

CARBONITE INC

FORM 10-K (Annual Report)

Filed 03/07/12 for the Period Ending 12/31/11

Address 177 HUNTINGTON AVENUE
BOSTON, MA 02115
Telephone 6175871140
CIK 0001340127
Symbol CARB
SIC Code 7374 - Computer Processing and Data Preparation and Processing Services
Industry Computer Services
Sector Technology
Fiscal Year 12/31

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**For the fiscal year ended December 31, 2011****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

(State or other jurisdiction of incorporation)

33-1111329(I.R.S. Employer
Identification No.)**177 Huntington Avenue
Boston, Massachusetts**

(Address of principal executive offices)

02115

(Zip Code)

(617) 587-1100

(Registrant's telephone number, including area code)

Securities Registered pursuant to Section 12(b) of the Act:Title of Each Class
Common Stock, par value \$0.01 per shareName of Exchange on Which Registered
The NASDAQ Stock Market LLC**Securities Registered pursuant to Section 12(g) of the Act:****None**Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a 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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer (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

As of June 30, 2011, the last business day of the registrant's most recently completed second quarter, there was no established public market for the registrant's common stock. The registrant's common stock began trading on The NASDAQ Global Market on August 11, 2011.

As of March 1, 2012, there were 25,243,178 shares of the registrant's common stock, par value \$0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2012 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

Table of Contents

CARBONITE, INC. Table of Contents

	<u>Page</u>
PART I.	1
Forward Looking Statements	1
Item 1. Business	2
Item 1A. Risk Factors	9
Item 1B. Unresolved Staff Comments	30
Item 2. Properties	30
Item 3. Legal Proceedings	31
Item 4. Mine Safety Disclosures	31
PART II.	32
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	32
Item 6. Selected Financial Data	34
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	38
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	49
Item 8. Financial Statements and Supplementary Data	50
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	72
Item 9A. Controls and Procedures	72
Item 9B. Other Information	73
PART III	73
Item 10. Directors, Executive Officers and Corporate Governance	73
Item 11. Executive Compensation	73
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	73
Item 13. Certain Relationships and Related Transactions and Director Independence	74
Item 14. Principal Accountant Fees and Services	74
PART IV	74
Item 15. Exhibits and Financial Statement Schedules	74
SIGNATURES	
Signatures	

PART I
SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K (the “Annual Report”), including the sections entitled “Business,” “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” includes forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “predict,” “potential,” and similar expressions, as well as the negatives thereof, as they relate to us, our business, our management, and our industry, are intended to identify forward-looking statements. In light of risks and uncertainties discussed in this Annual Report, the forward-looking events and circumstances discussed in this Annual Report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at or by which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management’s good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time and it is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Important factors that could cause such differences include, but are not limited to:

- our ability to accurately forecast revenue and appropriately plan our expenses and working capital requirements;
- our ability to generate additional revenue;
- our ability to retain existing customers and attract new customers;
- our ability to protect our customers’ stored files and adequately address privacy concerns;
- the impact of actual or threatened litigation, including intellectual property infringement claims, involving us or our industry;
- the impact of increased competition in our business;
- interruptions in service and any related impact on our reputation;
- our ability to maintain, protect, and enhance our brand; and
- other risk factors included under “Risk Factors” in this prospectus.

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

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

Table of Contents

Unless otherwise indicated, information contained in this Annual Report concerning our industry and the market in which we operate, including our general expectations and market position, market opportunity, and market size, is based on information from various sources, on assumptions that we have made that are based on such data, and on our knowledge of the markets for our solutions. Such data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. In addition, projections, assumptions, and estimates of our future performance and the future performance of the industry in which we operate, whether made by us or by third parties, are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in “Risk Factors” and elsewhere in this Annual Report. These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties and by us.

ITEM 1. B BUSINESS

Overview

Carbonite, Inc. (together with its subsidiaries, “Carbonite,” the “Company,” “our,” “we,” or “us”) was incorporated on February 10, 2005 and is a Delaware corporation. We are a leading provider of online backup solutions for consumers and small and medium sized businesses, or SMBs. We provide easy-to-use, affordable, unlimited, and secure online backup solutions with anytime, anywhere access to files stored on our servers, which we call the Carbonite Personal Cloud. We believe that we are the best known brand in the online backup market.

We founded Carbonite on one simple idea: all computers need to be backed up, and in this always-connected and highly-mobile world, online backup is the ideal approach. Our “set and forget” automated solution requires little effort and protects our customers’ stored files even if their computers are lost, stolen, or destroyed.

Our backup solutions work quietly in the background, automatically and continuously uploading encrypted copies of our customers’ files to the Carbonite Personal Cloud. Our customers can browse and share their photos, videos, and documents anytime, anywhere using a web browser or our free iPad, iPhone, BlackBerry, and Android apps. Our historical consumer offering, re-branded as Carbonite Home, continues to include unlimited online backup for an annual flat fee of \$59. Carbonite HomePlus provides customers with additional backup and restore features for external hard drives for an annual flat fee of \$99. Carbonite HomePremier further includes automatic online backup for video files as well as a recovery-by-mail feature for an annual flat fee of \$149. Our SMB offerings, Carbonite Business and Carbonite BusinessPremier, include features designed for multiple computers and users, enabling SMBs to easily install and use Carbonite backup without the help of a professional IT staff.

As of December 31, 2011, we had subscribers in more than 100 countries, with subscribers based in the U.S. representing 94% of our total revenue for 2011. Since 2005, we have backed up over 180 billion files and have restored over 13 billion files that might otherwise have been permanently lost. We currently back up an average of more than 300 million files each day.

We have developed a highly predictable subscription revenue model, with a consistently high customer retention rate and a scalable infrastructure to support our growth. We generated revenue of \$60.5 million in 2011. We continue to invest heavily in customer acquisition, principally through advertising, and as a result we recorded a net loss of \$23.5 million in 2011. Our bookings have grown from \$32.9 million in 2009 to \$80.9 million in 2011. For a reconciliation of bookings to revenue for the last five years, see “Selected Consolidated Financial and Other Data.”

Table of Contents

Industry Trends

We believe that a decade from now nearly every device that creates or stores data, including desktop and laptop computers, tablets, smartphones, and digital cameras, will be backed up over the internet. Online backup is gaining increasing acceptance as the best way to store copies of valuable data off-premise, where they are safe from equipment failure, theft, loss, viruses, and accidental deletion.

Several trends are helping to fuel the growth of the online backup industry:

Your life is on your computer. Computers and mobile devices have transformed the way people work, communicate, and lead their daily personal and professional lives. People store a plethora of information on their computers and mobile devices, from photos, music, videos, and school work, to financial records, correspondence, passwords, work files, and tax returns. These files could be permanently destroyed due to equipment failure, theft, loss, viruses, and accidental deletions. Often these files are accumulated over time and are irreplaceable, making their loss devastating for the owner.

The number of data-creating devices is growing rapidly. Today, there are billions of computers and other electronics devices worldwide. According to IDC *, an independent research firm, over two billion devices, including 146 million desktops, 209 million notebooks, 38 million netbooks, 303 million smartphones, and 1.4 billion mobile phones, were shipped in 2010 alone. These devices are becoming increasingly powerful, with capabilities such as camera, bluetooth, wi-fi, 3-D video, and high definition, enabling users to create and consume high quality multimedia content and leading to an exponential increase in created and stored content.

Shift to laptop computers. The market shift to laptops continues to accelerate. According to IDC, in 2010, 247 million notebooks and netbooks were shipped worldwide compared to 146 million desktop computers. By 2014, notebook and netbook shipments are projected to be 439 million units compared to 154 million desktop units, according to IDC. Laptop users need a backup solution that works anywhere and that does not require external hardware.

Proliferation of broadband connections. Today, fixed and mobile broadband connections are available nearly everywhere – homes, offices, hotels, airports, public spaces, coffee shops, and other locations. Wireless 3G and 4G networks provide mobile broadband throughout the developed world. Based on data from the OECD *, the percentage of fixed broadband subscribers in the OECD countries, which include U.S., Canada, Mexico, Australia, New Zealand, Korea, Japan and many European countries, has grown from approximately 2.9% in 2001 to over 25.1% in the first half of 2011, greatly expanding the potential market for online backup. The OECD also estimates that as of June 2011, there were approximately 900 million fixed and mobile broadband subscribers in the OECD countries.

Smartphones and tablets drive demand for anytime, anywhere access. The growing popularity of smartphones, tablet computers, and other mobile devices is driving the demand for instant access to information regardless of a user's location. According to IDC, smartphone and tablet shipments were expected to grow by 49% and 170%, respectively, in 2011.

Plummeting storage and bandwidth costs. The cost of providing online backup is highly dependent on the cost of storage and bandwidth. The cost of a gigabyte of capacity-optimized storage has fallen from approximately \$5.35 in 2005 to approximately \$0.92 in 2011, a decline of 82.8%, according to IDC. IDC forecasts a further decline in these storage costs at a rate of 25% to 30% annually to approximately \$0.28 in 2015. In 2005, the average wholesale cost of bandwidth was approximately \$75 per megabits per second (Mbps) as compared to \$5 per Mbps in 2010, according to an August 2010 study done by DrPeering International. This study projects that the wholesale cost of bandwidth will further decline to approximately \$0.94 per Mbps by 2014.

There are multiple alternatives currently available for backing up data, such as external hard disk drives, flash memory drives, CDs, DVDs, and tape backup drives. However, these traditional alternatives are limited by drive capacity, cumbersome to scale, prone to failure, not secure, and not accessible from a remote location. Traditional hardware solutions for storing data have the following limitations:

* The IDC information was derived from reports dated October and December 2010 and March and April 2011. The OECD information was accessed on February 24, 2011 at www.oecd.org/sti/ict/broadband.

Table of Contents

Limitation

Limited Capacity

Susceptible to failure

Overly complex

Lack of mobile access

Key Problems

- Users must select which files to back up
- Cumbersome to add incremental capacity
- Unable to protect files in the event of equipment failure, theft, loss, viruses, and accidental deletions
- Time consuming and labor intensive to manually manage backup
- Confusing software and processes
- Do not provide anytime, anywhere access from computers, smartphones, tablets, and other mobile devices

As a result of these limitations, consumers and SMBs are increasingly searching for simple, affordable solutions that provide reliable and secure online backup and anytime, anywhere access to their stored files. We believe that online backup effectively addresses the limitations of traditional solutions and will be the predominant backup solution in the future.

Our Solution

We provide online backup solutions for consumers and SMBs. We believe that our customers buy our solutions because they are easy to use, affordable, and secure, and provide anytime, anywhere access to their stored files. We make it easy for customers to restore their files and we provide high quality customer support to those customers who need assistance.

We believe that our solution provides the following benefits to all of our customers:

Easy to install and use. We offer our customers automatic backup, eliminating the need to manually pick and choose which files to back up. Installation requires just an email address and password. Once installed, our “set and forget” solution works continuously in the background backing up new and changed files.

Easy to restore files. In the event of data loss, our restore wizard guides customers through the process of restoring their files. If customers accidentally delete or overwrite files on their computers, they can quickly restore them from any computer with an internet connection.

Anytime, anywhere access. We enable customers to access stored files from the Carbonite Personal Cloud anytime, anywhere using a web browser or one of our free iPad, iPhone, BlackBerry, or Android apps. Customers can browse their photos, play music and videos, and view documents, spreadsheets and presentations. Unlike traditional remote desktop applications, we allow our customers to access their stored files even if their computers are turned off, lost, stolen, or destroyed.

Affordability. We believe that we were one of the first companies to offer consumers unlimited online backup for a fixed price. Our Carbonite Home subscription costs \$59 for one year, with discounts for multi-year plans. Our SMB solutions allows for an unlimited number of users, with tiered pricing based on the total amount of data backed up.

Security. We encrypt all of our customers’ files before they are transmitted to our data centers, guarding against unauthorized access to backed-up files and ensuring a high level of data security. In addition, we employ state-of-the-art data center security measures intended to prevent intrusions.

Reliability. Our proprietary Carbonite Communications System and Carbonite File System manage our customers’ stored files and are designed to ensure high levels of reliability and accessibility.

Table of Contents

Our Key Competitive Strengths

We believe that our key competitive strengths include the following:

Brand awareness. We believe that we have among the highest brand awareness in the online backup market. According to our research surveys, our unaided brand awareness is more than one and a half times that of our nearest competitor. According to our customer surveys, 83% of our consumer customers say that they have recommended Carbonite to friends and family. We promote our brand through our multi-channel marketing program, which in 2011 included advertising endorsements from 29 national radio talk show personalities. We also have a broad presence in television, online display advertising, print advertising, paid and natural search, and a large affiliate network.

Scale. Since 2005, we have backed up over 180 billion files, and we currently back up an average of more than 300 million files each day. We believe that our large scale infrastructure, built over the last six years, enables us to store additional files at lower incremental cost than our smaller competitors. In addition, we are able to purchase national advertising at advantageous rates, access advertising opportunities that may be unavailable to smaller businesses, and take advantage of sophisticated analytical marketing systems.

Optimized backup architecture. Our entire infrastructure is optimized for backup, which is a low transaction speed, high volume, write mostly application. We believe that our average storage costs per subscriber are lower than those realized by typical general purpose data center storage systems.

Comprehensive customer support. We believe that our U.S.-based customer support is more comprehensive than that offered by our primary competitors in the online backup market and aids in our customer retention. We provide free telephone, live chat, and email customer support in our basic subscription fee.

Significant intellectual property portfolio. We have a significant intellectual property portfolio relating to our online backup solutions. CARBONITE and the Carbonite logo are registered trademarks in the U.S. and in over 30 other countries, including countries in the European Union. We have also filed trademark applications for additional marks in the U.S. and other countries, including “Back it up. Get it Back”, “Because Your Life is On Your Computer”, the Carbonite Green Dot logo and Chinese character representations for Carbonite. In addition, we have one issued patent and 12 pending patent applications that cover both our technical infrastructure and our key usability and design concepts.

Our Offerings

We offer backup solutions to our customers with anytime, anywhere access to their stored files. We charge consumers a flat fee for one year of unlimited online backup at three different service levels, each with discounts for multi-year subscriptions. We offer SMB customers online backup for an unlimited number of computers for an annual flat fee based on the total amount of data backed up, with the option to purchase additional incremental storage capacity.

Table of Contents

The following table sets forth key features of our Carbonite Home, Carbonite HomePlus, and Carbonite HomePremier consumer offerings:

	Carbonite Home	Carbonite HomePlus	Carbonite HomePremier
Number of computers		One per subscription	
Supported operating systems	Windows, Mac		Windows
Pricing	\$59/year; unlimited storage	\$99/year; unlimited storage, external hard drive backup and restore	\$149/year; unlimited storage, external hard drive backup and restore, automatic backup for video files, recovery-by-mail feature
Subscription Period		Annual or multi-year	
Customer support		U.S.-based telephone, live chat, and email	
Remote file access		Anytime, anywhere using a web browser or our free iPad, iPhone, Blackberry, or Android apps	

The following table sets forth key features of our Carbonite Business and Carbonite BusinessPremier SMB offerings:

	Carbonite Business	Carbonite BusinessPremier
Number of computers		Unlimited
Supported operating systems	Windows	Windows and Windows Server
Pricing	\$229/year; 250 GB of backup storage space	\$599/year; 500 GB of backup storage space
Subscription Period		Annual
Customer support		U.S.-based telephone, live chat, and email
Remote file access		Anytime, anywhere using a web browser or our free iPad, iPhone, Blackberry, or Android apps

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

Our Proprietary Server Software

At the core of our offerings is our proprietary server software designed specifically for online backup. The server software is comprised of two major components: the Carbonite Communications System (CCS) and the Carbonite File System (CFS). These components work together to move and store vast amounts of customer data – an average of over 300 million files every day. CCS moves customer data between our software installed on our customers' computers and CFS running on our storage servers. CCS also balances loads across our server network. CFS manages the write-mostly database of stored files with the flexibility to operate on a wide variety of readily available third-party storage hardware.

Table of Contents

We invest heavily in the development of our technologies. In 2011, 2010, and 2009, we spent \$16.5 million, \$10.9 million, and \$6.2 million, respectively, on research and development. Our proprietary technologies are fundamental to our value proposition as they enable us to deliver the following benefits:

Scalability. We add storage capacity at the rate of approximately one petabyte every two weeks. CCS allows us to automatically balance processing and storage capacity across our large and expanding server network. CFS allows us to easily add storage capacity across multiple physical locations by automatically integrating new storage servers into our existing infrastructure.

Reliability. We designed CCS and CFS to eliminate all single points of failure. The modular design of these components uses well-defined protocols intended to ensure that our customers' stored files are accurate and free from errors. CFS provides proprietary disk error detection for errors that can occur over years of storage. Our software also incorporates checks and balances to verify data integrity.

Cost effectiveness. Storage cost is the biggest component of our cost of revenue. CCS enables us to dynamically load balance among servers to allow higher overall utilization. CFS enables us to reduce storage costs by utilizing almost every block of physical disk space to store our customers' files. We can choose the most cost-effective hardware solutions for our data centers because CFS allows us to operate in a heterogeneous hardware environment.

Marketing and Sales

Our marketing efforts are focused on three primary goals: building brand awareness, acquiring customers at a low cost, and retaining existing customers. Our advertising reinforces our brand image by emphasizing ease of use, affordability, security, reliability, and anytime, anywhere access to stored files. We use television and radio advertising, online display advertising, print advertising, paid search, direct marketing, and affiliate marketing. Our public relations efforts include engaging the traditional press, new media, and social networks.

Consumer marketing. Most of our revenue is from consumers who sign up for Carbonite backup on our website in response to our direct marketing campaigns. Direct sales from our websites accounted for 96% of our total revenue during 2011. Our marketing efforts are designed to attract prospects to our website and enroll them as paying customers, usually after a 15-day free trial that we offer to consumers.

SMB marketing. Our SMB sales team responds to inbound qualified SMB leads, communicates the benefits of our solutions to the SMB market and assists our SMB customers to enroll in free trial versions and purchase subscriptions to our SMB offering.

Retention. Our customer retention efforts are focused on establishing and maintaining long-term relationships with our customers by delivering a compelling customer experience and superior value, communicating regularly with customers through email, on-site messaging, and other media, and creating positive interactions with our customer support team. We monitor developing trends in subscription durations, renewals, and customer satisfaction to maximize our customer retention. We offer incentives to customers to purchase multi-year subscriptions, which we believe helps to increase our customer retention. As of December 31, 2011, 2010, and 2009, respectively, 30%, 24%, and 17% of our customers had multi-year subscriptions.

Intellectual Property

We believe that the strength of our brand and the functionality of our software help differentiate us from our competitors. As such, our success depends upon our ability to protect our technologies and intellectual property, including our proprietary server software, which allows us to move and store vast amounts of customer data. To protect our intellectual property, we rely on a combination of trademark, patent, copyright, and trade secret laws,

Table of Contents

as well as confidentiality procedures and contractual restrictions. CARBONITE and the Carbonite logo are registered trademarks in the U.S. and in over 30 other countries, including countries in the European Union. We have also filed trademark applications for additional marks in the U.S. and other countries, including “Back it up. Get it Back”, “Because Your Life is On Your Computer”, the Carbonite Green Dot logo and Chinese character representations for Carbonite. We have one issued patent covering the green dots that notify users that their files have been successfully backed up, 12 patent applications pending, and we are in the process of filing additional patent applications. The pending applications cover various aspects of our file storage software, our remote access software, and our user interface.

The steps we have taken may not adequately protect our intellectual property or prevent unauthorized use of our technologies. Others may independently develop technologies that are competitive to ours or infringe our intellectual property. In addition, costly and time consuming litigation may be necessary to protect and enforce our intellectual property rights.

If we become more successful, we believe that competitors will be more likely to try to develop products and services that are similar to ours, and that may infringe our proprietary rights. It may also be more likely that competitors or other third parties will claim that our solutions infringe their proprietary rights.

Competition

We compete with both online backup providers and providers of traditional hardware-based backup systems. The market for online backup solutions is competitive and rapidly changing. We directly compete with Prosoftnet, CrashPlan, Mozy (a division of VMWare), Norton Online Backup (provided by Symantec), McAfee Online Backup, SOS Online Backup, and others. Certain of our features, including our remote access service, also compete with current or potential services offered by Apple, Google, Microsoft, Amazon, and others. Certain of our planned features, including the ability to share data with third parties, will also compete with current or potential services offered by DropBox, Mozy, SugarSync, and others. With the introduction of new technologies and market entrants, we expect competition to intensify in the future. Many of our actual and potential competitors enjoy competitive advantages over us, such as greater name recognition, longer operating histories, more varied services, and larger marketing budgets, as well as greater financial, technical, and other resources. In addition, many of our competitors have established marketing relationships and access to larger customer bases, and have major distribution agreements with computer manufacturers, internet service providers, and resellers.

We believe that the key competitive factors in the consumer and SMB backup industry include:

- ease of installation and use;
- affordability;
- remote access;
- storage capacity;
- security of customers’ stored files;
- rapid recovery of lost files;
- reliability and redundancy;
- automated file backup; and
- reputation of the provider.

We believe that we compete favorably with respect to each of these factors by providing easy to use, affordable, unlimited, secure online backup solutions with anytime, anywhere access to stored files.

Some of our competitors have made or may make acquisitions or enter into partnerships or other strategic relationships to offer a more comprehensive service than we do. These combinations may make it more difficult

Table of Contents

for us to compete effectively, including on the basis of price, sales and marketing programs, technology, or service functionality. We expect these trends to continue as companies attempt to strengthen or maintain their market positions.

Employees

As of December 31, 2011, we had 342 full-time and 22 part-time employees. Of our full-time employees, 196 were in operations and support, 32 were in sales and marketing, 96 were in technology, and 18 were in general and administrative functions. None of our employees are covered by collective bargaining agreements.

Available Information

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

The public may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

ITEM 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below and the other information in this Annual Report on Form 10-K before making an investment decision. Our business, prospects, financial condition, or operating results could be harmed by any of these risks, as well as other risks not currently known to us or that we currently consider immaterial. The trading price of our common stock could decline due to any of these risks, and, as a result, you may lose all or part of your investment.

Risks Related to Our Business

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

We experienced net losses of \$19.2 million for 2009, \$25.8 million for 2010, and \$23.5 million for 2011, respectively, and have an accumulated deficit of \$100.4 million as of December 31, 2011. We have not generally achieved positive cash flow from our operations or reported net income, and we do not expect to be profitable for the foreseeable future. We expect to continue making significant expenditures to develop and expand our business, including for advertising, customer acquisition, technology infrastructure, storage capacity, product development, and international expansion, in an effort to increase and service our customer base. In 2011, we incurred increased expenses associated with relocating our customer service operations from India to the U.S., which adversely affected our operating results for 2011. In 2012, we expect to continue to incur increased expenses associated with the relocation of one of our data centers to a new facility. We also expect that our quarterly results may fluctuate due to a variety of factors described elsewhere in this Annual Report on Form 10-K, including the timing and amount of our advertising expenditures, which are seasonal, as well as the

Table of Contents

timing and amount of expenditures related to the development of technologies and solutions and to defend intellectual property infringement and other claims. In addition, as a public company, we incur significant legal, accounting and other expenses, including increased costs for director and officer liability insurance that we did not incur as a private company. We may also incur increased losses and negative cash flow in the future for a number of reasons, and we may encounter unforeseen expenses, difficulties, complications, delays, and other unknown events. For these reasons, we expect to continue to record net losses for the next several years and we may not be able to achieve or maintain positive cash flow from operations or profitability.

Any significant disruption in our service or loss or misuse of our customers' data could damage our reputation and harm our business and operating results.

Our brand, reputation, and ability to attract, retain, and serve our customers are dependent upon the reliable performance of our service and our customers' ability to readily access their stored files. Our customers rely on our online backup service to store digital copies of their valuable data files, including financial records, business information, photos, and other personally meaningful content. Our data centers are vulnerable to damage or interruption from human error, intentional bad acts, computer viruses or hackers, earthquakes, hurricanes, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures, and similar events, any of which could limit our customers' ability to access their files and could prevent us from being able to continuously back up our customers' files. Prolonged delays or unforeseen difficulties in connection with adding storage capacity or upgrading our network architecture when required may cause our service quality to suffer. A breach of our network security and systems could also cause the loss or public disclosure of, or access by third parties to, our customers' stored files. Any event that significantly disrupts our service or exposes our customers' stored files to misuse could damage our reputation and harm our business and operating results, including reducing our revenue, causing us to issue credits to customers, subjecting us to potential liability, harming our renewal rates, or increasing our cost of acquiring new customers.

