption within costs of revenue, the amortization of intangible assets, which was previously included in the total cost of revenue. These revisions did not affect reported total revenue, total cost of revenue, loss from operations, net income or net income per share, the Company's cash flows; or any balance sheet line item.

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

	Three months ended June 30, 2017			Six months ended June 30, 2017		
	As Previously Reported	Adjustments	As Revised	As Previously Reported	Adjustments	As Revised
Revenue:						
Services	$ —	$ 51,050	$51,050	$ —	$ 101,165	$101,165
Product	—	7,984	7,984	—	14,968	14,968
Total revenue	59,034	—	59,034	116,133	—	116,133
Cost of revenue:						
Services	—	15,266	15,266	—	30,549	30,549
Product	—	921	921	—	1,367	1,367
Amortization of intangible assets	—	2,124	2,124	—	3,750	3,750
Total cost of revenue	18,311	—	18,311	35,666	—	35,666

4. Net (Loss) Income Per Share

Basic net (loss) income per share is calculated by dividing the net (loss) income by the weighted average number of common shares outstanding during the period. Diluted net (loss) income per share is calculated by dividing net (loss) income by the sum of the weighted average number of common shares and potentially dilutive securities outstanding during the period using the treasury stock method. For the periods in which the Company incurred a net loss, the effect of the Company's outstanding common stock equivalents were not included in the calculation of diluted loss per share as they were anti-dilutive. Accordingly, basic and diluted net loss per share for those periods were identical.

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The following table sets forth the computation of basic and diluted net (loss) income per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands, except per share amounts)			
Numerator:				
Net (loss) income	$(5,687)	$(6,380)	$6,257	$1,215
Denominator:				
Weighted average common shares outstanding, basic	28,628	27,526	28,486	27,673
Effect of potential dilutive common shares	—	—	2,400	682
Weighted average shares outstanding, diluted	28,628	27,526	30,886	28,355
Basic net (loss) income per share	$(0.20)	$(0.23)	$0.22	$0.04
Diluted net (loss) income per share	$(0.20)	$(0.23)	$0.20	$0.04

The Company has the ability and intent to settle the principal of the convertible senior notes (the "Convertible Notes"), issued in April 2017, in cash. As the Company's common stock price exceeded the $25.84 conversion price during the three and six months ended June 30, 2018, the Company has included the dilutive effect of Convertible Notes in the calculation of diluted net income per share as of June 30, 2018, using the treasury stock method.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Options to purchase common shares (1)	1,053	36	—	36
Restricted stock units/awards	1,902	332	93	559
Total	2,955	368	93	595

(1) For the three and six months ended June 30, 2018 this balance includes shares purchasable under the Company's 2017 ESPP which were determined to be anti-dilutive.

5. Fair Value of Financial Instruments

Derivative Instruments

Non-designated Foreign Currency Contracts

The Company uses foreign currency forward contracts as part of its strategy to manage exposure related to Euro denominated intercompany monetary assets and liabilities. The Company has not designated these forward contracts as hedging instruments pursuant to ASC 815, Derivatives and Hedging. Accordingly, the Company recorded the fair value of these contracts at the end of each reporting period in the consolidated balance sheets, with changes in the fair value recorded in earnings as other income (expense), net in the consolidated statements of operations. Cash flows from the settlement of these non-designated foreign currency contracts are reported in cash flows from investing activities. These currency forward contracts are entered into for periods consistent with currency transaction exposures, generally less than one year. At June 30, 2018 and December 31, 2017, the Company had outstanding contracts with a total notional value of $44.8 million and $47.8 million, respectively.

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The following table provides a quantitative summary of the fair value of derivative instruments not designated as hedging instruments as of June 30, 2018 and December 31, 2017 (in thousands):

Description	Balance Sheet Classification	Fair Value June 30, 2018	Fair Value December 31, 2017
Derivative Assets:			
Non-Designated Hedging Instruments			
Foreign currency contracts	Prepaid expenses and other current assets	$834	$ —
Total derivative assets		$834	$ —
Derivative liabilities			
Non-designated hedging instruments			
Foreign currency contracts	Accrued expenses and other current liabilities	$41	$ 439
Total derivative liabilities		$41	$ 439

The following table summarizes the gains (losses) related to derivative instruments not designated as hedging instruments for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Location in Statement of Operations	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Foreign currency contracts	Other income (expense), net	$2,580	$(2,820)	$1,509	$(3,231)

Other Fair Value Measurements and Disclosures

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

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

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

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

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

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The Company’s assets and liabilities that are measured at fair value on a recurring basis, by level, within the fair value hierarchy are summarized as follows (in thousands):