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

We compete with both online backup providers and providers of traditional hardware-based backup systems. The market for online backup solutions is competitive and rapidly changing. We directly compete with Prosoftnet, CrashPlan, Mozy (a division of VMWare), Norton Online Backup (provided by Symantec), McAfee Online Backup, SOS Online Backup, and others. Certain of our features, including our remote access service, also compete with current or potential services offered by Apple, Google, Microsoft, Amazon, and others. Certain of our planned features, including the ability to share data with third parties, also compete with current or potential services offered by DropBox, Mozy, SugarSync, and others. With the introduction of new technologies and market entrants, we expect competition to intensify in the future. Many of our actual and potential competitors benefit from competitive advantages over us, such as greater name recognition, longer operating histories, more varied services, larger marketing budgets, established marketing relationships, access to larger customer bases, major distribution agreements with computer manufacturers, internet service providers and resellers, and greater financial, technical, and other resources. Some of our competitors may make acquisitions or enter into strategic relationships to offer a more comprehensive service than we do. These combinations may make it more difficult for us to compete effectively. We expect these trends to continue as competitors attempt to strengthen or maintain their market positions.

Demand for our online backup solutions is sensitive to price. Many factors, including our advertising, customer acquisition and technology costs, and our current and future competitors' pricing and marketing strategies, can significantly affect our pricing strategies. Certain of our competitors offer, or may in the future offer, lower-priced or free products or services that compete with our solutions. Similarly, certain competitors may use internet-based marketing strategies that enable them to acquire customers at a lower cost than us. There can be no assurance that we will not be forced to engage in price-cutting initiatives, or to increase our advertising

Table of Contents

and other expenses to attract and retain customers in response to competitive pressures, either of which could have a material adverse effect on our revenue and operating results.

Our limited operating history makes it difficult to evaluate our current business and future prospects.

We have been in existence since 2005, and our revenue has grown rapidly from \$8.2 million in 2008 to \$60.5 million in 2011, representing a compound annual growth rate of 95% over that period. We do not expect that this growth rate will continue in future periods and you should not rely on the revenue growth of any prior quarterly or annual periods as an indication of our future performance. In addition, because we recognize revenue from customers over the terms of their subscriptions, a large portion of our revenue for each quarter reflects deferred revenue from subscriptions entered into during previous quarters, and downturns or upturns in subscription sales or renewals may not be reflected in our operating results until later periods. We may not achieve sufficient revenue to achieve or maintain positive cash flow from operations or profitability, and our limited operating history may make it difficult for you to evaluate our current business and our future prospects. We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly changing industries, including increasing expenses as we continue to grow our business. If we do not manage these risks successfully, our business will be harmed. If our future growth fails to meet investor or analyst expectations, it could have a negative effect on our stock price. If our growth rate were to decline significantly or become negative, it could adversely affect our financial condition and operating results.

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

We derive, and expect to continue to derive, substantially all of our revenue from the sale of our online backup solutions, a relatively new and rapidly changing market. As a result, widespread acceptance and use of online backup solutions is critical to our future growth and success. If the market for online backup solutions fails to grow or grows more slowly than we currently anticipate, demand for our solutions could be negatively affected.

Changes in customer preferences for online backup solutions may have a disproportionately greater impact on us than if we offered multiple products and services. The market for online backup solutions is subject to rapidly changing customer demand and trends in preferences. Some of the potential factors that could affect interest in and demand for online backup solutions include:

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

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

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

We generate substantially all of our revenue from the sale of subscriptions to our solutions. In order to grow, we must continue to attract a large number of customers on a cost-effective basis, many of whom have not previously used online backup solutions. We use and periodically adjust a diverse mix of advertising and

Table of Contents

marketing programs to promote our solutions. Significant increases in the pricing of one or more of our advertising channels would increase our advertising costs or cause us to choose less expensive and perhaps less effective channels. As we add to or change the mix of our advertising and marketing strategies, we may need to expand into channels with significantly higher costs than our current programs, which could adversely affect our operating results. Currently, we rely significantly on advertising endorsements by certain radio personalities. The loss of one or more of these endorsement arrangements or our inability to obtain additional effective endorsements could adversely affect our advertising and customer acquisition efforts and our operating results. We may incur advertising and marketing expenses significantly in advance of the time we anticipate recognizing any revenue generated by such expenses, and we may only at a later date, or never, experience an increase in revenue or brand awareness as a result of such expenditures. We have made in the past, and may make in the future, significant investments to test new advertising, and there can be no assurance that any such investments will lead to the cost-effective acquisition of additional customers. If we are unable to maintain effective advertising programs, our ability to attract new customers could be adversely affected, our advertising and marketing expenses could increase substantially, and our operating results may suffer.

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

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

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

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

If we are unable to develop additional solutions for mobile devices, or if users of these devices do not widely adopt our solutions, our business could be adversely affected.

The number of people who access the internet through devices other than personal computers, including mobile telephones, personal digital assistants, smartphones, and handheld tablets or computers, has increased dramatically in the past few years and is projected to continue to increase. In addition, people are increasingly using their mobile devices to create and store data and other content that is important to them. We have not launched any version of our service that will back up data stored on these devices. If one or more of our competitors were to launch such a service, or if we were to be unsuccessful in an attempt to launch such a service, our competitive position could be materially harmed. As new devices and new platforms are continually

Table of Contents

being released, it is difficult to predict the problems we may encounter in developing versions of our solutions for use on these mobile devices, and we may need to devote significant resources to the creation, support, and maintenance of such services, which could adversely affect our operating results.

If we are unable to expand our base of SMB customers, our business could be adversely affected.

In 2010, we introduced the first version of our backup solution targeted toward SMBs, which are generally companies that are too small to have a dedicated in-house IT staff. We are committing substantial resources to the expansion and increased marketing of our SMB offerings. If we are unable to market and sell our solutions to SMBs with competitive pricing and in a cost-effective manner, our ability to grow our revenue and achieve profitability will be harmed. We expect it will be more difficult and expensive to attract and retain SMB customers than consumers, because SMBs:

- may have different or much more complex needs than those of individual consumers, such as archiving, version control, enhanced security requirements and other forms of encryption and authentication, which our solutions may not adequately address;
- frequently cease operations due to the sale or failure of their business; and
- are difficult to reach without using more expensive, targeted sales campaigns.

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

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

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

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

Table of Contents

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

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

Any significant disruption in service on our websites or in our computer systems could damage our reputation and result in a loss of customers, which would harm our business and operating results.

Our brand, reputation, and ability to attract, retain and serve our customers are dependent upon the reliable performance of our websites, network infrastructure and payment systems, and our customers' ability to readily access their stored files. We have experienced interruptions in these systems in the past, including server failures that temporarily slowed down our websites' performance and our customers' ability to access their stored files, or made our websites and infrastructure inaccessible, and we may experience interruptions in the future. Interruptions in these systems, whether due to system failures, computer viruses, physical or electronic break-ins, or other factors, could affect the security or availability of our websites and infrastructure and prevent us from being able to continuously back up our customers' data or our customers from accessing their data. In addition, prolonged delays or unforeseen difficulties in connection with adding storage capacity or upgrading our network architecture when required may cause our service quality to suffer. While we believe that there are alternative suppliers who could meet our needs, we currently depend primarily on one provider of disk storage systems for our data centers. Problems with the reliability or security of our systems could harm our reputation. Damage to our reputation and the cost of remedying these problems could negatively affect our business, financial condition, and operating results.

Our systems provide redundancy at the disk level, but do not keep separate, redundant copies of backed up customer files. Instead, we rely on the fact that our customers, in effect, back up our system by maintaining the primary instance of their files. We do not intend to create redundant backup sites for our solutions. As such, a total failure of our systems, or the failure of any of our systems, could result in the loss of or a temporary inability to back up our customers' data and result in our customers being unable to access their stored files. If one of our data centers fails at the same time that our customers' computers fail, we would be unable to provide backed up copies of their data. If this were to occur, our reputation could be compromised and we could be subject to liability to the customers that were affected.

Our data centers are vulnerable to damage or interruption from human error, intentional bad acts, pandemics, earthquakes, hurricanes, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures, and similar events. As all of our data facilities are located in a single metropolitan area, we may be more susceptible to the risk that a single event could significantly harm the operations of these facilities. The occurrence of a natural disaster, power failure or an act of terrorism, vandalism or other misconduct, a decision to close the facilities without adequate notice, or other unanticipated problems could result in lengthy interruptions in our services. The occurrence of any of the foregoing events could damage our systems and hardware or could cause them to fail completely, and our insurance may not cover such events or may be insufficient to compensate us for the potentially significant losses, including the potential harm to the future growth of our business, that may result from interruptions in our service as a result of system failures.

Table of Contents

We depend on data centers operated by third parties and any disruption in the operation of these facilities could adversely affect our business.

We host our services and serve all of our customers from our network servers, which are located in data center facilities operated by third parties. While we control and have access to our servers and all of the components of our network that are located in our external data centers, we do not control the operation of these facilities. Our data center leases expire at various times between August 2013 and January 2016, and a separate data center hosting arrangement is cancellable by us upon 120 days notice. The owners of our data center facilities have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew these agreements on commercially reasonable terms, we may be required to transfer our servers to new data center facilities, and we may incur significant costs and possible service interruption in connection with doing so. During the first half of 2012, we intend to relocate our equipment and operations from our Boston, Massachusetts data center to one of our other data centers and to discontinue the use of our Boston, Massachusetts data center. We will incur moving and other costs in connection with this transition. Any operational difficulties or disruptions we experience in connection with this transition could adversely affect our reputation and operating results.

Problems faced by our third-party data center locations, with the telecommunications network providers with whom we or they contract, or with the systems by which our telecommunications providers allocate capacity among their customers, including us, could adversely affect the experience of our customers. Our third-party data centers operators could decide to close their facilities without adequate notice. In addition, any financial difficulties, such as bankruptcy, faced by our third-party data centers operators or any of the service providers with whom we or they contract may have negative effects on our business, the nature and extent of which are difficult to predict. Additionally, if our data centers are unable to keep up with our growing needs for capacity, this could have an adverse effect on our business. Any changes in third-party service levels at our data centers or any errors, defects, disruptions, or other performance problems with our services could harm our reputation and may damage our customers' stored files. Interruptions in our services might reduce our revenue, cause us to issue refunds to customers, subject us to potential liability, or harm our renewal rates.

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

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

Table of Contents

us for the potentially significant losses, including the potential damage to the future growth of our business, that may result from the breach of customer or employee privacy.

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

We process, store and use personal information and other data, which subjects us to governmental regulation and other legal obligations related to privacy, and our actual or perceived failure to comply with such obligations could harm our business.

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

We may not be able to respond to rapid technological changes with new solutions, which could have a material adverse effect on our operating results.

The online backup market is characterized by rapid technological change and frequent new product and service introductions. Our ability to attract new customers and increase revenue from existing customers will depend in large part on our ability to enhance and improve our existing solutions, introduce new features and products and sell into new markets. Customers may require features and capabilities that our current solutions do not have. Our failure to develop solutions that satisfy customer preferences in a timely and cost-effective manner may harm our ability to renew our subscriptions with existing customers and create or increase demand for our solutions, and may adversely impact our operating results.

The introduction of new services by competitors or the development of entirely new technologies to replace existing offerings could make our solutions obsolete or adversely affect our business and operating results. In

Table of Contents

addition, any new markets or countries into which we attempt to sell our solutions may not be receptive. We may experience difficulties with software development, design, or marketing that could delay or prevent our development, introduction, or implementation of new solutions and enhancements. We have in the past experienced delays in the planned release dates of new features and upgrades, and have discovered defects in new solutions after their introduction. There can be no assurance that new solutions or upgrades will be released according to schedule, or that when released they will not contain defects. Either of these situations could result in adverse publicity, loss of revenue, delay in market acceptance, or claims by customers brought against us, all of which could have a material adverse effect on our reputation, business, operating results, and financial condition. Moreover, upgrades and enhancements to our solutions may require substantial investment and we have no assurance that such investments will be successful. If customers do not widely adopt enhancements to our solutions, we may not be able to realize a return on our investment. If we are unable to develop, license, or acquire enhancements to our existing solutions on a timely and cost-effective basis, or if such enhancements do not achieve market acceptance, our business, operating results, and financial condition may be adversely affected.

Our quarterly operating results have fluctuated in the past and may continue to do so in the future. As a result, we may fail to meet or exceed the expectations of research analysts or investors, which could cause our stock price to decline.

Our quarterly operating results may fluctuate as a result of a variety of factors, many of which are outside of our control. If our quarterly operating results or guidance fall below the expectations of research analysts or investors, the price of our common stock could decline substantially. The following factors, among others, could cause fluctuations in our quarterly operating results or guidance:

- our ability to attract new customers and retain existing customers;
- our ability to accurately forecast revenue and appropriately plan our expenses;
- our ability to introduce new solutions;
- the actions of our competitors, including pricing changes or the introduction of new products;
- our ability to effectively manage our growth;
- the mix of annual and multi-year subscriptions at any given time;
- seasonal variations or other cyclicity in the demand for our solutions, including the purchasing and budgeting cycles of our SMB customers;
- the timing and cost of advertising and marketing efforts;
- the timing and cost of developing or acquiring technologies, services, or businesses;
- the timing, operating cost, and capital expenditures related to the operation, maintenance, and expansion of our business;
- service outages or security breaches and any related impact on our reputation;
- our ability to successfully manage any future acquisitions of businesses, solutions, or technologies;
- the impact of worldwide economic, industry, and market conditions and those conditions specific to internet usage and online businesses;
- costs associated with defending intellectual property infringement and other claims; and
- changes in government regulation affecting our business.

We believe that our quarterly revenue and operating results may vary significantly in the future and that period-to-period comparisons of our operating results may not be meaningful. You should not rely on the results of one quarter as an indication of future performance.

Table of Contents

Seasonal variations in our business may also cause fluctuations in our financial results. For example, we generally spend more on advertising during the first and third quarters of each year to capitalize on lower advertising rates in these periods and increased sales of devices that create or store data during post-holiday and back to school periods and our bookings tend to be higher in these periods. While we believe that these seasonal trends have affected and will continue to affect our quarterly results, our trajectory of rapid growth may have overshadowed these effects to date. We believe that our business may become more seasonal in the future as our growth rate slows, and that such seasonal variations in advertising expenditures and customer purchasing patterns may result in fluctuations in our financial results.

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

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

We may expand by acquiring or investing in other companies, which may divert our management's attention, result in additional dilution to our stockholders, and consume resources that are necessary to sustain our business.

We may in the future acquire complementary products, services, technologies, or businesses. For example, in June 2011, we acquired substantially all of the assets of Phanfare, Inc., a privately-held provider of photo sharing services, for approximately \$2 million in cash and the assumption of certain liabilities. We also may enter into relationships with other businesses to expand our portfolio of solutions or our ability to provide our solutions in foreign jurisdictions, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing, or investments in other companies. We do not have experience with integrating and managing acquired businesses or assets. Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to complete these transactions may often be subject to conditions or approvals that are beyond our control. Consequently, these transactions, even if undertaken and announced, may not close.

An acquisition, investment, or new business relationship may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel, or operations of acquired companies, particularly if the key personnel of the acquired company choose not to work for us, the company's software is not easily adapted to be compatible with ours, or we have difficulty retaining the customers of any acquired business due to changes in management or otherwise. Acquisitions may also disrupt our business, divert our resources, and require significant management attention that would otherwise be available for the development of our business. Moreover, the anticipated benefits of any acquisition, investment, or business relationship may not be realized or we may be exposed to unknown liabilities, including litigation against the companies we may acquire. For one or more of those transactions, we may:

- issue additional equity securities that would dilute our stockholders;
- use cash that we may need in the future to operate our business;
- incur debt on terms unfavorable to us or that we are unable to repay or that may place burdensome restrictions on our operations;

Table of Contents

- incur large charges or substantial liabilities; or
- become subject to adverse tax consequences, or substantial depreciation, deferred compensation or other acquisition-related accounting charges.

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

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

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

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

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

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

Our operating results may be harmed if we are required to collect sales or other related taxes for our subscription services in jurisdictions where we have not historically done so.

We do not believe that we are required to collect sales, use, or other similar taxes from our customers. However, one or more states or countries may seek to impose sales, use, or other tax collection obligations on us,

Table of Contents

including for past sales by us or our resellers and other partners. A successful assertion by a state, country, or other jurisdiction that we should have or should be collecting sales, use, or other taxes on our services could, among other things, result in substantial tax liabilities for past sales, create significant administrative burdens for us, discourage customers from purchasing our services, or otherwise harm our business and operating results.

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

As of December 31, 2011, we had federal, state, and foreign net operating loss carryforwards, or NOLs, of \$89.0 million, \$83.9 million and \$1.0 million, respectively, available to offset future taxable income, which expire in various years through 2032 if not utilized. A lack of future taxable income would adversely affect our ability to utilize these NOLs before they expire. Under the provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, substantial changes in our ownership may limit the amount of pre-change NOLs that can be utilized annually in the future to offset taxable income. Section 382 of the Internal Revenue Code, or Section 382, imposes limitations on a company's ability to use NOLs if a company experiences a more-than-50-percent ownership change over a three-year testing period. We performed an analysis of our changes in ownership through December 31, 2011 and have adjusted our NOLs as of that date to reflect the usage limitations, calculated in accordance with Section 382, resulting from such changes in ownership. If additional changes in our ownership occur in the future, our ability to use NOLs may be further limited. For these reasons, we may not be able to utilize a material portion of the NOLs, even if we achieve profitability. If we are limited in our ability to use our NOLs in future years in which we have taxable income, we will pay more taxes than if we were able to fully utilize our NOLs. This could adversely affect our operating results and the market price of our common stock.

Any expenses or liability resulting from litigation could adversely affect our operating results and financial condition.

From time to time, we may be subject to claims or litigation, including intellectual property litigation as described elsewhere in this Annual Report on Form 10-K. Any such claims or litigation may be time-consuming and costly, divert management resources, require us to change our services, require us to refund subscription fees, or have other adverse effects on our business. Any of the foregoing could have a material adverse effect on our operating results and could require us to pay significant monetary damages. In addition, we receive and must respond on a periodic basis to subpoenas from law enforcement agencies seeking copies of a customer's data stored on our servers in connection with criminal investigations. While we have in place a procedure to respond to such subpoenas, any failure on our part to properly respond to such subpoena requests could expose us to litigation or other proceedings and adversely affect our business, financial condition, and operating results.

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

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

Table of Contents

Our business may be significantly impacted by a change in the economy, including any resulting effect on consumer spending.

Our business may be affected by changes in the economy generally, including any resulting effect on consumer spending. Our services are discretionary purchases, and our customers may reduce their discretionary spending on our services during an economic downturn. Although we have not yet experienced a material reduction in subscription renewals, we may experience such a reduction in the future, especially in the event of a prolonged recessionary period. Conversely, media prices may increase in a period of economic growth, which could significantly increase our marketing and advertising expenses. As a result, our business, financial condition, and operating results may be significantly affected by changes in the economy generally.

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

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

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

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

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

Table of Contents

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

We may not be able to maintain control of our business in China.

The government of the People's Republic of China, or PRC, restricts foreign investment in internet and online advertising businesses. Accordingly, we operate our online backup business in China through an affiliated entity in China owned by an individual designated by us who is a PRC citizen. We have entered into contractual arrangements with our affiliated entity and its individual stockholder that are intended to protect our technologies and business. We have loaned funds to the designated individual in order to enable the individual to form the affiliated entity and obtain any necessary licenses, including an Internet Content Provider (ICP) license, which was recently granted by the PRC government, and we expect to continue to loan funds to the designated individual in the future. All loans are, and will continue to be, secured by the capital stock of the affiliated entity and the designated individual stockholder has granted us the contractual right to exercise his rights as the sole stockholder of the affiliated entity.

We cannot assure you, however, that we will be able to enforce these contracts. We have no equity ownership interest in the affiliated entity and we rely on contractual arrangements with the entity and the designated individual stockholder to control and operate the entity. These contractual arrangements may not be as effective in providing control over the affiliated entity as direct ownership. For example, the entity could fail to take actions required for, or beneficial to, our business or fail to maintain our websites despite its contractual obligations to do so. In addition, we cannot assure you that the individual shareholder of the affiliated entity will always act in our best interests. If the individual stockholder of our affiliated entity fails to perform his obligations under the respective agreements with us, we may need to engage in litigation in China to enforce our rights, which may be time-consuming and costly, divert management resources, or have other adverse effects on our business, and we may not be successful in enforcing our rights.

Enforcing agreements and laws in China is difficult and may be impossible because China does not have a comprehensive system of laws.

In China, enforcement of contractual agreements may be sporadic, and implementation and interpretation of laws may be inconsistent. The PRC judiciary is relatively inexperienced in interpreting agreements and enforcing China's laws, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. Even where adequate law exists in China, it may not be possible to obtain swift and equitable enforcement of such law, or to obtain enforcement of a judgment or an arbitration award by a court of another jurisdiction. The PRC government has exercised and continues to exercise substantial control over virtually every aspect of the Chinese economy through regulation and state ownership. Many of the current reforms that support private business in China are of recent origin or are provisional in nature. Other political, economic and social factors, such as political changes, changes in the rates of economic growth, unemployment, or inflation, or in the disparities of per capita wealth among citizens of China and between regions within China, could also lead to further readjustment of the PRC government's reform measures. It is not possible to predict whether the PRC government will continue to be as supportive of private business in China, nor is it possible to predict how any future reforms will affect our business.

Specifically, the laws and regulations governing our business or the enforcement and performance of our proposed contractual arrangements with our affiliated Chinese entity and the designated individual stockholder are relatively new and may be subject to change, and their official interpretation and enforcement may involve substantial uncertainty. New laws and regulations that affect our business may also be applied retroactively. We

Table of Contents

cannot assure you that the PRC government would agree that the operating arrangements of our affiliated Chinese entity comply with PRC licensing, registration, or other regulatory requirements, with existing policies, or with requirements or policies that may be adopted in the future. For example, in September 2011, the PRC Ministry of Commerce stated that the relevant departments of the PRC government are jointly considering additional regulation of the type of investment structure that we use, which is based on the approach used by other non-PRC companies with respect to their conduct of businesses that require an ICP license. If the PRC government determines that we do not comply with applicable law, it could revoke our business and operating licenses and those of our affiliated Chinese entity, including our affiliated entity's ICP license, require us to restructure our operations, require us to discontinue or restrict our operations, restrict our right to collect revenue, block our websites, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business.

In addition, because of the particular weakness of the Chinese intellectual property regime, it is often difficult to create and enforce intellectual property rights in China. Accordingly, we may not be able to effectively protect our intellectual property rights in China against infringement by other business entities, individuals, and current or former employees.

Risks Related to Intellectual Property

Assertions by a third party that our solutions infringe its intellectual property, whether or not correct, could subject us to costly and time-consuming litigation or expensive licenses. We are currently a defendant in a lawsuit alleging patent infringement.

There is frequent litigation in the software and technology industries based on allegations of infringement or other violations of intellectual property rights. Many companies are devoting significant resources to obtaining patents that could affect many aspects of our business. Third parties may claim that our technologies or solutions infringe or otherwise violate their patents or other intellectual property rights. As we face increasing competition and become increasingly visible as a publicly-traded company, or if we become more successful, the possibility of new third party claims may increase.

We have licensed proprietary technologies from third parties that we use in our technologies and business, and we cannot be certain that the owners' rights in their technologies will not be challenged, invalidated, or circumvented. If we are forced to defend ourselves against intellectual property infringement claims, whether they have merit or are determined in our favor, we may face costly litigation, diversion of technical and management personnel, limitations on our ability to use our current websites and technologies, and an inability to market or provide our solutions. As a result of any such claim, we may have to develop or acquire non-infringing technologies pay damages, enter into royalty or licensing agreements, cease providing certain services, adjust our marketing and advertising activities, or take other actions to resolve the claims. These actions, if required, may be costly or unavailable on terms acceptable to us or at all.

Furthermore, we may acquire proprietary technologies from third parties and may incorporate such technologies in our solutions. In addition to the general risks described above associated with intellectual property and other proprietary rights, we are subject to the additional risk that the seller of such technologies may not have appropriately created, maintained, or enforced such rights in such technology.

In August 2010 Oasis Research, LLC, or Oasis Research, filed a lawsuit against us and several of our competitors and other online technology companies in the U.S. District Court for the Eastern District of Texas, alleging that our online backup storage services and other companies' products or services infringe certain of Oasis Research's patents. Oasis Research seeks an award for damages in an unspecified amount. Oasis Research does not currently seek an injunction. We expect that a trial date will be set for late 2012 or early 2013. We are not able to assess with certainty the outcome of this litigation or the amount or range of potential damages or future payments associated with this litigation at this time. However, any litigation is subject to inherent uncertainties, and there can be no assurance that the expenses associated with defending this lawsuit or its resolution will not have a material adverse impact on our business, operations, financial condition, or cash flows.

Table of Contents

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

Our future success and competitive position depend in large part on our ability to protect our intellectual property and proprietary technologies. We rely on a combination of trademark, patent, copyright, and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection and may not now or in the future provide us with a competitive advantage. CARBONITE and the Carbonite logo are registered trademarks in the U.S. and in over 30 other countries, including countries in the European Union. We have also filed trademark applications for additional marks in the U.S. and other countries, including “Back it up. Get it Back”, “Because Your Life is On Your Computer”, the Carbonite Green Dot logo and Chinese character representations for Carbonite. We cannot assure you that any future trademark registrations will be issued for pending or future applications or that any registered trademarks will be enforceable or provide adequate protection of our proprietary rights. We have one issued patent, 12 patent applications pending, and we are in the process of filing additional patent applications. We cannot assure you that any patents will issue from any such patent applications, that patents that issue from such applications will give us the protection that we seek, or that any such patents will not be challenged, invalidated, or circumvented. Any patents that may issue in the future from our pending or future patent applications may not provide sufficiently broad protection and may not be enforceable in actions against alleged infringers.

There can be no assurance that the steps we take will be adequate to protect our technologies and intellectual property, that our trademark and patent applications will lead to registered trademarks or issued patents, that others will not develop or patent similar or superior technologies, products, or services, or that our trademarks, patents, and other intellectual property will not be challenged, invalidated, or circumvented by others. Furthermore, effective trademark, patent, copyright, and trade secret protection may not be available in every country in which our services are available or where we have employees or independent contractors. In addition, the legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights in internet-related industries are uncertain and still evolving.

We may be involved in lawsuits to protect or enforce our patents, which could be expensive and time consuming and could materially harm our business.

The steps we have taken and will take to protect our intellectual property may not prevent unauthorized use, reverse engineering, or misappropriation of our technologies and we may not be able to detect any of the foregoing. Others may independently develop technologies that are competitive to ours or infringe our intellectual property. To counter infringement or unauthorized use, we may be required to file patent infringement claims, which can be expensive and time-consuming to litigate. In addition, in an infringement proceeding, a court may decide that a patent of ours is not valid or is unenforceable, or may refuse to stop others from using the technology at issue on the grounds that our patent(s) do not cover such technology. An adverse determination of any litigation or defense proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly and could put our patent applications at risk of not being issued. If our efforts to protect our technologies and intellectual property are inadequate, the value of our brand and other intangible assets may be diminished and competitors may be able to mimic our solutions and methods of operations. Any of these events could have a material adverse effect on our business, financial condition, and operating results.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure. In addition, during the course of any such litigation, there could be public announcements of the results of hearings, motions, or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock.

Table of Contents

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

We have devoted substantial resources to the development of our proprietary technologies and related processes. In order to protect our proprietary technologies and processes, we rely in part on trade secret laws and confidentiality agreements with our employees, licensees, independent contractors, and other advisors. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover our trade secrets, in which case we would not be able to assert trade secret rights, or develop similar technologies and processes. Further, laws in certain jurisdictions may afford little or no trade secret protection, and any changes in, or unexpected interpretations of, the intellectual property laws in any country in which we operate may compromise our ability to enforce our intellectual property rights. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure or inability to obtain or maintain trade secret protection or otherwise protect our proprietary rights could adversely affect our business.

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

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

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

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

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

We have registered domain names for websites, or URLs, that we use in our business, such as www.carbonite.com. If we are unable to maintain our rights in these domain names, our competitors or other third parties could capitalize on our brand recognition by using these domain names for their own benefit. In

Table of Contents

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

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

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

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

Risks Related to Ownership of our Common Stock

Our stock price may be volatile due to fluctuations in our operating results and other factors, each of which could cause our stock price to decline.

Shares of our common stock were sold in our initial public offering in August 2011 at a price of \$10.00 per shares, and our common stock has subsequently traded as high as \$21.10 and as low as \$8.21. An active, liquid, and orderly market for our common stock may not be developed or sustained, which could depress the trading price of our common stock. The market price for shares of our common stock could be subject to

Table of Contents

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

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

In addition, the stock market in general, and the market for internet-related companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. This litigation, if instituted against us, could result in very substantial costs, divert our management's attention and resources, and harm our business, operating results, and financial condition. In addition, recent fluctuations in the financial and capital markets have resulted in volatility in securities prices.

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

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be evaluated frequently. As part of our process of documenting and testing our internal control over financial reporting, we may identify areas for further attention and improvement. Implementing any appropriate changes to

Table of Contents

our internal controls may distract our officers and employees, entail substantial costs to modify our existing processes, and take significant time to complete. These changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and harm our business. In addition, investors' perceptions that our internal controls are inadequate or that we are unable to produce accurate financial statements on a timely basis may harm our stock price and make it more difficult for us to effectively market and sell our solutions to new and existing customers.

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

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

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

A significant portion of our total outstanding shares may be sold into the public market in the near future, which could cause the market price of our common stock to drop significantly, even if our business is doing well.

Sales of a substantial number of shares of our common stock in the public market, or the perception that such sales could occur, could adversely affect the market price of our common stock. In connection with the expiration on February 26, 2012 of lock-up agreements entered into with the underwriters of our initial public offering, approximately 17.9 million shares of our common stock became eligible from sale by stockholders, subject to applicable volume and other limitations under federal securities laws. In August 2011, we filed a Form S-8 under the Securities Act registering 5,177,658 shares of our common stock for issuance under our equity incentive plans. These shares may be sold in the public market upon issuance, subject to the terms of contractual restrictions. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the market price of our common stock could decline.

We also may issue shares of our common stock or securities convertible into our common stock from time to time in connection with financing, acquisition, investment, or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and cause the market price of our common stock to decline.

Our directors, executive officers, and principal stockholders have substantial control over us and could delay or prevent a change in corporate control.

Our directors, executive officers, and holders of more than 5% of our common stock, together with their affiliates, hold a majority of our outstanding shares of common stock and have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger,

Table of Contents

consolidation, or sale of all or substantially all of our assets. In addition, these stockholders, acting together, may have the ability to control or influence the management and affairs of our company. This concentration of ownership could limit your ability to influence corporate matters and may have the effect of delaying or preventing a change in control of our company.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business, or our market, or if they change their recommendations regarding our stock adversely, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market, or our competitors. If any of the analysts who cover us change their recommendation regarding our stock adversely, or provide more favorable relative recommendations about our competitors, our stock price would likely decline. If any analyst who covers us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Our management will continue to have broad discretion over the use of the proceeds we received in our initial public offering and might not apply the proceeds in ways that increase the value of your investment.

Our management will continue to have broad discretion to use our net proceeds from our initial public offering, and you will be relying on the judgment of our management regarding the application of these proceeds. Our management might not apply these proceeds in ways that increase the value of your investment. We intend to use the net proceeds to us from the initial public offering primarily for general corporate purposes, including working capital, sales and marketing activities, general and administrative matters, and capital expenditures. We may also use a portion of the net proceeds to acquire, invest in, or obtain rights to complementary technologies, solutions, or businesses. Until we use the net proceeds to us from the initial public offering, we plan to invest them, and these investments may not yield a favorable rate of return. If we do not invest or apply the net proceeds from the initial public offering in ways that enhance stockholder value, we may fail to achieve expected financial results, which could cause our stock price to decline.

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

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

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

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

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

Table of Contents

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

These provisions, alone or together, could delay hostile takeovers and changes in control of our company or changes in our management.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices are located in Boston, Massachusetts, in a 39,775 square-foot facility, under a lease expiring on December 31, 2016. We also have a 22,592 square foot customer support facility in Lewiston, Maine under a lease expiring on June 1, 2016 as well as a small office in Princeton, New Jersey and a small development office in Beijing, China.

Our data centers are located at three facilities in Massachusetts and one facility in Arizona. Our data center leases expire at various times between August 2013 and January 2016, and a separate data hosting arrangement is cancellable by us upon 120 days notice.

Table of Contents

ITEM 3. LEGAL PROCEEDINGS

In August 2010, Oasis Research, LLC, or Oasis Research, filed a lawsuit against us and several of our competitors and other online technology companies in the U.S. District Court for the Eastern District of Texas, alleging that our online backup storage services, and the other companies' products or services, infringe certain of Oasis Research's patents. Oasis Research seeks an award for damages in an unspecified amount. Oasis Research does not currently seek an injunction. We expect that a trial date will be set for late 2012 or early 2013. We are not able to assess with certainty the outcome of this litigation or the amount or range of potential damages or future payments associated with this litigation at this time. However, any litigation is subject to inherent uncertainties, and there can be no assurance that the expenses associated with defending this lawsuit or its resolution will not have a material adverse impact on our business, operations, financial condition, or cash flows.

In addition to the Oasis lawsuit, from time to time, we have been and may become involved in legal proceedings arising in the ordinary course of our business. Although the results of litigation and claims cannot be predicted with certainty, we are not presently involved in any other legal proceeding in which the outcome, if determined adversely to us, would be expected to have a material adverse effect on our business, operating results, or financial condition. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

ITEM 4. Mine Safety Disclosures

Not Applicable.

PART II

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

Our common stock has been traded on The NASDAQ Global Market under the symbol “CARB” since our initial public offering on August 11, 2011. Prior to this time, there was no public market for our common stock. The following table shows the high and low sale prices per share of our common stock as reported on The NASDAQ Global Market for the periods indicated:

	<u>High</u>	<u>Low</u>
Third Quarter 2011 (beginning August 11, 2011)	\$21.10	\$10.80
Fourth Quarter 2011	\$14.65	\$10.62

On March 1, 2012, the closing price as reported on The NASDAQ Global Market, of our common stock was \$9.52 per share. As of March 1, 2012, we had approximately 101 holders of record of our common stock. This does not include the number of persons whose stock is held in nominee or “street” name accounts through brokers.

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

Our equity plan information required by this item is incorporated by reference to the information in Part III, Item 12 of this Annual Report on Form 10-K.

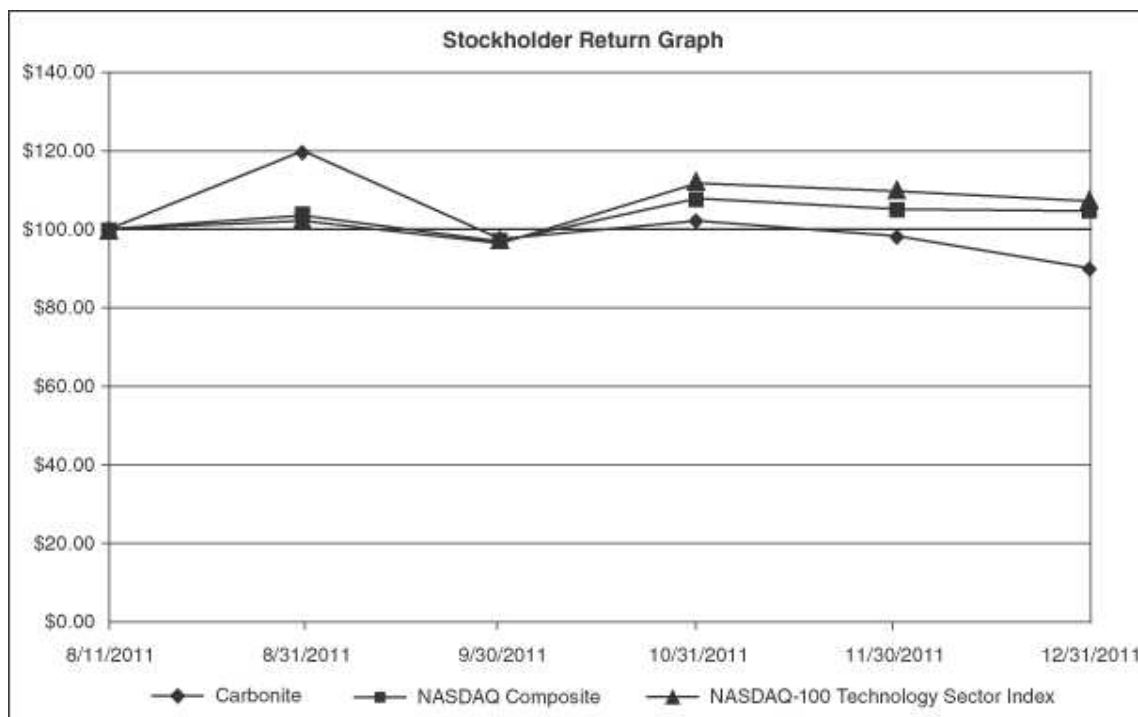
Performance Graph

The following performance graph compares the cumulative total return to holders of our common stock for the period from August 11, 2011, the date our common stock commenced trading on The NASDAQ Global Market, through December 31, 2011, against the cumulative total return of The NASDAQ Composite Index and The NASDAQ-100 Technology Sector Index.

The comparison assumes that \$100.00 was invested in our common stock, The NASDAQ Composite Index and The NASDAQ-100 Technology Sector Index, and assumes reinvestment of dividends, if any. The graph assumes the initial value of our common stock on August 11, 2011 was the closing sale price on that day of \$12.35 per share and not the initial offering price to the public of \$10.00 per share. The performance shown on the graph below is based on historical results and is not intended to suggest future performance.

**COMPARISON OF FIVE MONTH CUMULATIVE TOTAL RETURN
AMONG CARBONITE, INC., THE NASDAQ COMPOSITE INDEX
AND THE NASDAQ-100 TECHNOLOGY SECTOR INDEX**

	8/11/2011	8/31/2011	9/30/2011	10/31/2011	11/30/2011	12/31/2011
Carbonite	\$100.00	\$119.92	\$ 97.49	\$ 102.19	\$ 98.14	\$ 89.88
NASDAQ Composite	\$100.00	\$103.48	\$ 96.90	\$ 107.69	\$ 105.12	\$ 104.51
NASDAQ-100 Technology Sector Index	\$100.00	\$102.17	\$ 96.49	\$ 111.71	\$ 109.60	\$ 107.15



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

Recent Sales of Unregistered Securities

During the period between January 1, 2011 and August 17, 2011 (the date of the filing of our registration statement on Form S-8, File No. 333-176373), we issued options to purchase 399,850 shares of our common stock at a weighted average exercise price of \$10.90 per share. During this same period, we issued an aggregate of 691,759 shares of common stock that were not registered under the Securities Act to our directors, officers, employees, and consultants pursuant to exercise of stock options for cash consideration with aggregate exercise proceeds of \$0.8 million. These issuances were undertaken in reliance upon the exemption from registration requirements of Rule 701 of the Securities Act. The recipients of these shares of commons stock represented their intentions to acquire the shares for investment only and not with a view to or for sale in connection with any distribution, and appropriate legends were affixed to the share book entry records issued in these transactions. All recipients had adequate access, through their relationship with us, to information about us.

Table of Contents

Use of Proceeds

On August 10, 2011, our registration statement on Form S-1 (File No. 333-174139) was declared effective for our initial public offering. On August 16, 2011, we closed our initial public offering of 7,187,500 shares of common stock at an offering price of \$10.00 per share, of which 6,303,973 shares were sold by us, including 937,500 shares pursuant to the underwriters' option to purchase additional shares, and 883,527 shares were sold by selling stockholders. The underwriters of the offering were Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC, William Blair & Company, L.L.C., Canaccord Genuity Inc., Oppenheimer & Co. Inc., and Pacific Crest Securities Inc. Following the sale of the shares in connection with the closing of our initial public offering, the offering terminated.

As a result of the offering, including the underwriters' option to purchase additional shares, we received net proceeds of \$55.6 million, after deducting total expenses of \$7.4 million, consisting of underwriting discounts and commissions of \$4.4 million and offering-related expenses of \$3.0 million. None of such payments were direct or indirect payments to any of the Company's directors or officers or their associates, to person owning 10% or more of our common stock, or to any of our affiliates.

The net proceeds to us from our initial public offering have been invested in money market accounts and government and government agency securities.

There has been no material change in the planned use of proceeds from our initial public offering as described in our prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b) under the Securities Act.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

You should read the following selected consolidated financial and other data below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements, related notes, and other financial information included in this Annual Report on Form 10-K. The selected consolidated financial and other data in this section are not intended to replace the consolidated financial statements and are qualified in their entirety by the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

The consolidated statements of operations data for the years ended December 31, 2011, 2010 and 2009 and the consolidated balance sheets data as of December 31, 2011 and 2010 are derived from our audited consolidated financial statements included elsewhere in this report. The consolidated statements of operations data for the years ended December 31, 2008 and 2007 and the consolidated balance sheets data as of December 31, 2009, 2008 and 2007 are derived from our audited consolidated financial statements not included in this Annual Report on Form 10-K. Historical results are not necessarily indicative of the results to be expected in the future.

Table of Contents

	Years Ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except share and per share data)				
Consolidated statements of operations data:					
Revenue	\$ 60,512	\$ 38,563	\$ 19,114	\$ 8,202	\$ 2,154
Cost of revenue (1)	23,202	16,284	8,954	4,273	1,717
Gross profit	37,310	22,279	10,160	3,929	437
Operating expenses (1):					
Research and development	16,511	10,868	6,210	4,663	3,042
General and administrative	6,631	4,209	2,485	2,389	1,414
Sales and marketing	37,722	33,098	21,067	14,729	7,369
Total operating expenses	60,864	48,175	29,762	21,781	11,825
Loss from operations	(23,554)	(25,896)	(19,602)	(17,852)	(11,388)
Interest and other income, net	41	133	377	413	486
Loss before income taxes	(23,513)	(25,763)	(19,225)	(17,439)	(10,902)
Provision for income taxes	(23)	—	—	—	—
Net Loss	(23,536)	(25,763)	(19,225)	(17,439)	(10,902)
Accretion of redeemable convertible preferred stock	(128)	(210)	(210)	(210)	(210)
Net loss attributable to common stockholders	\$ (23,664)	\$ (25,973)	\$ (19,435)	\$ (17,649)	\$ (11,112)
Basic and diluted net loss per share attributable to common stockholders	\$ (1.84)	\$ (5.90)	\$ (4.78)	\$ (4.61)	\$ (2.97)
Weighted-average number of shares of common stock used in computing basic and diluted net loss per share	12,841,233	4,399,137	4,065,230	3,828,073	3,743,246

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

	Years Ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands)				
Cost of revenue	\$207	\$ 45	\$ 35	\$16	\$15
Research and development	511	171	88	38	27
General and administrative	346	227	188	89	78
Sales and Marketing	381	99	79	60	62

Table of Contents

	As of December 31,				
	2011	2010	2009 (in thousands)	2008	2007
Consolidated balance sheet data:					
Cash	\$59,842	\$ 13,855	\$ 28,276	\$ 2,543	\$ 14,773
Working capital (deficit)	18,838	(12,381)	12,595	12,266	10,342
Total assets	99,606	40,941	46,433	30,701	18,501
Deferred revenue, including current portion	59,696	38,722	23,144	9,401	3,534
Total liabilities	72,004	47,834	29,149	14,009	5,840
Preferred stock warrant liability	—	82	18	18	18
Redeemable and convertible stock	—	68,730	67,770	48,387	26,983
Total stockholders' equity (deficit)	27,602	(75,623)	(50,486)	(31,696)	(14,322)

	Years Ended December 31,				
	2011	2010	2009 (in thousands, except percentage data)	2008	2007 (1)
Key metrics:					
Total customers (2)	1,223	951	590	281	95
Annual retention rate (3)	82%	83%	79%	81%	N/A
Renewal rate (4)	82%	81%	78%	78%	N/A
Bookings (5)	\$80,900	\$ 54,141	\$32,857	\$ 14,069	\$ 5,170
Free cash flow (6)	\$(5,972)	\$(12,204)	\$(8,045)	\$(12,409)	\$(8,638)

(1) We did not document annual retention rate or renewal rate in 2007.

(2) We define total customers as the number of paid subscriptions from consumers and SMBs at the end of the relevant period.

(3) We define annual retention rate as the percentage of customers on the last day of the prior year who remain customers on the last day of the current year, or for quarterly presentations, the percentage of customers on the last day of the comparable quarter in the prior year who remain customers on the last day of the current quarter.

(4) We define renewal rate for a period as the percentage of customers who renew annual or multi-year subscriptions that expire during the period presented. Renewal rate excludes customers under our discontinued third-party distribution agreements and prior SMB offering with subscriptions that remain active until cancelled.

(5) We define bookings as revenue recognized during the period plus the change in total deferred revenue (excluding deferred revenue recorded in connection with acquisitions) during the same period.

(6) We define free cash flow as net cash provided by (used in) operating activities, less capital expenditures, and adjusted for any extraordinary items.

Bookings and free cash flow are financial data that are not calculated in accordance with GAAP. The tables below provide reconciliation of bookings and free cash flow to revenue and cash provided by (used in) operating activities, respectively, the most directly comparable financial measures calculated and presented in accordance with GAAP.

Our management uses annual retention rate to determine the stability of our customer base and to evaluate the lifetime value of our customer relationships. As customers' annual and multi-year subscriptions come up for renewal throughout the calendar year based on the dates of their original subscriptions, measuring retention on a trailing twelve month basis at the end of each quarter provides our management with useful and timely information about the stability of our customer base. Management uses renewal rate to monitor trends in customer renewal activity.

Table of Contents

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

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

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

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

	Years Ended December 31,				
	2011	2010	2009 (in thousands)	2008	2007
Revenue	\$60,512	\$38,563	\$19,114	\$ 8,202	\$2,154
Plus change in deferred revenue (excluding acquisition)	20,388	15,578	13,743	5,867	3,016
Bookings	<u>\$80,900</u>	<u>\$54,141</u>	<u>\$32,857</u>	<u>\$14,069</u>	<u>\$5,170</u>

	Years Ended December 31,				
	2011	2010	2009 (in thousands)	2008	2007
Cash provided by (used in) operating activities	\$ 7,572	\$ (1,552)	\$ (946)	\$ (7,705)	\$(6,094)
Less capital expenditures	(13,544)	(10,652)	(7,099)	(4,704)	(2,544)
Free cash flow	<u>\$ (5,972)</u>	<u>\$(12,204)</u>	<u>\$(8,045)</u>	<u>\$(12,409)</u>	<u>\$(8,638)</u>

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

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

Overview

We are a leading provider of online backup solutions for consumers and SMBs. We provide easy-to-use, affordable, unlimited, and secure online backup solutions with anytime, anywhere access to files stored on our servers, which we call the Carbonite Personal Cloud. We believe that we are the best known brand in the online backup market.

In 2005, we began development of our online backup solution and raised our first capital from investors. We sold the first Carbonite subscription in 2006. In 2010, we introduced our SMB solution, opened our office in Beijing, China, and expanded our management team to better focus on our consumer and SMB markets. We surpassed 100,000 subscribers in 2008, 500,000 subscribers in 2009, and 1,000,000 subscribers in early 2011. As of December 31, 2011, we had subscribers in more than 100 countries, with subscribers based in the U.S representing 94% of our total revenue for 2011.

We derive our revenue from subscription fees from consumers and SMBs. We charge consumers a \$59 flat fee for one year of unlimited online backup with our Carbonite Home solution. Our Carbonite HomePlus and Carbonite HomePremier solutions provide consumers with additional features at annual prices of \$99 and \$149, respectively. The pricing of all of our consumer solutions is discounted for multi-year subscriptions. Our SMB solutions, Carbonite Business and Carbonite BusinessPremier, allows for an unlimited number of users, with tiered pricing based on the total amount of data backed up. As of December 31, 2011, approximately 70% of subscribers to our consumer service had one year subscriptions, although the percentage of customers with multi-year subscriptions has increased over time. We charge customers the full subscription amount at the beginning of each subscription period. We initially record a subscription fee as deferred revenue and then recognize it ratably over the subscription period. The annual or multi-year commitments of our customers enhance management's visibility of our revenue and charging customers at the beginning of the subscription period provides working capital.

We are investing aggressively in customer acquisition because we believe that the market for online backup is in the early stages of development. Our largest expense is advertising for customer acquisition, which is recorded as sales and marketing expense. This is comprised of television and radio advertising, online display advertising, print advertising, paid search, direct marketing, and other expenses. In 2011, 2010, and 2009, our total advertising expense was \$25.1 million, \$23.6 million, and \$10.8 million, respectively. We generally spend more on advertising in the first and third quarters of each year based on the seasonality of customer purchasing patterns and fluctuations in advertising rates.

As we grow our business we continue to invest in additional storage and infrastructure. Our capital expenditures in 2011, 2010, and 2009 were \$13.5 million, \$10.7 million, and \$7.1 million, respectively.

Our revenue has grown from \$19.1 million in 2009 to \$38.6 million in 2010 and \$60.5 million in 2011. At the same time, our total operating costs have grown from \$29.8 million in 2009 to \$48.2 million in 2010 and \$60.9 million in 2011, principally as a result of our investment in customer acquisition. We expect to continue to devote substantial resources to customer acquisition, improving our technologies, and expanding our solutions. In

Table of Contents

addition, we expect to invest heavily in our operations to support anticipated growth and public company reporting and compliance obligations. We defer revenue over our customers' subscription periods, but expense marketing costs as incurred. As a result of these factors, we expect to continue to incur GAAP operating losses on an annual basis for the foreseeable future.

In August 2011, we closed our initial public offering of 7,187,500 shares of common stock at an offering price of \$10.00 per share, of which 6,303,973 shares were sold by us, including 937,500 shares pursuant to the underwriters' option to purchase additional shares, and 883,527 shares were sold by selling stockholders, resulting in net proceeds to us of approximately \$55.6 million, after deducting underwriting discounts and offering expenses.