	June 30, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash equivalents—money market funds	$36,517	$ —	$ —	$36,517	$96,295	$ —	$ —	$96,295
Foreign currency exchange contracts	—	834	—	834	—	—	—	—
Total	$36,517	$ 834	$ —	$37,351	$96,295	$ —	$ —	$96,295
Liabilities:								
Foreign currency exchange contracts	—	41	—	$41	—	439	—	$439
Total	$—	$ 41	$ —	$41	$—	$ 439	$ —	$439

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

The Company estimates the fair value of its Convertible Notes using quoted market prices in an inactive market on the last trading day of the reporting period and has been classified as Level 2 within the fair value hierarchy. The principal amount, carrying value (the carrying value excludes the equity component of the Convertible Notes classified in equity) and related estimated fair value of the Company's Convertible Notes reported in the condensed consolidated balance sheet as of June 30, 2018 are as follows (in thousands):

	June 30, 2018		
	Principal	Carrying Value	Fair Value
Convertible notes	$143,750	$114,992	$209,882

The carrying amount of the Company's borrowings under its credit agreement with Silicon Valley Bank, Citizens Bank, N.A., HSBC Bank USA, N.A., Barclays Bank PLC and Wells Fargo Bank, National Association (“Revolving Credit Facility”) is a reasonable estimate of its fair value as the borrowings are subject to variable rates that reflect currently available terms and conditions for similar debt. The carrying amounts for cash and cash equivalents, accounts receivable, and accounts payable and accrued expenses approximate fair value because of their short maturities.

Non-Recurring Fair Value Measures

Certain non-financial assets, such as goodwill, intangible assets and property and equipment, are measured at fair value on a non-recurring basis when there are identifiable events or changes in circumstances that may have a significant adverse impact on the fair value of these assets. Such fair value measures are considered to be within the Level 3 valuation hierarchy due to the subjective nature of the unobservable inputs used. During the six months ended June 30, 2018, the Company recorded an impairment charge of $0.7 million related to internally developed software costs which are no longer recoverable as the project was discontinued. The Company recorded the impairment charge in the cost of revenue, research and development, sales and marketing, and general and administrative captions in the condensed consolidated statements of operations.

6. Acquisitions

Acquisition-Related Expenses

In the three months ended June 30, 2018 and 2017, acquisition-related expenses were $2.2 million and $0.7 million, respectively. In the six months ended June 30, 2018 and 2017, acquisition-related expenses were $5.5 million and $3.7 million, respectively. Acquisition-related expenses have been included primarily in general and administrative expenses in the condensed consolidated statements of operations. The Company's current year acquisition costs relate to the acquisition of Mozy and the prior year acquisition costs relate to the acquisitions of Datacastle Corporation ("Datacastle") and DoubleTake Software, Inc. ("DoubleTake").

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2018 Acquisition

On February 12, 2018, the Company entered into a definitive Master Acquisition Agreement ("Agreement") with EMC Corporation (“EMC”), Mozy and Dell Technologies, Inc. Pursuant to the Agreement, on March 19, 2018, the Company completed the acquisition of all of the issued and outstanding capital stock of Mozy, a cloud backup service for consumers and businesses, and certain related business assets owned by EMC or its affiliates, for a purchase price of $144.6 million in cash, net of cash acquired. The purchase price was funded with cash on hand and funds available under the Company’s Revolving Credit Facility (refer to Note 14). In connection with the acquisition of Mozy, the Company negotiated a transition services agreement to cover certain consulting, technology and engineering services for up to eighteen months post close. The acquisition of Mozy has been accounted for as a business combination and the Company has recorded the assets acquired and liabilities assumed at their respective fair values as of the acquisition date.

The purchase price allocation is considered preliminary, and additional adjustments may be recorded during the measurement period in accordance with FASB’s guidance regarding business combinations. The purchase price allocation will be finalized as the Company receives additional information relevant to the acquisition, including the final valuation and reconciliation of the assets purchased, including tangible and intangible assets, liabilities assumed, and the related impact to the deferred tax assets and liabilities. The Company expects a release of the U.S. valuation allowance corresponding to any potential measurement period adjustments that impact the net U.S. deferred tax liability. During the second quarter of 2018, the Company recorded a measurement period adjustment in its condensed consolidated balance sheet associated with receiving additional information regarding the opening balance sheet as of March 19, 2018, the date of the acquisition. The measurement period adjustment was recorded as a $1.2 million decrease to goodwill, with an offsetting decrease to deferred tax liabilities of $1.4 million, an increase to deferred revenue of $0.1 million and a decrease to intangible assets of $0.1 million. The following table summarizes the preliminary purchase price allocation, which reflects the measurement period adjustments recorded in the second quarter of 2018 (in thousands):

Fair value of consideration transferred:	
Cash, net of cash acquired	$144,597
Fair value of total acquisition consideration	