Our Business Model

We evaluate the profitability of a customer relationship over its lifecycle because of the nature of our business model. As we generally incur customer acquisition costs in advance of subscriptions while recognizing revenue ratably over the terms of the subscriptions, a customer relationship may not be profitable at the beginning of the subscription period, even though it may be profitable over the life of the customer relationship. As we also generally incur capital equipment costs in advance of subscriptions, a customer relationship may not result in positive cash flow at the beginning of the subscription period, even though it may result in positive cash flow over the life of the customer relationship. While we offer both annual and multi-year subscriptions to our customers, a significant majority of them are currently on one-year subscription plans. We typically generate positive cash flow during the first year of a multi-year subscription as we charge the subscription fee for the entire period at the beginning of the subscription.

Key Business Metrics

Our management regularly reviews a number of financial and operating metrics, including the following key metrics, to evaluate our business:

- *Total customers.* We calculate total customers as the number of paid subscriptions from consumers and SMBs at the end of the relevant period. A consumer who has more than one computer may have multiple subscriptions, each of which is treated as a separate subscription. An SMB subscription may cover multiple computers and users but is treated as a single subscription.
- *Annual retention rate.* We calculate annual retention rate as the percentage of customers on the last day of the prior year who remain customers on the last day of the current year, or for quarterly presentations, the percentage of customers on the last day of the comparable quarter in the prior year who remain customers on the last day of the current quarter. Our management uses these measures to determine the stability of our customer base and to evaluate the lifetime value of our customer relationships.
- *Renewal rate.* We define renewal rate for a period as the percentage of customers who renew annual or multi-year subscriptions that expire during the period presented. Renewal rate excludes customers under our discontinued third-party distribution agreements and prior SMB offering with subscriptions that remain active until cancelled. Our management uses this measure to monitor trends in customer renewal activity.
- *Bookings.* We calculate bookings as revenue recognized during a particular period plus the change in total deferred revenue (excluding deferred revenue recorded in connection with acquisitions) during the same period. Our management uses this measure as a proxy for cash receipts. Bookings represents the aggregate dollar value of customer subscriptions received by us during a period. We initially record a subscription fee as deferred revenue and then recognize it ratably, on a daily basis, over the life of the subscription period.
- *Free cash flow.* We calculate free cash flow as net cash provided by (used in) operating activities, less purchases of property and equipment, and adjusted for any extraordinary items. Our management uses this measure to evaluate our operating results.

Table of Contents

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

Performance Highlights

The following table presents our performance highlights for the periods presented:

	Years Ended December 31,		
	2011	2010	2009
	(in thousands, except percentage data)		
Key metrics:			
Total customers	1,223	951	590
Annual retention rate	82%	83%	79%
Renewal rate	82%	81%	78%
Bookings	\$80,900	\$ 54,141	\$32,857
Free cash flow	\$(5,972)	\$(12,204)	\$(8,045)

Our total customers and bookings increased over the periods presented and we are continuing to invest substantially in customer acquisition in an effort to drive future growth in total customers and bookings. While we expect our total customers to continue to increase on an absolute basis, we expect that our annual percentage increase in total customers will decline as our customer base grows.

In June 2010, we decided to cease distribution of our consumer solutions through third-party distribution channels, and we terminated most of our distribution agreements at that time. During 2010, subscriptions purchased through third-party distributors accounted for 8% of our revenue. Historically, renewal rates for subscriptions purchased through third-party distributors were lower than for direct sales. Excluding renewal activity related to third-party distributor sales, our annual retention rates for the years ended December 31, 2011, December 31, 2010, and December 31, 2009 were 86%, 85%, and 83% respectively.

Our free cash flow over the periods presented has improved due to economies of scale and the impact of higher per customer profitability associated with customers who continue beyond a single year. Free cash flow for the year ended December 31, 2011 improved by \$6.2 million and \$2.1 million compared to the years ended December 31, 2010 and December 31, 2009, respectively.

Key Components of our Consolidated Statements of Operations

Revenue

We derive our revenue from subscription fees from consumers and SMBs. We typically charge a customer's credit card the full price of the subscription at the commencement of the subscription period and at each renewal date, unless the customer decides not to renew the subscription. We initially record a customer subscription fee as deferred revenue and then recognize it ratably, on a daily basis, over the life of the subscription period.

Cost of revenue

Cost of revenue consists primarily of costs associated with our data center operations and customer support centers, including wages and benefits for personnel, depreciation of equipment, rent, utilities and broadband, equipment maintenance, software license fees, and allocated overhead. The expenses related to hosting our services and supporting our customers are related to the number of customers and the complexity of our services and hosting infrastructure. We expect these expenses to increase in absolute dollars as we continue to increase our number of customers. On a per subscriber basis, our costs have been decreasing as we achieve economies of

Table of Contents

scale and purchase equipment and services in larger quantities. There has also been a long term downward trend in the cost of storage equipment and broadband service, which we expect will continue in the future.

Gross profit and gross margin

Gross profit is our revenue less our cost of revenue. Our gross margins have historically expanded due to price increases for our consumer solutions and from economies of scale. We expect our gross margins to remain flat in the near term as we add new data centers and expand modestly thereafter.

Operating expenses

Research and development. Research and development expenses consist primarily of wages and benefits for development personnel, consulting fees, rent, and depreciation. We have focused our research and development efforts on both improving ease of use and functionality of our existing services and developing new offerings. The majority of our research and development employees are located at our corporate headquarters in the U.S., with another group at our offices in China. We expect that research and development expenses will increase in absolute dollars on an annual basis and decrease modestly as a percentage of revenue, as we continue to enhance and expand our services.

General and administrative. General and administrative expenses consist primarily of wages and benefits for management, finance, accounting, human resources, legal and other administrative personnel, legal and accounting fees, insurance, and other corporate expenses. We expect to continue to add personnel and enhance our internal information systems in connection with the growth of our business. We expect our general and administrative expenses to increase, given that we have become a public company. We expect our accounting, legal, and personnel-related expenses and directors and officers insurance costs to increase as we have instituted and continue to monitor a more comprehensive compliance and board governance function, maintain and review internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act, and prepare and distribute periodic reports, as required by the rules and regulations of the Securities and Exchange Commission. As a result, we expect that our general and administrative expenses will continue to increase in absolute dollars on an annual basis, but decrease as a percentage of revenue.

Sales and marketing. Sales and marketing expenses consist primarily of advertising costs, wages and benefits for sales and marketing personnel, creative expenses for advertising programs, credit card fees, commissions paid to third-party partners and affiliates, and the cost of providing free trials. The largest component of sales and marketing expense is advertising for customer acquisition, principally television, radio and print advertisements. Online search costs consist primarily of pay-per-click payments to search engine operators. Advertising costs are expensed as incurred. To date, marketing and advertising costs have been incurred principally in the U.S., but we expect to increase our marketing and advertising expenditures in other countries. We expect that we will continue to commit significant resources to our sales and marketing efforts to grow our business and awareness of our brand and services. We expect that sales and marketing expenses will continue to increase in absolute dollars on an annual basis, but decrease as a percentage of revenue.

Critical Accounting Policies

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

Table of Contents

are summarized below. See Note 2 to our financial statements included elsewhere in this Annual Report on Form 10-K for additional information about these critical accounting policies, as well as a description of our other significant accounting policies.

Revenue recognition

We derive revenue from online backup subscription services. These services are stand-alone independent service solutions, which are generally contracted for a one- to three-year term. Subscription agreements include access to use our solutions via the internet. We recognize revenue in accordance with the Financial Accounting Standards Codification (ASC) 605-10, *Overall Revenue Recognition*. Subscription revenue is recognized ratably on a daily basis upon activation over the subscription period, when persuasive evidence of an arrangement with a customer exists, the subscription period has been activated, the price is fixed or determinable, and collection is reasonably assured. Deferred revenue represents payments received from customers for subscription services prior to recognizing the revenue related to those payments.

Goodwill and acquired intangible assets

We record goodwill when consideration paid in a business acquisition exceeds the fair value of the net tangible assets and the identified intangible assets acquired. Goodwill is not amortized, but rather is tested for impairment annually or more frequently if facts and circumstances warrant a review. We perform our assessment for impairment of goodwill on an annual basis and we have determined that there is a single reporting unit for the purpose of conducting this annual goodwill impairment assessment. For purposes of assessing potential impairment, we annually estimate the fair value of the reporting unit (based on our market capitalization) and compare this amount to the carrying value of the reporting unit (as reflected by our total stockholders' equity). If we determine that the carrying value of the reporting unit exceeds its fair value, an impairment charge would be required. Our annual goodwill impairment test is at November 30 of each year.

Income taxes

We provide for income taxes under the liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates in effect when the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to reflect the uncertainty associated with their ultimate realization. We account for uncertain tax positions recognized in our consolidated financial statements by prescribing a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Due to a history of losses, we have provided a full valuation allowance against our deferred tax assets as more fully described in Note 10 of our consolidated financial statements. The ability to utilize these losses, any future losses, and any other tax credits or attributes may be restricted or eliminated by changes in our ownership, changes in legislation and other rules affecting the ability to offset future taxable income with losses from prior periods. Future determinations on the need for a valuation allowance on our net deferred tax assets will be made on a quarterly basis, and our assessment at December 31, 2011 reflects a continued need for a full valuation allowance.

Stock-based compensation

Accounting guidance requires employee stock-based payments to be accounted for under the fair value method. Under this method, we are required to record compensation cost based on the estimated fair value for stock-based awards granted amortized over the requisite service periods for the individual awards, which generally equals the vesting periods. We use the straight-line amortization method for recognizing stock-based compensation expenses.

Table of Contents

Determining the appropriate fair value model and calculating the fair value of stock-based payment awards requires the use of highly subjective estimates and assumptions, including the estimated fair value of our common stock. Following our initial public offering, we used the quoted market price of our common stock to establish the fair value of the common stock underlying our stock options. Because there was no public market for our common stock prior to our initial public offering, our board of directors determined the fair value of our common stock with input from management, based on reports of an unrelated third-party valuation specialist.

We estimate the fair value of stock options on the date of grant using the Black-Scholes option-pricing model, which further requires the use of highly subjective estimates and assumptions, including expected stock price volatility, expected term of an award, risk-free interest rate, and expected dividend yield. As a public company with limited trading history, we consider both the volatility of our stock price and that of our publicly traded peer companies. The expected life assumption is based on the simplified method for estimating expected term as we do not have sufficient stock option exercise experience to support a reasonable estimate of the expected term. The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero-coupon issues with terms approximately equal to the expected life of the stock option. We use an expected dividend rate of zero as we currently have no history or expectation of paying cash dividends on our capital stock.

Results of Operations

The following table sets forth, for the periods presented, data from our consolidated statements of operations as well as the percentage of revenue that each line item represents. The period-to-period comparison of financial results is not necessarily indicative of future results. The information contained in the tables below should be read in conjunction with financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

	Years Ended December 31,		
	2011	2010 (in thousands)	2009
Consolidated statements of operations data:			
Revenue	\$ 60,512	\$ 38,563	\$ 19,114
Cost of revenue	<u>23,202</u>	<u>16,284</u>	<u>8,954</u>
Gross profit	37,310	22,279	10,160
Operating expenses:			
Research and development	16,511	10,868	6,210
General and administrative	6,631	4,209	2,485
Sales and marketing	<u>37,722</u>	<u>33,098</u>	<u>21,067</u>
Total operating expenses	<u>60,864</u>	<u>48,175</u>	<u>29,762</u>
Loss from operations	(23,554)	(25,896)	(19,602)
Interest and other income, net	41	133	377
Loss before income taxes	(23,513)	(25,763)	(19,225)
Provision for income taxes	(23)	—	—
Net Loss	<u>(23,536)</u>	<u>(25,763)</u>	<u>(19,225)</u>
Accretion of redeemable convertible preferred stock	(128)	(210)	(210)
Net loss attributable to common stockholders	<u><u>\$(23,664)</u></u>	<u><u>\$(25,973)</u></u>	<u><u>\$(19,435)</u></u>

Table of Contents

	Years Ended December 31,		
	2011	2010 (% of revenue)	2009
Consolidated statements of operations data:			
Revenue	100%	100%	100%
Cost of revenue	38.3	42.2	46.8
Gross profit	61.7	57.8	53.2
Operating expenses:			
Research and development	27.3	28.2	32.5
General and administrative	11.0	10.9	13.0
Sales and marketing	62.3	85.8	110.2
Total operating expenses	100.6	124.9	155.7
Loss from operations	(38.9)	(67.2)	(102.6)
Interest and other income, net	—	0.4	2.0
Loss before income taxes	(38.9)	(66.8)	(100.6)
Provision for income taxes	—	—	—
Net Loss	(38.9)%	(66.8)%	(100.6)%

Comparison of Years Ended December 31, 2011, 2010, and 2009

Revenue

	Years Ended December 31,			2010 to 2011	2009 to 2010
	2011	2010	2009	% Change	% Change
	(in thousands, except percentage data)				
Revenue	\$60,512	\$38,563	\$19,114	56.9%	101.8%

Revenue increased by \$21.9 million from 2010 to 2011 and by \$19.4 million from 2009 to 2010, primarily due to 28.5% and 61.3% increases in the number of total customers in 2011 and 2010, respectively. The increase in revenue during these periods was driven in part by increased advertising expenditures in prior periods, as well as increases in pricing of our consumer services in April 2009 and April 2011. In addition, we released our first SMB offering in February 2010 and revenue from SMB customers was approximately \$5.8 million in 2011 compared to \$1.1 million in 2010. During 2009 and 2010, we terminated channel distribution agreements, which had historically resulted in lower revenue per subscription than direct sales. Each of these factors impacted revenue during these periods.

Table of Contents

Cost of revenue, gross profit, and gross margin

	Years Ended December 31,			2010 to 2011	2009 to 2010
	2011	2010	2009	% Change	% Change
	(in thousands, except percentage data)				
Cost of revenue	\$23,202	\$16,284	\$ 8,954	42.5%	81.9%
Gross profit	37,310	22,279	10,160	67.5%	119.3%
Gross margin	61.7%	57.8%	53.2%		

Cost of revenue increased by \$6.9 million from 2010 to 2011 and by \$7.3 million from 2009 to 2010, primarily due to an increase in the total number of customers. The increase in cost of revenue from 2010 to 2011 was comprised primarily of hosting costs of \$5.5 million, including depreciation of equipment, personnel related costs of our operations employees, and increases in our data storage capacity, and customer support costs of \$1.4 million, primarily associated with the cost of new employees to replace outsourced support in India. The increase in cost of revenue from 2009 to 2010 was comprised primarily of hosting costs of \$4.2 million, including establishing a new data center, and customer support costs of \$3.1 million, primarily associated with the cost of new employees and providing outsourced support in India. Gross profit increased primarily as a result of operating efficiencies primarily due to economies of scale.

Operating expenses

	Years Ended December 31,			2010 to 2011	2009 to 2010
	2011	2010	2009	% Change	% Change
	(in thousands, except percentage data)				
Research and development	\$ 16,511	\$ 10,868	\$ 6,210	51.9%	75.0%
General and administrative	6,631	4,209	2,485	57.5%	69.4%
Sales and marketing	37,722	33,098	21,067	14.0%	57.1%

Research and development . Research and development expenses increased by \$5.6 million from 2010 to 2011 and by \$4.7 million from 2009 to 2010, primarily due to personnel related costs associated with additional hiring to enhance the functionality of our solutions and to develop new offerings.

General and administrative . General and administrative expenses increased by \$2.4 million from 2010 to 2011 and by \$1.7 million from 2009 to 2010. In both years, we increased the number of general and administrative employees to support our overall growth. The overall increases consisted primarily of increases of \$1.5 million and \$1.1 million in professional fees, including legal and accounting fees, from 2010 to 2011 and 2009 to 2010, respectively, and \$0.4 million and \$0.5 million in personnel related and recruiting costs from 2010 to 2011 and 2009 to 2010, respectively.

Sales and marketing . Sales and marketing expenses increased by \$4.6 million from 2010 to 2011 and by \$12.0 million from 2009 to 2010. The increase from 2010 to 2011 was attributable to an increase in advertising campaigns of \$1.5 million and an increase in personnel related costs of \$1.1 million as a result of hiring new employees. In addition, credit card processing fees increased \$0.8 million and costs related to free trials increased \$1.2 million. The increase from 2009 to 2010 was comprised primarily of increases of \$12.8 million in advertising expenses, \$0.6 million in other marketing expenses, and \$0.6 million in credit card fees, offset in part by decreases of \$1.9 million in outside commissions due to the termination of channel distribution agreements in 2009 and \$0.3 million in costs related to free trials.

Table of Contents

Liquidity and Capital Resources

As of December 31, 2011, we had cash and cash equivalents of \$59.8 million, which primarily consisted of cash and money market funds. In connection with our initial public offering in August 2011, we received net proceeds of \$55.6 million. Prior to our initial public offering, we had funded our operations primarily through prepayment of subscriptions and the sale of \$68.8 million of preferred stock, all of which was converted into shares of our common stock in connection with our initial public offering. Our principal uses of cash are funding our operations and capital expenditures. In June 2011, we used \$1.9 million of cash to acquire substantially all of the assets of Phanfare, Inc., which operates a service that enables users to create, maintain, and share online photo and video albums.

Sources of funds

We believe, based on our current operating plan, that our existing cash and cash equivalents and borrowings available under our revolving credit facility will be sufficient to meet our anticipated cash needs for at least the next 12 months.

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

In May 2011, we entered into a revolving bank credit facility pursuant to which we may incur indebtedness up to \$15 million. Advances under the credit facility bear interest on the outstanding daily balance, at an annual rate equal to the lender's prime reference rate plus 1%. We have pledged our accounts receivable, equipment, and shares of our subsidiaries to the lender to secure our obligations under the credit facility. We have also agreed not to grant a security interest in or pledge our intellectual property to any third party. The credit facility contains customary events of default, conditions to borrowings and restrictive covenants, including restrictions on our ability to dispose of assets, make acquisitions, incur additional debt, incur liens, make distributions to our stockholders, make investments, or enter into certain types of related party transactions. The credit facility also includes financial and other covenants including covenants to maintain a minimum adjusted net worth, a minimum number of total subscribers, and a minimum cash deposit. To date, we have not drawn down on our revolving credit facility. Any inability to meet our debt service obligations could adversely affect our financial position and liquidity.

Uses of funds

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

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

Table of Contents

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

Cash flows

The following table summarizes our cash flow data for 2011, 2010, and 2009.

	Years Ended December 31,		
	2011	2010 (in thousands)	2009
Net cash provided by (used in) operating activities	\$ 7,572	\$ (1,552)	\$ (946)
Net cash provided by (used in) investing activities	(18,187)	(13,913)	7,251
Net cash provided by financing activities	56,600	1,041	19,428

Operating activities

Our cash flows from operating activities are significantly influenced by the amount of our net loss, growth in subscription sales and customer growth, changes in working capital accounts, the timing of prepayments and payments to vendors, add-backs of non-cash expense items such as depreciation, and the expense associated with stock-based compensation.

In 2011, cash provided by operating activities was \$7.6 million, which was primarily driven by a \$20.4 million increase in deferred revenue associated with the increase in subscription sales and customer growth. Net cash inflows from operating activities included non-cash charges of \$9.3 million, including \$7.9 of depreciation and amortization and \$1.4 million of stock based compensation. An increase in accounts payable and accrued expenses provided an additional \$2.8 million. These cash inflows were partially offset by our net loss of \$23.5 million and a \$1.2 million increase in prepaid expenses and other current assets.

In 2010, we used \$1.6 million in operating activities, which was primarily driven by our net loss of \$25.8 million, offset by a \$15.6 million increase in deferred revenue associated with the increase in subscription sales and customer growth, non-cash charges of \$5.6 million, including \$5.1 million of depreciation and \$0.5 million of stock based compensation, and a \$3.0 million increase in current liabilities.

In 2009, we used \$0.9 million in operating activities, which was primarily driven by our net loss of \$19.2 million and a \$0.4 million increase in accounts receivable. These cash outflows were partially offset by a \$13.7 million increase in deferred revenue associated with the increase in subscription sales and customer growth. Cash inflows included non-cash charges of \$3.4 million, including \$3.0 million of depreciation and \$0.4 million of stock based compensation, a \$1.3 million increase in current liabilities, and a \$0.1 million decrease in prepaid expenses.

Investing activities

In 2011, cash used in investing activities was \$18.2 million, consisting primarily of capital expenditures of \$13.5 million primarily for server equipment and other data center infrastructure and the use of \$1.9 million of net cash in connection with the acquisition of substantially all of the assets of Phanfare, Inc. In addition, purchases and maturities of short-term investments netted to a \$2.7 million use of cash.

In 2010, we used \$13.9 million in investing activities, consisting primarily of \$10.7 million for the purchase of equipment, in addition to a net investment of \$3.3 million in short-term investments.

Table of Contents

In 2009, cash provided by investing activities was \$7.3 million, consisting primarily of net proceeds from short-term investments of \$14.4 million, offset by capital expenditures of \$7.1 million.

Financing activities

Cash provided by financing activities in 2011 was \$56.6 million, consisting of \$55.6 million of net proceeds from our initial public offering and \$1.0 million from the exercise of stock options.

Cash provided by financing activities in 2010 was \$1.0 million, consisting primarily of net proceeds of \$0.8 million from the issuance of shares of Series D convertible preferred stock and \$0.3 million from the exercise of stock options.

Cash provided by financing activities in 2009 was \$19.4 million, consisting primarily of net proceeds of \$19.2 million from the issuance of shares of Series D convertible preferred stock and \$0.2 million from the exercise of stock options.

Off-balance sheet arrangements

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

Contractual obligations

The following table summarizes our contractual obligations at December 31, 2011 and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

	<u>Total</u>	<u>Payment Due by Period</u>		
		<u>Less Than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>
		<u>(in thousands)</u>		
Office lease obligations	\$ 6,820	\$1,234	\$2,810	\$2,776
Hosting facility lease obligations	6,358	1,932	3,142	1,284
Other purchase commitments	<u>6,122</u>	<u>5,079</u>	<u>722</u>	<u>321</u>
Total	\$19,300	\$8,245	\$6,674	\$4,381

The commitments under our office lease obligations shown above consist primarily of lease payments for our Boston, Massachusetts corporate headquarters, our Lewiston, Maine customer support facility.

We also lease small amounts of general office space in Princeton, New Jersey and Beijing, China under lease agreements that expire at various dates through August 2012.

Our Lewiston, Maine support facility lease expires on June 1, 2016. We may terminate this lease at any time after May 31, 2013. The lease contains a renewal option for an additional two years, and requires us to pay a proportion of increases in operating expenses and real estate taxes after January 1, 2013.

The commitment under our hosting facility obligations shown above consist of Boston, Massachusetts, Wakefield, Massachusetts, and Phoenix, Arizona data centers.

We intend to relocate our equipment and operations from our Boston, Massachusetts data center to one of our other data centers and to discontinue the use of our Boston, Massachusetts data center during the first half of 2012. The term of our Boston, Massachusetts data center lease is currently set to expire in August 2013. We are likely to incur a non-recurring moving and transition expense related to the relocation of these hosting operations.

Other purchase commitments shown above consist of contractual commitments to various vendors primarily for advertising, marketing, and broadband services.

Table of Contents

Recent Accounting Pronouncements

In June 2011, the FASB issued new accounting guidance on the presentation of comprehensive income to provide companies with two options for presenting comprehensive income. Companies can present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This guidance was effective for the us on January 1, 2012. As the new guidance relates only to how comprehensive income is disclosed and does not change the items that must be reported as comprehensive income, we do not believe the adoption of this standard will have a material impact on our financial position or results of operations.

In September 2011, the FASB issued ASU No. 2011-08, *Testing Goodwill for Impairment (the revised standard)*. The revised standard is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a "qualitative" assessment to determine whether further impairment testing is necessary. The revised standard was effective for us on January 1, 2012. We do not believe the adoption of this amendment will have a material impact on our financial position or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks in the ordinary course of our business. These risks include primarily interest rate fluctuation risks and foreign exchange risks.

Interest Rate Fluctuation Risk

Our cash consists of interest bearing bank accounts. We did not have long-term borrowings as of December 31, 2011. Interest income is sensitive to changes in the general level of U.S. interest rates. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. Our cash and short-term investments are relatively insensitive to interest rate changes. In future periods, we will continue to evaluate our investment policy in order to ensure that we continue to meet our overall objectives. In the event that we borrow under our revolving credit facility, which bears interest at the lender's prime rate plus 1%, we would be exposed to interest rate fluctuations.

Foreign Currency Exchange Risk

We have foreign currency risks related to our operating expenses and potential revenue denominated in currencies other than the U.S. dollar, principally the Chinese Yuan. We do not believe movements in the foreign currencies in which we transact will significantly affect future net earnings. Foreign currency risk can be quantified by estimating the change in cash flows resulting from a hypothetical 10% adverse change in foreign exchange rates. We believe such a change would not have a material impact on our results of operations.

[Table of Contents](#)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Carbonite, Inc.
Index to Consolidated Financial Statements

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	51
Consolidated Balance Sheets	52
Consolidated Statements of Operations	53
Consolidated Statements of Redeemable and Convertible Preferred Stock and Stockholders' Equity (Deficit)	54
Consolidated Statements of Cash Flows	55
Notes to Consolidated Financial Statements	56

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Carbonite, Inc.

We have audited the accompanying consolidated balance sheets of Carbonite, Inc. (the “Company”) as of December 31, 2011 and 2010, and the related consolidated statements of operations, redeemable and convertible preferred stock, stockholders’ equity (deficit), and other comprehensive loss and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Carbonite, Inc. as of December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 7, 2012

Carbonite, Inc.
Consolidated Balance Sheets

	December 31,	
	2011	2010
	(In thousands, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 59,842	\$ 13,855
Short-term investments	12,684	10,000
Accounts receivable, net of allowance	944	644
Prepaid expenses and other current assets	1,730	551
Total current assets	<u>75,200</u>	<u>25,050</u>
Property and equipment, net	21,648	15,818
Goodwill	1,514	—
Acquired intangible assets, net	1,055	—
Other assets	189	73
Total assets	<u>\$ 99,606</u>	<u>\$ 40,941</u>
LIABILITIES, REDEEMABLE AND CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 6,858	\$ 4,868
Accrued expenses	4,999	3,947
Current portion of deferred revenue	44,505	28,616
Total current liabilities	<u>56,362</u>	<u>37,431</u>
Deferred revenue, net of current portion	15,191	10,106
Other long-term liabilities	451	297
Commitments and contingencies (Note 11)		
Redeemable and convertible preferred stock:		
Redeemable convertible preferred stock; Series A-2, \$0.01 par value; 506,646 share authorized and 502,874 shares issued and outstanding at December 31, 2010, at redemption value	—	4,404
Convertible preferred stock; \$0.01 par value; 4,062,540 shares authorized and 3,991,617 shares issued and outstanding at December 31, 2010 (liquidation value of \$73,931 at December 31, 2010)	—	64,326
Stockholders' equity (deficit):		
Preferred stock, \$0.01 par value; 6,000,000 shares authorized at December 31, 2011; no shares issued	—	—
Common stock, \$0.01 par value; 45,000,000 and 21,539,370 shares authorized at December 31, 2011 and 2010, respectively; 25,137,342 and 4,526,603 shares outstanding at December 31, 2011 and 2010, respectively	251	45
Additional paid-in capital	127,807	2,134
Accumulated deficit	(100,437)	(77,805)
Treasury stock, at cost (2,009 shares at December 31, 2011)	(22)	—
Accumulated other comprehensive income	3	3
Total stockholders' equity (deficit)	<u>27,602</u>	<u>(75,623)</u>
Total liabilities, redeemable and convertible preferred stock, and stockholders' equity (deficit)	<u>\$ 99,606</u>	<u>\$ 40,941</u>

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

Carbonite, Inc.
Consolidated Statements of Operations

	Years Ended December 31,		
	2011	2010	2009
	(In thousands, except share and per share data)		
Revenue	\$ 60,512	\$ 38,563	\$ 19,114
Cost of revenue	23,202	16,284	8,954
Gross profit	37,310	22,279	10,160
Operating expenses:			
Research and development	16,511	10,868	6,210
General and administrative	6,631	4,209	2,485
Sales and marketing	37,722	33,098	21,067
Total operating expenses	60,864	48,175	29,762
Loss from operations	(23,554)	(25,896)	(19,602)
Interest income	78	207	391
Interest expense	(25)	(64)	—
Other expenses, net	(12)	(10)	(14)
Loss before income taxes	(23,513)	(25,763)	(19,225)
Provision for income taxes	(23)	—	—
Net loss	(23,536)	(25,763)	(19,225)
Accretion of redeemable convertible preferred stock	(128)	(210)	(210)
Net loss attributable to common stockholders	\$ (23,664)	\$ (25,973)	\$ (19,435)
Net loss attributable to common stockholders per share—basic and diluted	\$ (1.84)	\$ (5.90)	\$ (4.78)
Weighted-average number of common shares used in computing net loss per share—basic and diluted	12,841,233	4,399,137	4,065,230

Table of Contents

Carbonite, Inc.

Consolidated Statements of Redeemable and Convertible Preferred Stock and Stockholders' Equity (Deficit) and Comprehensive Loss

	Series A-2 Redeemable Convertible Preferred Stock		Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)	Comprehensive Loss
	Number of		Number of		Number of							
	Shares	Amount	Shares	Amount	Shares	Amount						
Balance at December 31, 2008	502,874	3,984	3,405,827	44,403	3,978,204	40	661	(32,397)	—	—	(31,696)	
Issuance of common stock	—	—	—	—	55,500	1	70	—	—	—	71	
Issuance of Series D convertible preferred stock, net of issuance costs of \$76	—	—	563,822	19,173	—	—	—	—	—	—	—	
Issuance of common stock in connection with stock option exercises	—	—	—	—	232,374	2	182	—	—	—	184	
Accretion of redeemable convertible preferred stock to redemption value	—	210	—	—	—	—	—	(210)	—	—	(210)	
Share-based compensation expense	—	—	—	—	—	—	390	—	—	—	390	
Comprehensive loss:												
Net loss	—	—	—	—	—	—	—	(19,225)	—	—	(19,225)	\$ (19,225)
Total comprehensive loss												\$ (19,225)
Balance at December 31, 2009	502,874	4,194	3,969,649	63,576	4,266,078	43	1,303	(51,832)	—	—	(50,486)	
Issuance of Series D convertible preferred stock	—	—	21,968	750	—	—	—	—	—	—	—	
Issuance of common stock in connection with stock option exercises	—	—	—	—	260,525	2	289	—	—	—	291	
Accretion of redeemable convertible preferred stock to redemption value	—	210	—	—	—	—	—	(210)	—	—	(210)	
Share-based compensation expense	—	—	—	—	—	—	542	—	—	—	542	
Comprehensive loss:												
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	3	3	\$ 3
Net loss	—	—	—	—	—	—	—	(25,763)	—	—	(25,763)	(25,763)
Total comprehensive loss												\$ (25,760)
Balance at December 31, 2010	502,874	4,404	3,991,617	64,326	4,526,603	45	2,134	(77,805)	—	3	(75,623)	
Issuance of common stock in connection with stock option exercises	—	—	—	—	825,302	8	982	—	—	—	990	
Accretion of redeemable convertible preferred stock to redemption value	—	128	—	—	—	—	—	(128)	—	—	(128)	
Repurchase of common stock	—	—	—	—	(2,009)	—	—	—	(22)	—	(22)	
Share-based compensation expense	—	—	—	—	—	—	1,357	—	—	—	1,357	
Issuance of common stock in connection with initial public offering, net of issuance costs of \$2,995	—	—	—	—	6,303,973	63	55,569	—	—	—	55,632	
Conversion of redeemable and convertible preferred stock into common stock	(502,874)	(4,532)	(3,991,617)	(64,326)	13,483,473	135	67,691	1,032	—	—	68,858	
Reclassification of a warrant to purchase shares of redeemable and convertible preferred stock into a warrant to purchase common stock	—	—	—	—	—	—	74	—	—	—	74	
Comprehensive loss:												
Unrealized loss on available-for-sale marketable securities	—	—	—	—	—	—	—	—	—	(2)	(2)	\$ (2)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	2	2	2
Net loss	—	—	—	—	—	—	—	(23,536)	—	—	(23,536)	(23,536)
Total comprehensive loss												\$ (23,536)
Balance at December 31, 2011	—	\$ —	—	\$ —	25,137,342	251	\$ 127,807	\$ (100,437)	\$ (22)	\$ 3	\$ 27,602	



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

Carbonite, Inc.
Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2011	2010 (in thousands)	2009
Operating activities			
Net loss	\$(23,536)	\$(25,763)	\$(19,225)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	7,870	5,060	2,977
Amortization of premium on investments	40	—	—
Share-based compensation expense	1,445	542	390
Warrant remeasurement	(8)	64	—
Changes in assets and liabilities, net of acquisition:			
Accounts receivable	(300)	(43)	(352)
Prepaid expenses and other current assets	(1,186)	(35)	129
Other assets	(112)	—	(5)
Accounts payable	1,935	2,383	354
Accrued expenses	833	531	952
Other long-term liabilities	203	131	91
Deferred revenue	20,388	15,578	13,743
Net cash provided by (used in) operating activities	7,572	(1,552)	(946)
Investing activities			
Purchases of property and equipment	(13,544)	(10,652)	(7,099)
Proceeds from short-term investments	10,000	6,808	22,732
Purchases of short-term investments	(12,694)	(10,069)	(8,382)
Payment for acquisition, net of cash acquired	(1,949)	—	—
Net cash provided by (used in) investing activities	(18,187)	(13,913)	7,251
Financing activities			
Proceeds from issuance of preferred stock, net of issuance costs	—	750	19,173
Proceeds from issuance of common stock pursuant to exercise of stock options	990	291	184
Net proceeds from issuance of common stock	55,632	—	71
Repurchase of common stock	(22)	—	—
Net cash provided by financing activities	56,600	1,041	19,428
Effect of currency exchange rate changes on cash	2	3	—
Net increase (decrease) in cash	45,987	(14,421)	25,733
Cash, beginning of period	13,855	28,276	2,543
Cash, end of period	<u>\$ 59,842</u>	<u>\$ 13,855</u>	<u>\$ 28,276</u>
Non cash investing and financing activities			
Accretion of redeemable convertible preferred stock	\$ 128	\$ 210	\$ 210
Acquisition of property and equipment included in accounts payable	\$ 2,658	\$ 855	\$ 730
Conversion of redeemable and convertible preferred stock to common stock	\$ 68,858	—	—
Conversion of a warrant to purchase convertible preferred stock to a warrant to purchase common stock	\$ 74	—	—

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

Carbonite, Inc.

Notes to Consolidated Financial Statements

1. Nature of Business

Carbonite, Inc. (the “Company”) was incorporated in the State of Delaware on February 10, 2005, and focuses on the development and marketing of personal computer backup service that enables users to backup, access, and restore data files online.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

In addition, through its wholly owned subsidiary Carbonite (China) Co., Ltd. (“Carbonite China”), the Company effectively controls a variable interest entity (“VIE”), Pan Sheng An Xin Internet Technology Co., Ltd., which is incorporated under the laws of the People’s Republic of China. The People’s Republic of China restricts foreign ownership of internet-related service companies. To comply with these foreign ownership restrictions, the Company operates its business in China through this VIE. The Company has entered into certain exclusive agreements with the VIE and its shareholders through Carbonite China, which provides the ability to direct the VIE’s most significant economic activities and to receive a majority of VIE’s economic benefits.

Based on these contractual arrangements, the Company consolidates the VIE as required by Financial Accounting Standards Codification (“ASC”) 810-10, *Consolidation*, because the Company is the primary beneficiary of the VIE through Carbonite China. Despite the lack of majority ownership, there exists a parent-subsidiary relationship between the Company and the VIE through the aforementioned agreements, whereby the equity holders of the VIE effectively assigned all of their voting rights underlying their equity interest in the VIE to Carbonite China. In addition, the Company has the ability and intention to continue to exercise its rights to obtain substantially all of the profits and to absorb all of the expected losses of the VIE.

All intercompany accounts and transactions between the Company, its subsidiaries, and the VIE have been eliminated in consolidation. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

Use of Estimates in the Preparation of Financial Statements

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

Translation of Foreign Currencies

The functional currency of the Company’s foreign subsidiary and VIE are their local currency. The financial statements of the Company’s foreign subsidiary and VIE in China are translated into U.S. dollars. The Company translates the assets and liabilities of at the exchange rates in effect at period-end. Revenues and expenses are translated using average exchange rates in effect during the year. Gains and losses from foreign currency translation are recorded to accumulated other comprehensive income (loss) included in stockholders’ deficit.

Carbonite, Inc.

Concentration of Credit Risk

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

The Company sells its services primarily to consumer and small business customers. Payment for the majority of the Company's sales occurs via credit card. Due to these factors, no additional credit risk beyond amounts provided for collection losses is believed by management to be probable in the Company's accounts receivable. For the periods presented, no customer represented 10% or more of accounts receivable or revenue.

Revenue Recognition

The Company derives revenue from online backup subscription services. These services are standalone independent service solutions, which are generally contracted for a one- to three-year term. Subscription arrangements include access to use the Company's software via the internet. The Company recognizes revenue in accordance with ASC 605-10, *Overall Revenue Recognition*. Subscription revenue is recognized ratably on a daily basis upon activation over the subscription period, when persuasive evidence of an arrangement with a customer exists, the subscription period has been activated, the price is fixed or determinable, and collection is reasonably assured. Deferred revenues represent payments received from customers for subscription services prior to recognizing the revenue related to those payments.

Cash Equivalents and Short-Term Investments

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be the equivalent of cash for the purpose of balance sheet and statement of cash flows presentation.

Short-term investments in marketable securities are classified as available-for-sale and are recorded at fair value. Realized gains and losses are included in income. Unrealized gains and losses (excluding other-than-temporary impairments) are reported as a component of accumulated other comprehensive income (loss).

The Company reviews its investments for other-than-temporary impairment whenever evidence indicates that an investment's carrying amount is not recoverable within a reasonable period of time. There were no other-than-temporary impairments during the year ended December 31, 2011.

Property and Equipment

Property and equipment are stated at cost. Expenditures for repairs and maintenance are charged to expense as incurred. Upon retirement or sale, the cost of the assets disposed of and the related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in the consolidated statement of operations. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets, which are as follows:

<u>Asset Classification</u>	<u>Estimated Useful Life</u>
Computer equipment	2 – 4 years
Software	3 years
Furniture and fixtures	5 years
Leasehold improvements	Shorter of useful life or remaining life of lease

Carbonite, Inc.

Impairment of Long-Lived Assets

The Company reviews property and equipment and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the recoverability of these assets is considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds its estimated fair value. The Company has not identified any impairment of its long-lived assets as of December 31, 2011, 2010 and 2009.

Goodwill and Acquired Intangible Assets

The Company records goodwill when consideration paid in a business acquisition exceeds the fair value of the net tangible assets and the identified intangible assets acquired. Goodwill is not amortized, but rather is tested for impairment annually or more frequently if facts and circumstances warrant a review. The Company performs its annual assessment for impairment of goodwill on November 30 and considers its business to be one reporting unit for the purpose of conducting this assessment. The assessment consists of estimating the fair value of the reporting unit (based on the Company's market capitalization) and comparing this amount to the carrying value of the reporting unit (as reflected by the Company's total stockholders' equity). Based on the recent evaluation, the Company determined that its goodwill was not impaired.

Intangible assets acquired in a business combination are recorded under the acquisition method of accounting at their estimated fair values at the date of acquisition. As the pattern of consumption of the economic benefits of the intangible assets cannot be reliably determined, the Company amortizes acquired intangible assets over their estimated useful lives on a straight-line basis.

Software and Website Development Costs

The Company follows the guidance of ASC 350-40, *Internal Use Software* and ASC 350-50, *Website Development Costs*, in accounting for its software and website development costs. The costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the application is substantially complete and ready for its intended use. Because the Company believes the majority of its development efforts are categorized in operation stage (post-implementation), no costs have been capitalized to date. These costs are included in the accompanying statements of operations as research and development expense.

Advertising Expenses

The Company expenses advertising costs as incurred. During the years ended December 31, 2011, 2010, and 2009, the Company incurred approximately \$25.1 million, \$23.6 million, and \$10.8 million of advertising expense, respectively, which is included in sales and marketing expense in the accompanying statements of operations.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company specifically analyzes historical bad debts, the aging of the accounts receivable, creditworthiness, and current economic trends, to evaluate the allowance for doubtful accounts. Past due balances are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted, and the potential for recovery is considered remote.

Carbonite, Inc.

Income Taxes

The Company provides for income taxes under the liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates in effect when the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to reflect the uncertainty associated with their ultimate realization.

The Company accounts for uncertain tax positions recognized in the consolidated financial statements by prescribing a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Comprehensive Income (Loss)

All components of comprehensive income (loss) are required to be disclosed in the consolidated financial statements. Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions, and other events and circumstances from nonowner sources. Accumulated other comprehensive income consists of foreign currency translation adjustments and unrealized gains or losses on available-for-sale investments for all periods.

Segment Information

Operating segments are defined as components of an enterprise engaging in business activities for which discrete financial information is available and regularly reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company views its operations and manages its business in one operating segment. The Company does not disclose geographic information for revenue and long-lived assets as revenue and long-lived assets located outside the United States do not exceed 10% of total revenue and total assets.

Accounting for Stock-Based Compensation

Stock-based compensation is recognized as an expense in the financial statements based on the grant date fair value of the stock awards granted. For awards that vest based on service conditions, the Company uses the straight-line method to allocate compensation expense to reporting periods over the requisite service period. The grant date fair value of options granted is calculated using the Black-Scholes option-pricing model, which requires the use of subjective assumptions including volatility, expected term and the fair value of the underlying common stock, among others.

Recently Issued and Adopted Accounting Standards

In June 2011, the FASB issued new accounting guidance on the presentation of comprehensive income to provide companies with two options for presenting comprehensive income. Companies can present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This guidance was effective for the Company on January 1, 2012. As the new guidance relates only to how comprehensive income is disclosed and does not change the items that must be reported as comprehensive income, the Company does not believe that the adoption of this standard will have a material impact on its financial position or results of operations.

In September 2011, the FASB issued ASU No. 2011-08, *Testing Goodwill for Impairment (the revised standard)*. The revised standard is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a "qualitative" assessment to determine whether further impairment testing is necessary. The revised standard was effective for the Company on January 1, 2012. The

Table of Contents

Carbonite, Inc.

Company does not believe that the adoption of this amendment will have a material impact on the Company's financial position or results of operations.

3. Net Loss per Share

The Company calculates basic and diluted net loss per share of common stock by dividing the net loss adjusted for the dividend on the redeemable convertible preferred stock by the weighted average number of shares of common stock outstanding during the period. The Company has excluded (a) all unvested restricted shares of common stock that are subject to repurchase and (b) the Company's other potentially dilutive shares, which include redeemable and convertible preferred stock, a warrant for redeemable convertible preferred stock, and outstanding options to purchase common stock, from the weighted average number of shares of common stock outstanding as their inclusion in the computation for all periods would be anti-dilutive due to net losses. The Company's redeemable and convertible preferred stock are participating securities as defined by ASC 260-10, *Earnings Per Share*, but are excluded from the earnings per share calculation as they do not have an obligation to share in the Company's net losses.

The Company's net loss per share is calculated as follows (in thousands, except per share data):

	2011	2010	2009
Net loss	\$(23,536)	\$(25,763)	\$(19,225)
Accretion of redeemable convertible preferred stock	(128)	(210)	(210)
Net loss attributable to common stockholders	<u>\$(23,664)</u>	<u>\$(25,973)</u>	<u>\$(19,435)</u>
Weighted-average number of shares of common stock, basic and diluted	12,841	4,399	4,065
Net loss per share attributable to common stockholders, basic and diluted	<u>\$ (1.84)</u>	<u>\$ (5.90)</u>	<u>\$ (4.78)</u>

The following potentially dilutive shares of common stock have been excluded from the computation of diluted weighted-average shares outstanding as of December 31, 2011, 2010, and 2009 as they would be anti-dilutive (in thousands):

	Years Ended December 31,		
	2011	2010	2009
Redeemable and convertible preferred stock	—	13,483	13,418
Options to purchase common stock	2,867	2,473	2,598
Restricted shares of common stock	9	27	47
Warrant	11	11	11
Total	<u>2,887</u>	<u>15,994</u>	<u>16,074</u>

4. Short-term Investments and Fair Value of Financial Instruments

At December 31, 2011, the Company's short-term investments consisted of marketable securities with maturities within one year as follows (in thousands):

December 31, 2011	Amortized	Gross Unrealized	Gross Unrealized	Estimated Fair Value
	Cost	Gains	Losses	
U.S. government agency securities	<u>\$12,686</u>	—	\$ (2)	<u>\$12,684</u>
Total	<u>\$12,686</u>	—	<u>\$ (2)</u>	<u>\$12,684</u>

Carbonite, Inc.

At December 31, 2010, the Company’s short-term investments consisted of a bank issued certificate of deposit.

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.

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

	December 31, 2011				December 31, 2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash equivalents — money market funds	\$40,943	—	—	\$40,943	—	—	—	—
Short-term investments — U.S. agency securities	—	12,684	—	12,684	—	—	—	—
Short-term investments — bank certificate of deposit	—	—	—	—	—	\$10,000	—	\$10,000
Total	\$40,943	\$12,684	—	\$53,627	—	\$10,000	—	\$10,000

Refer to Note 8 for Preferred Stock warrant liability.

5. Acquisition, Goodwill, and Acquired Intangible Assets

In June 2011, the Company acquired substantially all of the assets of Phanfare, Inc., for \$1.9 million, net of cash acquired, and the assumption of certain liabilities. Phanfare’s service enables users to create, maintain, and share online photo and video albums. The Company maintains the former service, employees, and office location of Phanfare.

The results of operations for the acquisition have been included in the Company’s operations since the date of acquisition and were not material for the periods presented.

Table of Contents

Carbonite, Inc.

The acquisition of Phanfare has been accounted for as a purchase of a business and, accordingly, the total purchase price has been allocated to the tangible and identifiable intangible assets acquired and the net liabilities assumed based on their respective fair values on the acquisition date. As a result of the acquisition of Phanfare, the Company recorded goodwill in the amount of \$1.5 million and identifiable intangible assets of \$1.2 million. These identified intangible assets will be amortized on a straight-line basis over their estimated useful lives.

As of December 31, 2011, purchased intangible assets consist of the following (in thousands):

	<u>Estimated Useful Life</u>	<u>Gross Carrying Value</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Value</u>
Developed technology	5 years	\$ 880	\$ 102	778
Customer relationships	3 years	180	35	145
Non-Compete agreements	5 years	150	18	132
		<u>\$ 1,210</u>	<u>\$ 155</u>	<u>\$ 1,055</u>

The Company recorded amortization expense of \$0.2 million for the year ended December 31, 2011 and future estimated amortization expense of acquired intangibles is as follows (in thousands):

2012	\$ 266
2013	266
2014	231
2015	206
2016	86
	<u>\$1,055</u>

6. Property and Equipment

Property and equipment consists of the following at December 31, 2011 and 2010 (in thousands):

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Computer equipment	\$ 36,633	\$24,420
Software	1,239	650
Furniture and fixtures	512	302
Leasehold improvements	800	277
Total property and equipment	39,184	25,649
Less accumulated depreciation	(17,536)	(9,831)
Property and equipment, net	<u>\$ 21,648</u>	<u>\$15,818</u>

Depreciation expenses were \$7.7 million, \$5.1 million, and \$3.0 million for the years ended December 31, 2011, 2010, and 2009, respectively.

7. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Accrued compensation	\$2,706	\$1,501
Accrued media spend	1,223	1,410
Accrued other expenses	1,070	1,036
Total accrued expenses	<u>\$4,999</u>	<u>\$3,947</u>

Carbonite, Inc.

8. Redeemable and Convertible Preferred Stock and Stockholders' Equity (Deficit)

Initial Public Offering

In August 2011, the Company closed its initial public offering ("IPO") of 7,187,500 shares of common stock at a price of \$10.00 per share, including 937,500 shares of common stock pursuant to exercise of the underwriters' option to purchase additional shares. Of the total shares of common stock sold in the IPO, 6,303,973 shares were sold by the Company and 883,527 were sold by selling stockholders. The Company received aggregate proceeds of \$58.6 million, net of underwriters' discounts and commissions, but before deducting offering expenses of approximately \$3.0 million. Upon the closing of the IPO, the Company's outstanding shares of redeemable and convertible preferred stock ("Preferred Stock") converted into 13,483,473 shares of common stock and all outstanding warrants to purchase Preferred Stock converted into warrants to purchase 11,316 shares of common stock. Also simultaneously with the closing of the IPO, the Company's charter was amended and restated to authorize 45,000,000 shares of common stock, par value \$0.01 per share, and 6,000,000 shares of preferred stock, par value \$0.01 per share, all of which preferred stock is undesignated.

Stock Split

In December 2009, the Board of Directors and shareholders approved a 3 for 1 stock split of the Company's common stock. As a result of this action, every share of common stock (including all authorized, issued and outstanding shares of common stock and all outstanding warrants and options to purchase shares of common stock) was split into three shares of common stock bearing the same par value. All of the Company's authorized, issued, and outstanding shares of common stock (including all outstanding warrants and options to purchase shares of common stock) since inception, have been restated in these financial statements to reflect the effect of the common stock split.

Redeemable and Convertible Preferred Stock

Prior to the Company's IPO, at which time all shares of Preferred Stock were converted into shares of common stock, the Company's Preferred Stock consisted of the following (in thousands, except share and per share amounts):

	<u>December 31,</u> <u>2010</u>
Redeemable convertible preferred stock:	
Series A-2, \$0.01 par value; 506,646 shares authorized, 502,874 shares issued and outstanding, at redemption value (liquidation value of approximately \$4.4 million)	<u>\$ 4,404</u>
Convertible preferred stock:	
Series A, \$0.01 par value; 421,210 shares authorized, issued, and outstanding (liquidation value of approximately \$2.4 million)	\$ 1,793
Series A-1, \$0.01 par value; 194,319 shares authorized, issued, and outstanding (liquidation value of approximately \$1.1 million)	815
Series B, \$0.01 par value; 1,259,319 shares authorized, issued, and outstanding (liquidation value of approximately \$18.6 million)	15,200
Series B-2, \$0.01 par value; 395,100 shares authorized and 368,400 shares issued and outstanding (liquidation value of approximately \$6.4 million)	5,401
Series C, \$0.01 par value; 1,206,802 shares authorized and 1,162,579 shares issued and outstanding (liquidation value of approximately \$24.2 million)	21,194
Series D, \$0.01 par value; 585,790 shares authorized and 563,822 and 585,790 shares issued and outstanding (liquidation value of approximately \$21.2 million)	<u>19,923</u>
	<u>\$ 64,326</u>

Carbonite, Inc.

Prior to the Company's IPO and the related conversion of all shares of Preferred Stock into shares of common stock, the rights, privileges, and preferences of the Preferred Stock were as follows:

Dividends

The holders of Preferred Stock were entitled to receive, out of funds lawfully available, dividends, when, as and if they were declared by the Board, at an annual rate per share, without compounding, equal to 6% of the original purchase price. Dividends accrued, whether or not declared, and were cumulative and payable upon the occurrence of a liquidation event for all Preferred Stock, as well as upon redemption for Series A-2. Therefore, dividends were accreted on the Series A-2 such that it was presented at redemption value. No dividends were declared through the date on which the Preferred Stock was converted into common stock.

Redemption

Holdings of Series A-2 could have elected to have their shares redeemed at any time after December 31, 2012, upon written request to the Company. The redemption amount would have been the original issue price, plus any accrued but unpaid dividends. Dividends were accreted on Series A-2 such that it was presented at redemption value. Upon conversion of the Series A-2 to common stock, all accrued dividends were reversed through accumulated deficit.

Additional Rights, Preferences, and Privileges

In addition to those rights described above and the registration rights described below, the holders of the Company's Preferred Stock had certain voting rights, liquidation preferences, and conversion privileges. All rights, preferences and privileges associated with the Preferred Stock, other than the registration rights described below, were terminated at the time of the Company's IPO in conjunction with the conversion of all outstanding shares of Preferred Stock into shares of common stock.

Registration Rights

Pursuant to an investors' rights agreement, the holders of the Company's common stock that resulted from the conversion of the Preferred Stock have certain registration rights. The holders have the right to demand that the Company register such shares of common stock pursuant to the Securities Act of 1933, as amended. Subject to certain limitations, the Company shall bear the fees, costs and expenses of such registration, other than underwriting discounts and commissions. The Company is not required to settle such registration rights by delivery of registered shares or by a net cash settlement.

Warrants

In October 2006, in connection with a commercial line of credit, the Company issued a warrant to purchase shares of Series A-2, which, at the time of the Company's IPO, was converted into a warrant to purchase 11,316 shares of common stock at a price of \$2.32 per share (the "Warrant"). The Warrant is exercisable at any time through expiration in October 2013. The Company valued the Warrant at the date of grant at \$18 thousand, and recorded the fair value of the Warrant as a charge to interest expense. The Company remeasured the fair value of the Warrant each reporting period in accordance with the provisions of ASC 480, *Distinguishing Liabilities from Equity*, resulting in a fair value of \$82 thousand as of December 31, 2010, which was recorded in other long-term liabilities. At the time of conversion of the Warrant in connection with the Company's IPO, the fair value of the Warrant was \$74 thousand, which was reclassified as a component of additional paid-in capital. No portion of the Warrant has been exercised as of December 31, 2011.

Carbonite, Inc.

9. Stock-based Awards

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

In 2011, the Company's Board of Directors and stockholders adopted the 2011 Plan, which became effective concurrently with the consummation of the Company's IPO on August 11, 2011. The 2011 Plan provides for the issuance of stock options, restricted stock, and other stock-based awards to the employees, officers, directors, and consultants of the Company or its subsidiaries. In connection with the approval of the plan, the Company reserved 1,662,000 shares of common stock for issuance under the 2011 Plan. On January 1st of each year, beginning on January 1, 2012, the number of shares reserved under the 2011 Plan will increase by the lesser of 1,500,000 shares, 4.0% of the outstanding shares of common stock and common stock equivalents, or another amount determined by the Company's Board of Directors.

As of December 31, 2011, 794,800 shares of common stock were available for future grant under the 2011 Plan.

Share-based compensation is reflected in the consolidated statement of operations as follows for the years ended December 31, 2011, 2010, and 2009 (in thousands):

	Years Ended December 31,		
	2011	2010	2009
Cost of revenues	\$ 207	\$ 45	\$ 35
Research and development	511	171	88
General and administrative	346	227	188
Sales and marketing	381	99	79
	<u>\$1,445</u>	<u>\$542</u>	<u>\$390</u>

Stock Options

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

The Company records compensation expense related to stock options based on the estimated fair value of the stock option on the date of grant amortized over the service periods for the individual awards, which generally equals the vesting periods. The Company uses the straight-line amortization method for recognizing stock-based compensation expenses.

Determining the appropriate fair value model and calculating the fair value of stock-based payment awards require the use of highly subjective estimates and assumptions, including the estimated fair value of the Company's common stock. Following its IPO, the Company used the quoted market price of its common stock to establish fair value of the common stock underlying stock options. Prior to the IPO, because there was no public market for the Company's common stock, the Company's Board of Directors determined the fair value of the Company's common stock with input from management, based on the report of an unrelated third-party valuation specialist.

Table of Contents

Carbonite, Inc.

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

The assumptions used to estimate the fair value of the stock options using the Black-Scholes option-pricing model were as follows for the years ended December 31, 2011, 2010, and 2009:

	Years Ended December 31,		
	2011	2010	2009
Weighted-average fair value of common stock	\$12.20	\$7.32	\$2.08
Risk-free interest rate	2.12% to 2.4%	1.45% to 3.04%	2.09% to 3.04%
Expected dividend yield	—%	—%	—%
Expected volatility	53% to 62%	61% to 64%	70% to 74%
Expected term (in years)	5.8 to 6.1	6.1	5 to 6.1

Risk-Free Interest Rate

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

Expected Dividend Yield

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

Expected Volatility

Until the Company's IPO, as there had been no public market for the Company's common stock, the Company determined the volatility for options granted based on an analysis of reported data for a peer group of companies that issued options with substantially similar terms. Beginning at the time of the Company's IPO, the expected volatility of options granted has been determined using a combination of the historical volatility measures of this peer group of companies for a period equal to the expected term of the option.

Expected Term

The Company has limited historical information to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior for its stock option grants. As a result, for stock option grants made during the years ended December 31, 2011, 2010, and 2009 the expected term was estimated using the "simplified method." The simplified method is based on the average of the vesting tranches and the contractual life of each grant.

Forfeitures

The Company is required to estimate forfeitures at the time of grant, and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures, and records stock-based compensation expense only for those awards that are expected to vest.

Carbonite, Inc.

The following table summarizes stock option activity under the 2005 and 2011 Plans:

	Number of Shares	Weighted- Average Exercise Price per Share	Weighted- Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands) (2)
Outstanding at December 31, 2010	2,472,848	\$ 2.11	7.15	\$ 22,222
Granted	1,269,550	\$ 12.14		
Exercised	(825,302)	\$ 1.20		
Canceled	(49,786)	\$ 6.30		
Outstanding at December 31, 2011	2,867,310	\$ 6.74	8.41	\$ 12,491
Exercisable at December 31, 2011	909,163	\$ 2.11	6.89	\$ 8,169
Vested and expected to vest at December 31, 2011(1)	2,867,310	\$ 6.74	8.41	\$ 12,491

- (1) Represents the number of vested stock options as of December 31, 2011, plus the number of unvested stock options expected to vest as of December 31, 2011, based on the unvested stock options outstanding at December 31, 2011, adjusted for estimated forfeitures.
- (2) The aggregate intrinsic value is calculated as the positive difference between the exercise price of the underlying stock options and the fair value of the Company's common stock on December 31, 2010 and market value of the of the Company's common stock on December 31, 2011.

The weighted-average grant date fair value of options granted to employees during the years ended December 31, 2011, 2010, and 2009 was \$6.47, \$4.68, and \$2.08 per share, respectively. The total intrinsic value of options exercised during the years ended December 31, 2011, 2010, and 2009 was approximately \$8.0 million, \$1.2 million, and \$0.1 million, respectively.

At December 31, 2011 and 2010, there were approximately \$9.4 million and \$2.9 million of unrecognized stock-based compensation cost, net of estimated forfeitures, respectively, related to unvested stock options which is expected to be recognized over a weighted-average period of 2.96 and 3.48 years, respectively. The total unrecognized stock-based compensation cost will be adjusted for future changes in estimated forfeitures.

Incentive Unit Agreements

In 2011, the Company's Board of Directors adopted the Incentive Unit Plan, which provides up to an aggregate of 60,000 incentive units ("Units") to certain employees of its subsidiary in China to afford these employees the benefit of any appreciation in the value of the Company. The Units have a five year term and vest upon a performance condition, which has been satisfied, and a service period of up to four years. Upon vesting, the recipients of Units are entitled to a cash bonus based on the difference between the fair value of the Company's stock and the base value set forth in their respective Incentive Units Agreements. As of December 31, 2011, 39,250 Units are outstanding with a weighted average base value of \$8.58. These outstanding Units are being accounted for as liability awards and the liability for such awards was \$0.1 million at December 31, 2011. In January 2012, the Board of Directors determined to cease to issue any further grants pursuant to the Incentive Unit Plan.

Restricted Stock

In 2009, the Company sold an aggregate of 72,000 shares of common stock at the fair value of \$1.31 per share to non-employee members of the Board of Directors under restricted stock agreements in accordance with the terms of the Company's 2005 Plan. During 2009, due to the departure of one board member, 18,000 of these shares were forfeited. The restricted stock vests ratably over three years from the grant date. In the event that a

Carbonite, Inc.

member of the Board of Directors ceases to serve on the Company's Board of Directors for any reason, with or without cause, the Company has the right to repurchase some or all of the unvested shares at the fair values on the dates of issuance.

The fair value of the restricted shares is based on the fair value of the Company's common stock on the date of grant. Stock-based compensation expense related to restricted shares is recognized on a straight-line basis over the requisite service period. There are no performance-based measures.

Unvested share activity for the year ended December 31, 2011 is presented below:

	<u>Shares</u>	<u>Weighted-Average Grant Date Fair Value per Share</u>
Unvested shares outstanding at December 31, 2010	27,000	0.00
Granted	—	—
Vested	(18,000)	0.00
Forfeited	—	—
Unvested shares outstanding at December 31, 2011	<u>9,000</u>	<u>\$ 0.00</u>

10. Income Taxes

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

	<u>Years Ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Domestic	\$(22,562)	\$(25,666)	\$(19,225)
Foreign	(951)	(97)	—
Total	<u>\$(23,513)</u>	<u>\$(25,763)</u>	<u>\$(19,225)</u>

A reconciliation of income taxes computed using the U.S. federal statutory rate to that reflected in operations follows:

	<u>Year Ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Expected income tax benefit using U.S. federal statutory rate	34.0%	34.0%	34.0%
Change in the valuation allowance	(32.4)	(33.3)	(33.3)
Other	(1.7)	(0.7)	(0.7)
	<u>(0.1)%</u>	<u>0.0%</u>	<u>0.0%</u>

Carbonite, Inc.

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

	<u>2011</u>	<u>2010</u>
Net operating loss carryforwards	\$ 34,411	\$ 28,693
Research and development tax credit carryforwards	2,395	1,389
Deferred revenue	3,970	1,785
Depreciation	(878)	(811)
Other	225	188
Net deferred tax assets	40,123	31,244
Deferred tax asset valuation allowance	(40,146)	(31,244)
Net deferred tax liability	<u>\$ (23)</u>	<u>\$ —</u>

For the year ended December 31, 2011, the Company recorded a tax provision of \$23 thousand related to tax amortization of goodwill. The Company did not provide for income taxes in the years ended December 31, 2010 and 2009 due to net losses. As of December 31, 2011, the Company had U.S. federal, state, and foreign net operating loss carryforwards of \$89.0 million, \$83.9 million and \$1.0 million, respectively. Included in the federal net operating loss carryforward is \$1.6 million that relates to excess tax deductions from share-based payments, the tax benefit of which will be recorded as an increase in additional paid-in capital when the deductions reduce current taxes payable. As of December 31, 2010, the Company had federal and state net operating loss carryforwards of approximately \$72.6 million and \$72.4 million, respectively. The federal net operating loss carryforwards will expire at various dates beginning in the year 2026 through 2032. State net operating loss carryforwards will expire at various dates beginning in 2012 through 2017. At December 31, 2011 and 2010, the Company had approximately \$2.4 million and \$1.4 million, respectively, of federal and state research and development tax credit carryforwards available to reduce future income taxes payable, which will expire at various dates beginning in the year 2023 through 2032.

Management of the Company has evaluated the positive and negative evidence bearing upon the realizability of its deferred tax assets. As required by the provisions of ASC 740, management has determined that it is more-likely-than-not that the Company will not utilize the benefits of federal and state deferred tax assets for financial reporting purposes. Accordingly, the deferred tax assets have been fully reserved at December 31, 2011 and 2010. The valuation allowance increased approximately \$8.9 million and \$10.1 million during the years ended December 31, 2011 and 2010, respectively, due primarily to the increase in the net operating loss carryforwards and research and development tax credits.

Future changes in Company ownership may limit the amount of net operating loss carryforwards and research and development credit carryforwards that can be utilized annually to offset future taxable income and taxes, respectively. In general, an ownership change, as defined by Section 382 of the Internal Revenue Code of 1986, as amended, results from transactions increasing the ownership of certain shareholders or public groups in the stock of a corporation by more than 50 percentage points over a three-year period. The Company performed an analysis of its changes in ownership through December 31, 2011 and has adjusted its net operating loss carryforwards and research and development credit carryforwards to reflect the current usage limitations.

The Company's reserves related to taxes and its accounting for uncertain tax positions are based on a determination of whether and how much of a tax benefit taken by the Company in its tax filings or positions is more-likely-than-not to be

Carbonite, Inc.

realized following resolution of any potential contingencies present related to the tax benefit. As of December 31, 2011 and 2010, the Company had no unrecognized tax benefits.

The Company will recognize interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2011, the Company had no accrued interest or penalties related to uncertain tax positions and no amounts have been recognized in the Company's consolidated statements of operations.

The statute of limitations for assessment by the Internal Revenue Service ("IRS") and state tax authorities is open for tax years ending December 31, 2008, 2009, 2010, and 2011, although carryforward attributes that were generated prior to tax year 2008 may still be adjusted upon examination by the IRS or state tax authorities if they either have been or will be used in a future period. There are currently no federal or state audits in progress.

11. Commitments and Contingencies

Operating Leases

The Company leases various facilities under leases that expire at varying dates through 2016. Certain of these leases contain renewal options, and require the Company to pay operating costs, including property taxes, insurance, and maintenance.

The Company has lease agreements to rent office space in Boston, Massachusetts (corporate headquarters) Lewiston, Maine, Princeton, New Jersey, and Beijing, China, expiring in 2016 or earlier. The Company has lease agreements to rent data center space in Boston, Massachusetts, Wakefield, Massachusetts and Phoenix, Arizona, expiring in 2016 or earlier. The terms of the several of these leases include escalating rent and free rent periods. Accordingly, the Company recorded a deferred rent liability related to the free rent and escalating rent payments and rent is being recognized on a straight-line basis over the terms of the leases. At December 31, 2011 and 2010, \$0.4 million and \$0.2 million, respectively, are included in accrued expenses and other long-term liabilities related to the deferred rent.

The Company also maintains a hosting service agreement with a third-party data center vendor that is subject to annual renewal and a 120 day cancellation right.

Future non-cancellable minimum lease payments under all operating leases as of December 31, 2011, are as follows (in thousands):

<u>Years Ended December 31,</u>	<u>Office Leases</u>	<u>Data Center Leases</u>	<u>Total</u>
2012	\$1,234	\$1,932	\$ 3,166
2013	1,531	1,802	3,333
2014	1,279	1,340	2,619
2015	1,368	1,221	2,589
2016	1,408	63	1,471
	<u>\$6,820</u>	<u>\$6,358</u>	<u>\$13,178</u>

Carbonite, Inc.

Other Non-cancellable Commitments

As of December 31, 2011, the Company had non-cancelable commitments of \$5.1 million payable in 2012, and \$0.7 million payable in 2013, and \$0.3 million payable in 2014, primarily consisting of marketing and technology services contracts.

Litigation

In August 2010, Oasis Research, LLC (“Oasis Research”) filed a lawsuit against the Company and many other companies in the U.S. District Court for the Eastern District of Texas, alleging, with respect to the Company, that the Company’s online backup storage services infringe four patents held by Oasis Research. Oasis Research seeks an award for damages in an unspecified amount. The Company expects that a trial date will be set for late 2012 or early 2013. Neither the ultimate outcome of this litigation nor an estimate of a probable loss or any reasonably possible losses can be assessed at this time. The Company intends to defend itself vigorously.

In the ordinary course of business the Company is involved in litigation incidental to its business; however, the Company’s management is not aware of any pending legal proceeding or other loss contingency, whether asserted or unasserted, affecting the Company for which it might become liable or the outcome of which management expects to have a material impact on the Company.

12. Retirement Plan

The Company has a 401(k) defined contribution savings plan for its employees who meet certain employment status and age requirements. The plan allows participants to defer a portion of their annual compensation on a pre-tax basis. The Company did not contribute to this plan for the years ended December 31, 2011, 2010, and 2009. Effective January 1, 2012, the Company has elected to make a matching contribution of up to 4% of each employee’s wages.

13. Related Party Transactions

One investor in certain of the Company’s preferred stock financings is also the Company’s Assistant Secretary and primary outside legal counsel. Legal fees paid to this firm totaled \$4.2 million, \$1.1 million and \$0.5 million for the years ended December 31, 2011, 2010, and 2009, respectively. At December 31, 2011 and 2010, the Company had outstanding payables and accruals to the legal firm of \$0.4 million and \$0.5 million, respectively.

In December 2011, in connection with an employee/affiliate exercise of stock options, the Company remitted \$0.1 million on such employee/affiliate’s behalf for payroll taxes. The Company was reimbursed in full in January 2012.

14. Revolving Credit Facility

The Company maintains a revolving line of credit with a bank pursuant to which the Company may borrow up to \$15 million through August 31, 2012. Advances under the line of credit bear interest on the outstanding daily balance, at an annual rate equal to the lender’s prime reference rate plus 1%. The Company has pledged its accounts receivable, equipment, and shares of its subsidiaries to the lender to secure its obligations under the credit facility, and has also agreed not to grant a security interest in or pledge its intellectual property to any third party. The credit facility contains customary events of default, conditions to borrowings and restrictive covenants, including restrictions on the Company’s ability to dispose of assets, make acquisitions, incur additional debt, incur liens, make distributions to stockholders, make investments, or enter into certain types of

Carbonite, Inc.

related party transactions. The credit facility also includes financial and other covenants including covenants to maintain a minimum adjusted net worth, a minimum number of total subscribers, and a minimum cash deposit with the bank. To date, the Company has not borrowed any amounts under this \$15 million revolving line of credit.

15. Quarterly information (Unaudited)

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

	For the three months ended:							
	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	March 31, 2010
Statements of Operations Data:								
Revenue	\$17,344	\$15,926	\$14,399	\$12,843	\$11,556	\$10,322	\$ 9,062	\$ 7,632
Gross profit	10,562	9,817	8,753	8,178	6,982	6,061	5,092	4,144
Loss from operations	(6,101)	(7,438)	(4,662)	(5,353)	(4,967)	(6,695)	(5,942)	(8,292)
Net loss	(6,131)	(7,416)	(4,652)	(5,337)	(4,992)	(6,658)	(5,894)	(8,219)
Basic and Diluted net loss per share	\$ (0.24)	\$ (0.47)	\$ (0.93)	\$ (1.09)	\$ (1.13)	\$ (1.52)	\$ (1.35)	\$ (1.91)

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 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 December 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.

Table of Contents

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financing Reporting

This Annual Report on Form 10-K does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be contained in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2012 annual meeting of stockholders (the "Proxy Statement"), which is expected to be filed not later than 120 days after the end of our fiscal year ended December 31, 2011, and is incorporated in this Annual Report on Form 10-K by reference.

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

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

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be set forth in the Proxy Statement and is incorporated herein by reference.

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

The information required by this item will be set forth in the Proxy Statement and is incorporated herein by reference.

[Table of Contents](#)

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

The information, if any, required by this item will be set forth in the Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item will be set forth in the Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

See Index to Consolidated Financial Statements on page 50 of this Annual Report on Form 10-K, which is incorporated into this Item by reference.

(a)(3) Exhibits

See Exhibit Index to this Annual Report on Form 10-K, which is incorporated into this Item by reference. Each management contract or compensatory plan or arrangement required to be filed has been identified.

(b) Exhibits

See Exhibit Index to this Annual Report on Form 10-K, which is incorporated into this Item by reference.

(c) Financial Statement Schedules

All financial statement schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Table of Contents

SIGNATURES

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

CARBONITE, INC.

Dated: March 7, 2012

By: /s/ David Friend
David Friend
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints David Friend and Andrew P. Keenan, jointly and severally, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign this Annual Report on Form 10-K of Carbonite, Inc., and any or all amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises hereby ratifying and confirming all that said attorneys-in-fact and agents, or his, her, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ David Friend</u> David Friend	Chief Executive Officer and Director (Principal Executive Officer)	March 7, 2012
<u>/s/ Andrew P. Keenan</u> Andrew P. Keenan	Chief Financial Officer (Principal Financial and Accounting Officer)	March 7, 2012
<u>/s/ Jeffrey Flowers</u> Jeffrey Flowers	Director	March 7, 2012
<u>/s/ Gary Hromadko</u> Gary Hromadko	Director	March 7, 2012
<u>/s/ Charles Kane</u> Charles Kane	Director	March 7, 2012
<u>/s/ Todd Krasnow</u> Todd Krasnow	Director	March 7, 2012
<u>/s/ William G. Nelson</u> William G. Nelson	Director	March 7, 2012
<u>/s/ Pravin Vazirani</u> Pravin Vazirani	Director	March 7, 2012

EXHIBIT INDEX

Exhibit No.	Description
3.1(1)	Amended and Restated Certificate of Incorporation of Carbonite, Inc.
3.2(2)	Amended and Restated By-Laws of Carbonite, Inc.
4.1(3)	Form of Common Stock Certificate.
4.2(4)	Third Amended and Restated Investors' Rights Agreement by and among Carbonite, Inc. and the persons and entities listed on Exhibit A attached thereto, dated as of December 24, 2009.
10.1(2)#	Amended and Restated 2005 Stock Incentive Plan and Form of Incentive Stock Option Agreement, Nonqualified Stock Option Agreement, and Stock Restriction Agreement under the Amended and Restated 2005 Stock Incentive Plan.
10.2(2)#	2011 Equity Award Plan and Form of Incentive Stock Option Agreement, Nonqualified Stock Option Agreement, and Stock Restriction Agreement under the 2011 Equity Award Plan.
10.3(4)#	Form of Indemnification Agreement by and between Carbonite, Inc. and each of its directors and executive officers.
10.4(4)#	Severance Agreement with David Friend, dated as of May 3, 2011.
10.5(4)#	Severance Agreement with Jeffry Flowers, dated as of May 4, 2011.
10.6(4)#	Offer and Employment Agreement with Andrew Keenan, dated as of April 27, 2007.
10.6.A(4)#	Amendment to Offer and Employment Agreement with Andrew Keenan, dated as of May 5, 2011.
10.7(4)#	Offer Letter with Swami Kumaresan, dated as of September 7, 2007.
10.7.A(4)#	Amendment to Offer Letter with Swami Kumaresan, dated as of April 18, 2011.
10.8(4)	Office Lease with Trustees of Church Realty, dated as of June 25, 2009.
10.9(4)	Office Lease with Church Realty Trust, dated as of May 20, 2010.
10.10(4)	Colocation/Interconnection License with Markley Boston, LLC, dated as of August 20, 2006.
10.10.A(4)	First Amendment to Colocation/Interconnection License with Markley Boston, LLC, dated as of October 31, 2006.
10.10.B(4)	Second Amendment to Colocation/Interconnection License with Markley Boston, LLC, dated as of January 9, 2008.
10.10.C(4)	Third Amendment to Colocation/Interconnection License with Markley Boston, LLC, dated as of October 31, 2008.
10.11(4)	Master Services Agreement with Internap Network Services, Corp., executed on or about December 3, 2008.
10.12(4)	Loan and Security Agreement with Comerica Bank, dated as of May 11, 2011.
10.13(5)	Commercial Lease with Lewiston Properties, LLC, dated as of May 13, 2011.
10.14(5)	Turn Key Datacenter Lease with GIP Wakefield, LLC, dated as of June 3, 2011.
10.15(3)	Carbonite (China) Co., Ltd. Incentive Unit Plan and Form of Incentive Units Agreement under the Incentive Unit Plan.
10.16(6)	Offer Letter with Oussama El-Hilali, dated as of August 11, 2011.
10.17†	Turn Key Datacenter Lease with Digital Phoenix Van Buren, LLC, dated as of November 29, 2011.
21.1	List of subsidiaries.
23.1	Consent of Ernst & Young LLP, independent registered public accounting firm.
24.1	Power of Attorney (included on signature pages to this Annual Report on Form 10-K).
31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certifications of Chief Financial Officer 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 Extension Calculation Linkbase Document.

Table of Contents

<u>Exhibit No.</u>	<u>Description</u>
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB+	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document.

(1) Filed as the same numbered exhibit to Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 10, 2011, and incorporated herein by reference.

(2) Filed as the same numbered exhibit to Amendment No. 2 to Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 13, 2011, and incorporated herein by reference.

(3) Filed as the same numbered exhibit to Amendment No. 3 to Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 25, 2011, and incorporated herein by reference.

(4) Filed as the same numbered exhibit to Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on May 12, 2011, and incorporated herein by reference.

(5) Filed as the same numbered exhibit to Amendment No. 1 Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on June 15, 2011, and incorporated herein by reference.

(6) Filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 10, 2011, and incorporated herein by reference.

Indicates a management contract or compensatory plan.

* These certificates are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference in any filing we make under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, irrespective of any general incorporation language in any filings.

† Portions of this exhibit have been omitted pending a determination by the Securities and Exchange Commission as to whether these portions should be granted confidential treatment.

+ In accordance with Rule 406T of Regulation S-T, these XBRL (eXtensible Business Reporting Language) documents are furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

120 EAST VAN BUREN STREET

PHOENIX, ARIZONA

TURN KEY DATACENTER LEASE

Between

DIGITAL PHOENIX VAN BUREN, LLC

a Delaware limited liability company
as Landlord

and

CARBONITE, INC ., a Delaware corporation

as Tenant

Dated

November 29, 2011

TABLE OF CONTENTS

	Page
1. LEASE OF TENANT SPACE	7
1.1 Tenant Space	7
1.2 Condition of Tenant Space	7
1.3 Interconnections; Datacenter Connection Area	7
1.4 Relocation Right	7
1.5 Quiet Enjoyment; Access	7
1.6 Common Area	8
1.7 Tenant’s Datacenter Expansion Right	8
1.8 Determination of Prevailing Base Rent for Datacenter Expansion Area	10
1.9 Licenses and Permits	11
2. TERM	12
2.1 Term	12
2.2 Delivery of Tenant Space	12
2.3 Extension Options	13
3. BASE RENT AND OTHER CHARGES	14
3.1 Base Rent	14
3.2 Installation Fee	14
3.3 Payments Generally	15
3.4 Late Payments	15
3.5 Utilities	15
4. TAXES	16
4.1 Taxes – Equipment	16
4.2 Taxes – Other	16
4.3 Taxes – Real Property	16
5. SECURITY DEPOSIT	17
6. PERMITTED USE; COMPLIANCE WITH RULES AND LAWS; HAZARDOUS MATERIALS	17
6.1 Permitted Use	17
6.2 Datacenter Rules and Regulations	18
6.3 Compliance with Laws; Hazardous Materials	18
6.4 Electricity Consumption Threshold	19
6.5 Maximum Structural Load	19

7.	ACCESS CONTROL; LANDLORD’S ESSENTIAL SERVICES; INTERRUPTION OF SERVICES	19
7.1	Access Control	19
7.2	Landlord’s Essential Services	19
7.3	Customer Handbook	19
7.4	Interruption of Services	20
8.	MAINTENANCE; ALTERATIONS; REMOVAL OF TENANT’S PERSONAL PROPERTY	20
8.1	Landlord’s Maintenance	20
8.2	Tenant’s Maintenance	21
8.3	Alterations	21
8.4	Removal of Tenant’s Personal Property	23
9.	CASUALTY EVENTS; TAKINGS; INSURANCE	23
9.1	Casualty Events; Takings	23
9.2	Tenant’s Insurance	25
9.3	Landlord’s Insurance	26
10.	TRANSFERS	26
10.1	Restrictions on Transfers; Landlord’s Consent	26
10.2	Notice to Landlord	27
10.3	Landlord’s Recapture Rights	27
10.4	No Release; Subsequent Transfers	27
10.5	Colocation	27
10.6	Excess Rent	28
11.	ESTOPPEL CERTIFICATES	28
12.	SUBORDINATION AND ATTORNMENT; HOLDER RIGHTS	29
12.1	Subordination and Attornment	29
12.2	Holder Protection	29
12.3	SNDA	29
13.	SURRENDER OF TENANT SPACE; HOLDING OVER	30
13.1	Tenant’s Method of Surrender	30
13.2	Disposal of Tenant’s Personal Property	30
13.3	Holding Over	30
13.4	Survival	30
14.	WAIVERS; INDEMNIFICATION; CONSEQUENTIAL DAMAGES; LIENS	31

14.1	Waivers	31
14.2	Indemnifications	31
14.3	Consequential Damages	33
14.4	Liens	33
15.	TENANT DEFAULT	33
15.1	Events of Default By Tenant	33
15.2	Remedies	34
15.3	Limitations on Tenant's Liability	35
16.	LANDLORD'S LIABILITY	35
16.1	Landlord Default; Tenant's Remedies	35
16.2	Landlord's Liability	36
16.3	Transfer of Landlord's Interest	36
17.	MISCELLANEOUS	37
17.1	Severability	37
17.2	No Waiver	37
17.3	Attorneys' Fees and Costs	37
17.4	Waiver of Right to Jury Trial	37
17.5	Headings; Time; Survival	38
17.6	Notices	38
17.7	Governing Law; Jurisdiction	38
17.8	Incorporation; Amendment; Merger	38
17.9	Brokers	38
17.10	Examination of Lease; Binding on Parties	39
17.11	Recordation	39
17.12	Authority	39
17.13	Successors and Assigns	39
17.14	Force Majeure	39
17.15	No Partnership or Joint Venture; No Third Party Beneficiaries	39
17.16	Access by Landlord	40
17.17	Rights Reserved by Landlord	40
17.18	Counterparts; Delivery by Facsimile or E-mail	40
17.19	Confidentiality	41
17.20	Incorporation of Schedules and Exhibits	41
17.21	Financial Statements	41
17.22	Non-Exclusive Remedies	41
18.	confidentiality	42
18.1	Definition of Confidential Information.	42
18.2	Exclusions	42
18.3	Use	43
18.4	Compelled Disclosures	43
18.5	Return of Confidential Information	44
18.6	Non-Exclusive Equitable Remedy	45

SCHEDULE "1"

CERTAIN DEFINED TERMS

“ **ACM** ” shall mean and refer to asbestos, asbestos-containing materials or presumed asbestos-containing materials.

“ **Additional Rent** ” shall mean and refer to all amounts (other than Base Rent) payable by Tenant to Landlord pursuant to this Lease, whether or not denominated as such.

“ **Affiliate Transfer** ” shall mean and refer to an assignment by Tenant of this Lease to a Tenant Affiliate where (x) Tenant gives Landlord prior written notice of the name of such Tenant Affiliate, and (y) the applicable Tenant Affiliate assumes, in writing, for the benefit of Landlord, all of Tenant’s obligations under this Lease.

“ **Alterations** ” shall mean and refer to any alterations, additions, improvements or replacements to the Tenant Space, or any other portion of the Building or Property performed by or on behalf of Tenant or any other Tenant Party.

“ **Applicable Laws** ” shall mean and refer to (a) all laws, ordinances, building codes, rules, regulations, orders and directives of any governmental authority now or hereafter having jurisdiction over the Property and the Landlord Essential Services, (b) all covenants, conditions, laws and restrictions now or hereafter affecting the Property or the Services, (c) all rules, orders, laws, regulations and requirements of any applicable fire rating bureau or other organization performing a similar function for the Property, and (d) the Environmental Laws.

“ **Applicable Security Deposit Laws** ” shall mean and refer to laws, rules and regulations applicable to security deposits under commercial leases in the State in which the Property is located.

“ **Back-Up Power Specifications** ” shall mean and refer to the specific elements of back-up power that are described in Items 2 & 3 of **Exhibit “F”**, Table A.

“ **Back-Up Power Systems** ” shall mean and refer to the specific equipment used by Landlord to meet the Back-Up Power Specifications.

“ **Base Rent** ” shall mean and refer to the amounts of Base Rent set forth in Item 8 of the Basic Lease Information.

“ **Basic Lease Information** ” shall mean the information contained in Section 1 of this Lease.

“ **Building** ” shall mean and refer to the Building described in Item 15 of the Basic Lease Information.

“ **Building Systems** ” shall mean and refer to the Building and/or Property systems and equipment, including all fire/life safety, electrical, HVAC, plumbing and sprinkler, access control (including Landlord’s Access Control Systems), mechanical, and telecommunications systems and equipment.

“ **Cables** ” shall mean and refer to all fiber and/or copper cabling that is placed into the Pathway by Landlord on Tenant’s behalf, or by Tenant and/or by any other Tenant Party.

“ **Casualty-Complete** ” shall mean and refer to a Casualty Event that results in the complete destruction of the Building or the Property.

“ **Casualty Event** ” shall mean and refer to fire, explosion or any other disaster causing damage to the Property, the Building, or the Tenant Space.

“ **Casualty Repair** ” shall mean and refer to the repair and reconstruction of the damaged portion(s) of the Property, the Building and/or the Tenant Space to substantially the same condition in which they existed immediately prior to each Casualty Event.

“ **Casualty Repair Notice** ” shall mean and refer to written notice by Landlord to Tenant notifying Tenant of the Repair Period-Estimated.

“ **Chronic Outage** ” shall mean and refer to the occurrence of two (2) or more Separate/Independent Interruptions of Landlord’s Essential Services within a six (6) consecutive month period, each of which continues for eight (8) or more consecutive hours, regardless of whether or not such Interruption of Landlord’s Essential Services was caused by Force Majeure or any other event, other than the fault of Tenant, or anyone claiming by, through or under Tenant.

“ **Chronic Outage Termination Notice** ” shall mean and refer to written notice from Tenant to Landlord, delivered within five (5) business days after the occurrence of a Chronic Outage, that Tenant thereby terminates this Lease.

“ **Claims** ” shall mean and refer to all third party claims, actions, suits and proceedings, and all losses, damages, obligations, liabilities, penalties, fines, costs and expenses arising from any such claims, actions, suits, or proceedings, including reasonable attorneys’ fees, legal costs, and other costs and expenses of defending against any such claims, actions, suits, or proceedings.

“ **Colocation Activity** ” shall mean and refer to the installation, operation and maintenance by a Colocation Party of such Colocation Party’s computer, switch and/or communications equipment in the Tenant Space, and the connection of such equipment with the equipment of other Colocation Parties within the Tenant Space.

“ **Colocation Agreement** ” shall mean and refer to a license agreement, by and between Tenant and a Colocation Customer, whereby Tenant provides such Colocation Customer (and its related Colocation Parties) a license for the sole purpose of engaging in Colocation Activities within the Tenant Space.

“ **Colocation Customer** ” shall mean and refer to a non-carrier customer of Tenant, who desires to engage in Colocation Activities within the Tenant Space, under and pursuant to a Colocation Agreement.

“ **Colocation Party** ” shall mean and refer to any person claiming, directly or indirectly, by, through or under any Colocation Customer, together with the officers, agents, servants and employees of each Colocation Customer.

“ **Commencement Date Conditions** ” shall mean and refer to the occurrence of the following:

- (a) Landlord has completed Landlord’s Installations; and
- (b) Landlord has delivered the Tenant Space to Tenant by virtue of having provided the Commencement Date Notice to Tenant.

Installation of the pathway from the Meet- Me Room to the Tenant Space shall not be a Commencement Date Condition; however, Landlord shall use diligent efforts to install such pathway as soon as reasonably possible after the Commencement Date.

“ **Commencement Date Notice** ” shall mean and refer to a notice from Landlord to Tenant, substantially in the form attached hereto as **Exhibit “H”** , which shall (a) memorialize Landlord’s delivery of the Tenant Space to Tenant, and (b) confirm the actual Commencement Date.

“ **Commissioning** ” shall mean and refer to the act of causing the commissioning/turn up of the Premises’ infrastructure pursuant to the Commissioning Criteria, so that such infrastructure has passed Level 5 of such Commissioning Criteria, as described in **Exhibit “E-1”** .

“ **Commissioning Agent** ” shall mean and refer to the third party engineering firm that performs the Commissioning.

“ **Commissioning Complete Letter** ” shall mean and refer to a letter from the Commissioning Agent, evidencing successful commissioning of the Premises, substantially in the form attached hereto as **Attachment “1”** to **Exhibit “H”**.

“ **Commissioning Criteria** ” shall mean and refer to the commissioning criteria set forth on **Exhibit “E-1”** .

“ **Common Area** ” shall mean and refer to that part of the Property lying outside the Premises designated by Landlord from time to time for the common use of all tenants of the Datacenter or the Building, as applicable, including among other facilities, the sidewalks, service corridors, curbs, truck ways, loading areas, private streets and alleys, lighting facilities, halls, lobbies, delivery passages, elevators, drinking fountains, meeting rooms, public toilets, parking areas and garages, decks and other parking facilities, landscaping and other common rooms and common facilities.

“ **Consequential Damages** ” shall mean and refer to consequential damages, incidental damages, indirect damages, or special damages, or for loss of profit, loss of business opportunity or loss of income.

“ **Continuous Outage** ” shall mean and refer to an Interruption of Landlord’s Essential Services that continues for twenty (20) consecutive days, regardless of whether or not such Interruption of Landlord’s Essential Services was caused by Force Majeure, other than the fault of Tenant, or anyone claiming by, through or under Tenant.

“ **Continuous Outage Termination Notice** ” shall mean and refer to written notice from Tenant to Landlord, delivered within five (5) business days after the occurrence of a Continuous Outage, that Tenant thereby terminates this Lease.

“ **Control** ”, as used in the definition of Tenant Affiliate, shall mean and refer to the right to exercise, directly or indirectly, fifty percent (50%) or more of the voting rights attributable to the controlled entity and/or the power to elect a majority of the controlled entity’s board of directors.

“ **Datacenter** ” shall mean and refer to the Datacenter described in Item 20 of the Basic Lease Information.

“ **Datacenter Connection Area** ” shall mean and refer to the central shared point of pathway access in the Datacenter, as designated by Landlord.

“ **Datacenter Rules and Regulations** ” shall mean and refer to Landlord’s written rules and regulations for the Datacenter, as same may be amended from time to time in accordance with Section 6.2 of the Lease and that are provided, or made available to, Tenant. The current version of the Datacenter Rules and Regulations is available on the Internet at the following URL:

<http://www.digitalrealtytrust.com/leasing/>

“ **Datacenter Utility** ” shall mean and refer to a utility type for which usage is billed on a “datacenter-by-datacenter” basis.

“ **Datacenter Utility Costs** ” shall mean and refer to the actual Datacenter Utility costs for the entirety of the Datacenter (i.e., based on the metering equipment that measures electrical and mechanical power [UPS, HVAC and other mechanical power] being used by the Datacenter), as set forth on the applicable Datacenter Utility bill(s) for the Datacenter (each such Datacenter Utility bill, a “ **Datacenter Utility Bill** ”) for the billing period covered by such Datacenter Utility Bill(s).

“ **Default Rate** ” shall mean and refer to an interest rate equal to the lesser of (a) [***] percent ([***]%) per month or (b) the maximum lawful rate of interest.

“ **Delinquency Date** ” shall mean and refer to the date that is five (5) days after the date on which any particular payment of Rent is due from Tenant to Landlord.

“ **Digital** ” shall mean and refer to Digital Realty Trust, L.P., a Maryland limited partnership.

“ **ECT Default Notice** ” shall mean and refer to written notice from Landlord notifying Tenant of an ECT Overage.

[***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

“ **ECT Coverage** ” shall mean and refer to a situation in which the electricity consumption in the Premises exceeds the Electricity Consumption Threshold.

“ **Electricity Consumption Threshold** ” shall mean and refer to the amount of electrical power specified in Item 1 of **Exhibit “F”**, Table A.

“ **Electricity Specifications** ” shall mean and refer, collectively, to the Electricity Consumption Threshold and the Back-Up Power Specifications.

“ **Environmental Laws** ” shall mean and refer to all now and hereafter existing Applicable Laws regulating, relating to, or imposing liability or standards of conduct concerning public health and safety or the environment.

“ **Event of Default by Tenant** ” shall mean and refer to the occurrence of any of the Events of Default by Tenant described in Sections 15.1.1-15.1.5, inclusive.

“ **Excess Rent** ” shall mean and refer to any consideration in excess of the sum of (a) the pro-rata portion of Rent applicable to the portion of the Tenant Space subject to the assignment or sublease, less (b) the reasonable leasing costs (i.e., tenant improvement allowances, attorneys’ fees, architectural fees, and broker commissions) actually incurred by Tenant in connection with such sublease or assignment.

“ **Financial Statements** ” shall mean and refer to audited annual financial statements of the indicated entity, certified by the entity’s chief financial officer, including (i) a balance sheet, and (ii) a profit and loss statement (income statement), all prepared in accordance with generally accepted accounting principles consistently applied.

“ **First Interruption** ” shall mean and refer to the first (1st) Separate/Independent Interruption of Landlord’s Essential Services occurring in any period of twelve (12) consecutive months.

“ **Force Majeure** ” shall mean and refer to any cause or reason beyond the reasonable control of the party obligated to perform hereunder, including strike (subject to the next following sentence), labor trouble (subject to the next following sentence), governmental rule, regulations, ordinance, statute or interpretation, or fire, earthquake, civil commotion, or failure or disruption of a utility’s services. Notwithstanding the foregoing, strikes or labor disputes which are directed at Landlord or its contractors (as opposed to strikes or labor disputes of regional or national nature) shall not be considered to be Force Majeure.

“ **Four-Plus Interruption** ” shall mean and refer to the fourth (4th), and any subsequent, Separate/Independent Interruption of Landlord’s Essential Services occurring in any then-current Interruption Accrual Period.

“ **Generator Fuel Usage** ” shall mean and refer to all fuel used by the element(s) of the Back-Up Power Systems described in Item 3 of **Exhibit “F”**, Table A.

“ **Generator Fuel Payment** ” shall mean and refer to the actual cost of all Generator Fuel Usage that is not Maintenance Fuel Usage.

“ **Handle** ,” “ **Handled** ,” or “ **Handling** ” shall mean and refer to any installation, handling, generation, storage, treatment, use, disposal, discharge, release, manufacture, refinement, presence, migration, emission, abatement, removal, transportation, or any other activity of any type in connection with or involving Hazardous Materials.

“ **Hazardous Materials** ” shall mean and refer to: (1) any material or substance: (i) which is defined or becomes defined as a “hazardous substance,” “hazardous waste,” “infectious waste,” “chemical mixture or substance,” or “air pollutant” under Environmental Laws; (ii) containing petroleum, crude oil or any fraction thereof; (iii) containing PCBs; (iv) containing ACM; (v) which is radioactive; (vi) which is infectious; or (2) any other material or substance displaying toxic, reactive, ignitable, explosive or corrosive characteristics, and is defined, or becomes defined by any Environmental Law.

“ **Holder** ” shall mean and refer to any mortgagee or beneficiary with a mortgage or deed of trust encumbering the Property or any portion thereof, or any lessor of a ground or underlying lease with respect to the Property or any portion thereof.

“ **HVAC** ” shall mean and refer to heating, ventilation and air conditioning.

“ **HVAC Specifications** ” shall mean and refer to the specifications set forth in Item 4(a) and (b) of **Exhibit “F”**, Table A.

“ **Interruption Accrual Period** ” shall mean and refer to the period of twelve (12) consecutive months occurring from and after each First Interruption.

“ **Interruption Cure Completion Notice** ” shall mean and refer to written notice from Landlord that a particular Interruption of Landlord’s Essential Services has been rectified.

“ **Interruption – Electrical** ” shall mean and refer to the occurrence of a partial or complete interruption of electricity to the PDUs supplying electrical power to Tenant’s Personal Property within the Premises; provided that such occurrence is not caused by any act or omission of Tenant or any other Tenant Party, nor by a Casualty Event, nor by, or during, an ECT Overage. The foregoing notwithstanding, if (a) Tenant fails to take advantage of the redundant electrical design of the Premises (e.g. Tenant “single-cords” its equipment in a scenario where “dual-cording” of Tenant’s equipment is available), (b) there occurs an interruption of electricity to one (1) or more PDUs from which Tenant draws electricity to power Tenant’s Personal Property, (c) such interruption results in a power outage in one (1) or more items of Tenant’s Personal Property, and (d) such power outage could have been avoided if Tenant had taken proper advantage of the electrical redundancies in the Premises, then such interruption will be deemed *not to have been* an Interruption – Electrical.

“ **Interruption – Electrical Duration Threshold** ” shall mean and refer to an aggregate of six (6) minutes in any rolling twelve (12) month period.

“ **Interruption – Humidity** ” shall mean and refer to the occurrence of the average *relative humidity* of the Premises measured at the return air vents in the Premises being outside of the Target Humidity Range for a period of ninety (90), or more, consecutive minutes; provided that such occurrence is not caused by any act or omission of Tenant or any other Tenant Party, nor by a Casualty Event, nor by, or during, an ECT Overage. For the avoidance of doubt, the duration of each Interruption – Humidity shall commence from and after the expiration of the ninetieth (90th) consecutive minute of the average *relative humidity* of the Premises being outside of such Target Humidity Range.

“ **Interruption of Landlord’s Essential Services** ” shall mean and refer to (a) an Interruption – Electrical; (b) an Interruption – Temperature, or (c) an Interruption – Humidity.

“ **Interruption – Temperature** ” shall mean and refer to the occurrence of the average **temperature** of the Premises measured at the return air vents in the Premises being outside of the Target Temperature Range for a period of ninety (90), or more, consecutive minutes; provided that such occurrence is not caused by any act or omission of Tenant or any other Tenant Party, nor by a Casualty Event, nor by, or during, an ECT Overage. For the avoidance of doubt, the duration of each Interruption – Temperature shall commence from and after the expiration of the ninetieth (90th) consecutive minute of the average **temperature** of the Premises being outside of the Target Temperature Range.

“ **Land** ” shall mean and refer to the Land described in Item 14 of the Basic Lease Information.

“ **Landlord** ” shall mean and refer to the Landlord set forth in Item 1 of the Basic Lease Information.

“ **Landlord Default** ” shall mean and refer to the occurrence of a Landlord Default, as described in Section 16.1.1.

“ **Landlord Group** ” shall mean and refer to Landlord and its directors, officers, shareholders, members, employees, constituent partners, affiliates, beneficiaries and trustees.

“ **Landlord’s Access Control Systems** ” shall mean and refer to the following: (i) a check-in desk at the Building’s main entrance operated by Landlord twenty-four (24) hours per day, seven (7) days per week, fifty-two (52) weeks per year, (ii) an electronic “key card” system to control access to the Datacenter, and (iii) a video surveillance system in the Datacenter.

“ **Landlord’s Essential Services** ” shall mean and refer to Landlord’s obligations to meet the Electricity Specifications and the HVAC Specifications.

“ **Landlord’s Installations** ” shall mean and refer to the installations defined as such, as set forth on **Exhibit “E”**, attached hereto.

“ **Landlord’s Lease Undertakings** ” shall mean and refer to each representation, warranty, covenant, undertaking, and agreement contained in any of the Lease Documents that is to be provided or performed by Landlord.

- “ **Landlord’s Liability Cap** ” shall mean and refer to an aggregate amount of Landlord’s interest in the Property not to exceed \$5,000,000.00.
- “ **Late Charge** ” shall mean and refer to a sum equal to [***] percent ([***]%) of the amount of a particular Late Payment.
- “ **Late Payment** ” shall mean and refer to any payment of Rent that Landlord has not received from Tenant prior to the Delinquency Date.
- “ **Late Payment Interest** ” shall mean and refer to interest on a particular Late Payment at the Default Rate.
- “ **Lease Documents** ” shall mean and refer to this Lease and all schedules, exhibits, riders, amendments, and addenda to this Lease.
- “ **Maintenance Fuel Usage** ” shall mean and refer to Generator Fuel Usage that is used for the performance of Landlord’s maintenance obligations hereunder.
- “ **Market Area** ” shall mean the greater Phoenix area.
- “ **Maximum Structural Load** ” shall mean and refer to the Maximum Structural Load set forth in Item 19 of the Basic Lease Information.
- “ **Meet-Me Room** ” shall mean and refer to the Meet-Me Room described in Item 16 of the Basic Lease Information.
- “ **Metering Equipment – Tenant Space** ” shall mean and refer to a metering device (or metering devices) for monitoring the utilities serving, provided to and/or used in the Tenant Space.
- “ **MMR Services** ” shall mean and refer to the services typically provided by companies in the primary business of providing carrier-neutral interconnections, such as Equinix, CoreSite, and Telehouse, including without limitation, furnishing of space, racks and pathway to telecommunications carriers for the purpose of such carriers’ placement and maintenance of computer, switch and/or communications equipment and cross-connections by such carriers with the communications cable and facilities of other parties in the Building.
- “ **Noticed Holder** ” shall mean and refer to a Holder for which Tenant has been notified in writing of the address of such Holder prior to the time that Tenant is required to give a Holder the notice in question.
- “ **Other PDU kW-hr** ” shall mean and refer to the number of kilowatt-hours on the PDU(s) serving all portions of the Datacenter other than the Tenant Space during the same billing period as the applicable Datacenter Utility Bill for the Datacenter.
- “ **Outage Credit** ” means the quotient achieved by dividing the Base Rent for the month in which the Interruption of Landlord’s Essential Services occurred by 60.
- [***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

“ **Outside Completion Date** ” shall mean and refer to the Outside Completion Date set forth in Item 4 of the Basic Lease Information.

“ **Partial Month** ” shall, in the event of a Commencement Date that occurs on a date that is other than the first (1st) day of a calendar month, mean and refer to the number of calendar days (including the Commencement Date) remaining in the month in which the Commencement Date occurs.

“ **Pathway** ” shall mean and refer to the Pathway described in Item 7 of the Basic Lease Information.

“ **PCBs** ” shall mean and refer to polychlorinated biphenyls.

“ **PDU** ” shall mean and refer to power distribution units.

“ **Periods of Premises Operation** ” shall mean and refer to those periods of equipment operation within the Premises (i.e., periods during electrical power is being drawn by Tenant’s Personal Property).

“ **Periods of Premises Underutilization** ” shall mean and refer to those periods during which none of Tenant’s Personal Property is operating in the Premises (i.e., periods during which there is no electrical power being drawn by Tenant’s Personal Property).

“ **Permitted Transfer** ” shall mean and refer to:

- (x) the public offering of shares of Tenant on a public exchange or issuance of additional shares of the Tenant entity; and
- (y) any of the following: (i) the transfer of a majority interest of the outstanding shares of stock of Tenant, (ii) the merger of Tenant with another entity or entities, and (iii) the sale of all or substantially all of Tenant’s assets, and/or (iv) Affiliate Transfers; provided that, in any event described under this clause (y), (a) the action is taken pursuant to a bona fide business transaction and not principally or exclusively as a means to evade the consent requirements under this Lease, and (b) the “Tenant” under this Lease after such transaction has the same or better financial strength as that which Tenant had, immediately prior to such transaction, as evidenced in a manner reasonably acceptable to Landlord.

“ **Permitted Use** ” shall mean and refer to the placement, installation, operation, repair and maintenance of computer, switch and/or communications equipment and connections of such equipment (subject to the terms of Section 1.3 of the Standard Lease Provisions), via telecommunications cables, with the facilities and/or equipment of other tenants in the Datacenter or the Building.

“ **PM Activity** ” shall mean and refer to each of the preventative maintenance activities contained on Landlord’s then-current PM Standards.

“ **PM Audit** ” shall mean and refer to Tenant’s inspection of the PM Books and Records.

“ **PM Audit Notice** ” shall mean and refer to written notice of Tenant’s intent to perform a PM Audit.

“ **PM Books and Records** ” shall mean and refer to the books and records used by Landlord for documenting performance of the PM Activities.

“ **PM Change** ” shall mean and refer to a change to the PM Schedule requested by Tenant.

“ **PM Change Cost Estimate** ” shall mean and refer to written notice from Landlord to Tenant of the estimated incremental costs related to the PM Change.

“ **PM Change Request** ” shall mean and refer to written notice from Tenant to Landlord of Tenant’s requested PM Change.

“ **PM Schedule** ” shall mean and refer to Landlord’s then-current schedule for the performance of the PM Activities.

“ **PM Standards** ” shall mean and refer to the activities of preventative maintenance that Landlord performs with regard to the equipment that serves the Premises. Landlord’s current list of PM Standards is available on the Internet at the following URL:

<http://www.digitalrealtytrust.com/leasing>

“ **Premises** ” shall mean and refer to the Premises described in Item 7 of the Basic Lease Information.

“ **Premises PDU kW-hr** ” shall mean and refer to the number of kilowatt-hours on the PDU’s serving the Premises during the same billing period as the applicable Datacenter Utility Bill for the Datacenter.

“ **Projected Real Property Tax Installment** ” shall mean and refer to an amount equal to [***] ([***)] of the product of (i) the positive difference (if any) obtained by subtracting the Taxes – Real Property (Actual) applicable to the Tax Base Year from the Taxes – Real Property (Projected) for the applicable calendar year, multiplied by (ii) Tenant’s Proportionate Share.

“ **Property** ” shall mean and refer to the Land, the Building, the improvements on the Land and in the Building, and Landlord’s personal property thereon or therein.

“ **Rent** ” shall mean and refer to all Base Rent, plus all Additional Rent.

“ **Repair Period-Actual** ” shall mean and refer to the period of time that it actually takes to repair and/or restore the Building following a Casualty Event in order to enable Tenant’s use of the Tenant Space in the ordinary conduct of Tenant’s business.

“ **Repair Period-Estimated** ” shall mean and refer to the period of time, which Landlord estimates will be required for the repair and/or restoration of the Building following a Casualty Event in order to enable Tenant’s use of the Tenant Space in the ordinary conduct of Tenant’s business.

[***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

“ **Second Interruption** ” shall mean and refer to the second (2nd) Separate/Independent Interruption of Landlord’s Essential Services occurring in any then-current Interruption Accrual Period.

“ **Security Documents** ” shall mean and refer to the following: (i) all ground leases or underlying leases; (ii) the lien of any mortgage, deed, or deed of trust; (iii) all past and future advances made under any such mortgages, deeds, or deeds of trust; and (iv) all renewals, modifications, replacements and extensions of any such ground leases, master leases, mortgages, deeds, and deeds of trust.

“ **Separate/Independent Interruption of Landlord’s Essential Services** ”, and similar phrases used herein, shall mean and refer to (a) Interruptions of Landlord’s Essential Services that occur from separate and unrelated root causes; or (b) a further occurrence of a particular Interruption of Landlord’s Essential Services that occurs after Landlord has provided Tenant the Interruption Cure Completion Notice with regard to the immediately preceding occurrence of such Interruption of Landlord’s Essential Services.

“ **Shared Infrastructure Costs** ” shall mean and refer to the utility costs related to all items of mechanical and electrical equipment that serve the Datacenter, but which are commercially impractical of being separately metered to the Premises, due to the fact that such items (and/or the utility meters monitoring same) are designed to serve (and/or monitor) more areas of the Datacenter and/or Building than just the Premises. Shared Infrastructure Costs shall also include all costs related to the delivery of each utility as well as the relevant “unit consumption costs”, including recurring network charges, subscription charges or one-off maintenance charges imposed by the utility provider. For the avoidance of doubt, and for the purposes of illustration, but not limitation, the Shared Infrastructure Costs include the utility costs related to shared electrical system equipment and shared HVAC system equipment, as well as the costs related to the electrical power dissipation that occurs between a utility’s power meters that monitor power consumption at the Datacenter level or the Building level and those meters that monitor power consumption at the Premises level, such dissipation being inherent to the total amount of electrical power required to operate the Datacenter.

“ **Shared Mechanical Equipment** ” shall mean certain equipment within the Tenant Space, and/or equipment located outside the Tenant Space but serving the Tenant Space, including certain cooling equipment, that is commercially impractical of being separately metered to the Tenant Space, because it utilizes equipment and/or facilities designed to serve more area of the Datacenter and/or the Building than just the Tenant Space.

“ **Shared Mechanical Metering Equipment** ” shall mean and refer to metering equipment that separately meters utilities provided specifically to the Tenant Space by the Shared Mechanical Equipment.

“ **SNDA** ” shall mean and refer to a subordination, non-disturbance and attornment agreement in a form that is reasonably acceptable to Tenant, which provides that, so long as there is no Event of Default by Tenant, Tenant may remain in possession of the Tenant Space under the terms of this Lease, even if the Holder should acquire Landlord’s title to the Building.

“ **Taking** ” shall mean and refer to the Property, or some portion thereof, having been taken under the power of eminent domain or condemned by any competent authority for any public or quasi-public use or purpose, or sold to prevent the exercise thereof.

“ **Target Commencement Date** ” shall mean and refer to the Target Commencement Date set forth in Item 4 of the Basic Lease Information.

“ **Target Humidity Range** ” shall mean and refer to the range of relative humidity percentages described in Item 4(b) of **Exhibit “F”**, Table A.

“ **Target Temperature Range** ” shall mean and refer to the range of temperatures described in Item 4(a) of **Exhibit “F”**, Table A.

“ **Tax Base Year**” shall mean and refer to calendar year 2012 .

“ **Taxes – Equipment** ” shall mean and refer to all governmental fees, taxes, tariffs and other charges levied directly or indirectly against any personal property, fixtures, machinery, equipment, apparatus, systems, connections, interconnections and appurtenances located in, or used by Tenant in or in connection with, the Tenant Space.

“ **Taxes – Other** ” shall mean any excise, sales, privilege or other tax, assessment or other charge (other than income taxes) imposed, assessed or levied by any governmental or quasi governmental authority or agency upon Landlord on account of (i) the Rent (and other amounts) payable by Tenant hereunder (or any other benefit received by Landlord hereunder), including any gross receipts tax, license fee or excise tax levied by any governmental authority, (ii) this Lease, Landlord’s business as a lessor hereunder, and/or the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy of any portion of the Tenant Space (including any applicable possessory interest taxes), (iii) this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Tenant Space, or (iv) otherwise in respect of or as a result of the agreement or relationship of Landlord and Tenant hereunder.

“ **Taxes – Real Property** ” shall mean and refer to all taxes, assessments and governmental charges (foreseen or unforeseen, general or special, ordinary or extraordinary) whether federal, state, county or municipal and whether levied by taxing districts or authorities presently taxing the Property or by others subsequently created or otherwise, and any other taxes and assessments attributable to the Property or its operation, and all taxes of whatsoever nature that are imposed in substitution for or in lieu of any of the taxes, assessments or other charges herein defined; provided, however, Taxes – Real Property shall not include taxes paid by tenants of the Property as a separate charge on the value of their leasehold improvements, death taxes, excess profits taxes, franchise taxes and state and federal income taxes, except to the extent imposed in substitution for or in lieu of all or any portion of Taxes – Real Property, and shall not include any Taxes – Other.

“ **Taxes – Real Property (Actual)**” shall mean and refer, with respect to each calendar year during the Term of the Lease, to the actual Taxes – Real Property for such year.

“ **Taxes – Real Property (Projected)** ” shall mean and refer, with respect to each calendar year during the Term of the Lease, to Landlord’s reasonable projection of Taxes – Real Property for such year. “

tel x” shall mean and refer to that certain third party entity named tel x – Phoenix, LLC (together with its successors and assigns), which controls and operates the Meet-Me Room. For the avoidance of doubt, Landlord and Tenant hereby expressly acknowledge that tel x is not an affiliate of Landlord.

“ **Tenant** ” shall mean and refer to the Tenant set forth in Item 2 of the Basic Lease Information.

“ **Tenant Affiliate** ” shall mean and refer to any partnership, limited liability company, or corporation or other entity, which, directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with, Tenant.

“ **Tenant Group** ” shall mean and refer to Tenant and its directors, officers, shareholders, members, employees, constituent partners, and Tenant Affiliates.

“ **Tenant Parties** ” shall mean and refer, collectively to Tenant, the other members of the Tenant Group, Tenant’s Transferees, and their respective contractors, clients, servants, representatives, licensees, Colocating Parties, agents, and invitees.

“ **Tenant Space** ” shall mean and refer to the Premises together with the Pathway.

“ **Tenant Space Customer** ” shall mean and refer to each customer or other person or entity to which Tenant, any Tenant Affiliate, any other Tenant Party, or any Transferee, provides goods or services, which are in any way related to or associated with the use of the Tenant Space, including those customers, persons or entities now or hereafter conducting transactions or other operations by or through or in connection with equipment located within the Tenant Space.

“ **Tenant’s Datacenter Utility Payment** ” shall mean and refer to Tenant’s pro rata portion of the applicable Datacenter Utility Costs, during the same billing period as the applicable Datacenter Utility Bill for the Datacenter, being allocated to the Premises based on the amount of the Premises PDU kW-hr during such billing period, as compared to the Total Datacenter PDU kW-hr during the same billing period.

“ **Tenant’s Personal Property** ” shall mean and refer, collectively, to all cable, wiring, connecting lines, and other installations, equipment or property installed or placed by, for, through, under or on behalf of Tenant or any Tenant Party anywhere in the Building, the Datacenter, and/or the Tenant Space, not including any equipment or property owned, leased or licensed by Landlord or any other member of the Landlord Group. Additionally, for the purposes of clarity, the parties acknowledge that “Tenant’s Personal Property” includes all equipment or property, other than equipment or property owned, leased or licensed by Landlord or any other member of the Landlord Group, installed and/or placed anywhere in the Building, the Datacenter, and/or the Tenant Space by any party specifically and solely in order to provide any service to Tenant or any Tenant Party (e.g., data storage/archiving and data recovery type equipment that is utilized by or for Tenant or any Tenant Party in the Tenant Space, but which is actually owned by a third party, other than Landlord or any other member of the Landlord Group).

“ **Tenant’s Proportionate Share** ” shall mean and refer to the Tenant’s Proportionate Share described in Item 17 of the Basic Lease Information. Landlord and Tenant acknowledge that Tenant’s Proportionate Share is a “deemed” share, which has been calculated by taking into consideration the rentable square feet of all space that is included collectively in and/or serving the Premises .

“ **Tenant’s Proportionate Share of Taxes – Real Property (Actual)** ” shall mean and refer, with respect to each calendar year during the Term of this Lease, to an amount equal to the product of (i) the positive difference (if any) obtained by subtracting the Taxes – Real Property (Actual) applicable to the Tax Base Year from the Taxes – Real Property (Actual) applicable to such calendar year, multiplied by (ii) Tenant’s Proportionate Share, as described in Item 17 of the Basic Lease Information.

“ **Tenant’s Separately Metered Utility Payment** ” shall mean the actual cost of all utilities, if any, that serve, are provided to and/or are used in, or for, the Tenant Space, for which the costs that are applicable to the Tenant Space are wholly and separately metered to the Tenant Space.

“ **Tenant’s Shared Mechanical Payment** ” shall mean Tenant’s Datacenter Utility Payment.

“ **Tenant’s Utility Payment** ” shall mean and refer to each Tenant’s Shared Mechanical Payment and each Tenant’s Separately Metered Utility Payment.

“ **Term** ”; “ **Term of this Lease** ”; and “ **Term of the Lease** ” shall mean and refer to the period described in Item 5 of the Basic Lease Information, subject to the terms of such Item 5.

“ **Third Interruption** ” shall mean and refer to the third (3rd) Separate/Independent Interruption of Landlord’s Essential Services occurring in any then-current Interruption Accrual Period.

“ **Total Datacenter PDU kW-hr** ” shall mean and refer to the number of kilowatt-hours on the PDU(s) serving the Datacenter during the same billing period as the applicable Datacenter Utility Bill for the Datacenter, being represented by the sum of the Premises PDUs kW-hr plus the Other PDUs kW-hr.

“ **Transfer** ” shall mean and refer to (a) a sublease of all or any part of the Tenant Space, (b) an assignment of this Lease, and/or (c) any other agreement (i) permitting a third party (other than Tenant’s employees and occasional guests) to occupy or use any portion of the Tenant Space, or (ii) otherwise assigning, transferring, licensing, mortgaging, pledging, hypothecating, encumbering, or permitting a lien to attach to its interest under, this Lease.

“ **Transferee** ” shall mean and refer to any person or entity to whom a Transfer is made or sought to be made.

“ **Transfer Notice** ” shall mean and refer to a written request for Landlord’s consent to a particular Transfer, which notice shall include: (a) the name and address of the proposed Transferee; (b) all of the principal terms of the proposed Transfer; (c) current, certified financial statements of the proposed Transferee, and any other information and materials reasonably required by Landlord to enable Landlord to adequately review the financial responsibility of the proposed Transferee; (d) such other information and materials as Landlord may reasonably request (and if Landlord requests such additional information or materials, the Transfer Notice shall not be deemed to have been received until Landlord receives such additional information or materials); and (e) the form of the proposed assignment or other Transfer documentation that will be executed by Tenant and the proposed Transferee.

“ **UPS Plant** ” shall mean and refer to an uninterruptable power supply plant.

“ **UPS Room** ” shall mean and refer to that certain UPS room which serves (but is located outside of) the Datacenter, approximately as indicated on **Exhibit “A”** , attached hereto.

**120 East Van Buren Street
PHOENIX, ARIZONA**

TURN KEY DATACENTER LEASE

This Turn Key Datacenter Lease (this “ **Lease** ”) is entered into as of the Effective Date specified in Item 4 of the Basic Lease Information, by and between Landlord (as set forth in Item 1 of the Basic Lease Information, below) and Tenant (as set forth in Item 2 of the Basic Lease Information, below):

RECITALS

A. Landlord is the owner of the Land (as set forth in Item 14 of the Basic Lease Information, below). The Land is improved with, among other things, the Building (as set forth in Item 15 of the Basic Lease Information, below).

B. Tenant desires to lease (i) space in the Datacenter, and (ii) certain Pathway between the Datacenter and the Meet-Me Room.

C. Unless otherwise specifically indicated to the contrary, all initially capitalized terms contained in this Lease shall have the meanings set forth on **Schedule “1”**, attached to this Lease.

NOW, THEREFORE, in consideration of the covenants and agreements hereinafter set forth, Landlord and Tenant agree as follows:

BASIC LEASE INFORMATION

1. Landlord : Digital Phoenix Van Buren, LLC, a Delaware limited liability company
2. Tenant: Carbonite, Inc., a Delaware corporation
3. Tenant Addresses : Tenant Address for Notices :
Carbonite, Inc.
177 Huntington Avenue
Boston, MA 02115
Attn: General Counsel
Phone No: (617) 587-1100
E-mail: dsheer@carbonite.com

With copies to:
Foley & Lardner LLP
111 Huntington Avenue, 26th Floor
Boston, MA 02199
Attn: Susan E. Pravda

Facsimile No. 617-342-4001

Email: spravda@foley.com

Tenant Address for Invoice of Rent :

Carbonite, Inc.

177 Huntington Avenue

Boston, MA 02115 Attn: Chief Financial Officer

Phone No: (617) 587-1100

E-mail: akeenan@carbonite.com

4. Effective Date / Commencement Date :

- (a) Effective Date : November 29, 2011 (the “ **Effective Date** ”)
- (b) Target Commencement Date : February 1, 2012
- (c) Early Delivery Date : Not applicable.
- (d) Outside Liquidated Damages Date : Fifteen (15) days after the Target Commencement Date.
- (e) Outside Completion Date : Thirty (30) days after the Target Commencement Date.
- (f) Commencement Date : The “ **Commencement Date** ” shall mean the earlier of:
 - (x) (i) the later of February 1, 2012 or (ii) satisfaction of the Commencement Date Conditions; or
 - (y) the date Tenant commences to use the Premises for the Permitted Uses.

5. Term: The “ **Initial Term** ” shall mean and refer to approximately forty-eighty (48) full calendar months (i.e., commencing on the Commencement Date and expiring on the last day of the forty-eighth (48th) full calendar month thereafter), unless terminated or extended, as set forth in the Lease.

6. Number of Tenant Extension Options: First Extension Term: Three (3) years (months 49-84)
Second Extension Term: Three (3) years (months 85-120)

7. Premises/Pathway : The Premises contains 1,280 square feet of caged area, as set forth on **Exhibit “A”** and located within the Datacenter (Suite [***]).

- (a) Premises :
- (b) Pathway: As described in **Exhibit “C”** .

[***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

8. Base Rent : *Initial Term* :
 \$[***] per month for the period commencing on the Commencement Date and expiring on the last day of the twelfth (12th) full calendar month of the Term of the Lease.
 \$[***] per month for months 13-24 of the Term.
 \$[***] per month for months 25-36 of the Term.
 \$[***] per month for months 37-48 of the Term.
First Extension Term :
 \$[***] per month for months 49 -60 of the Term.
 \$[***] per month for months 61-72 of the Term.
 \$[***] per month for months 73-84 of the Term.
Second Extension Term :
 \$[***] per month for months 85-96 of the Term.
 \$[***] per month for months 97-108 of the Term.
 \$[***] per month for months 109-120 of the Term.

9. Installation Fee : Not Applicable.

10. Prepaid Rent : None.

11. Landlord’s Address for Notices : Digital Phoenix Van Buren, LLC
 c/o Digital Realty Trust
 120 E. Van Buren
 Suite 120
 Phoenix, Arizona 85004
 Attn: Property Manager
 Facsimile No. (602) 682-2212
leaseadministration@digitalrealtytrust.com

With copies to:
 Digital Realty Trust, L.P.
 1100 Space Park Drive
 Suite 104
 Santa Clara, CA 95054-3417
 Attn: Asset Manager
 Facsimile No. (408) 387-8558
 and:
 Digital Realty Trust, L.P.

[***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

451 D Street, Suite 912
Boston, MA 02210
Attn: Asset Manager
Facsimile No. (857) 366-9998

and:

Goulston & Storrs 400 Atlantic Avenue Boston,
MA 02110-3333
Attn: Raymond M. Kwasnick, Esq.

and:

Stutzman, Bromberg, Esserman & Plifka, A
Professional Corporation
2323 Bryan Street, Suite 2200
Dallas, TX 75201
Attention: Noah K. Hansford
Facsimile No. (214) 969-4999
E-mail: hansford@sbep-law.com

12. Landlord's Address for Payment
of Rent :

Bank:

Bank of America NT&SA
1850 Gateway Blvd.
Concord, CA 94520-3282

Routing Number:

121000358

Account Number:

1459242282

Account Name:

Digital Phoenix Van Buren, LLC

Regarding/Reference:

Tenant Account No., Invoice No.

Wire Payments :

Bank:

Bank of America NT&SA
100 West 33rd Street
New York, NY 10001

Routing Number:

026009593

SWIFT:

BOFAUS3N

Account Number:

1459242282

Account Name:

Digital Phoenix Van Buren, LLC

Regarding/Reference:

Tenant Account No., Invoice No.

Check Payments :

Digital Phoenix Van Buren, LLC
P.O. Box 50648
Los Angeles, CA 90074-0648

Overnight Address :

Bank of America Lockbox Services
File 50648
Ground Level
1000 West Temple St.
Los Angeles, CA 90012

Contact Information :

Director of Cash Management
Digital Realty Trust
560 Mission Street, Suite 2900
San Francisco, CA 94105
P: (415) 738-6509
F: (415) 495-3687

13. Brokers: None.
14. Land/Property : The land located at 120 East Van Buren Street, Phoenix, Arizona.
15. Building : The building located at 120 East Van Buren Street, Phoenix, Arizona. A three-story building containing 287,514 rentable square feet.
16. Tenant's Proportionate Share : 0.78%
17. Meet-Me Room : Suite [***] in the Building.
18. Maximum Structural Load : 250 pounds of live load per square foot.
19. Datacenter : Suite [***] located on the [***] ([***]) floor of the Building approximately as depicted on **Exhibit "A"** (the "**Datacenter** ").

[***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

20. Press Releases :

After both parties have signed this Lease Tenant shall prepare and deliver to Landlord a mutually acceptable press release (“ **Initial Press Release** ”) announcing Tenant’s occupancy of the Premises in the Building, which Landlord shall have the right to publish and disseminate. Any changes to any such press release delivered by Tenant to Landlord must be mutually agreed to in writing prior to any publication or dissemination of such press release.

In addition, Landlord reserves the right to post other press releases (i.e., other than the Initial Press Release), that discloses the fact that Landlord and Tenant have entered into a lease; provided that same does not disclose the location, economics or square footage related hereto, except that each such other press release shall be subject to Tenant’s review and prior written approval, which Tenant may grant or withhold in its sole discretion.

This Lease shall consist of the foregoing Basic Lease Information, the provisions of the Standard Lease Provisions, below, **Schedule “1”** , above, and **Exhibits “A”** through “ **H** ”, inclusive, all of which are incorporated herein by this reference as of the Effective Date. In the event of any conflict between the provisions of the Basic Lease Information and the provisions of the Standard Lease Provisions, the Basic Lease Information shall control. In the event of any conflict between the provisions of the **Exhibits** and the Basic Lease Provisions, the provisions of the **Exhibits** shall control.

STANDARD LEASE PROVISIONS

1. LEASE OF TENANT SPACE.

1.1 Tenant Space . In consideration of the covenants and agreements to be performed by Tenant, and upon and subject to the terms and conditions of this Lease, Landlord hereby leases to Tenant for the Term, (i) the Premises; and (ii) the Pathway.

1.2 Condition of Tenant Space . Tenant has inspected the Datacenter and the Tenant Space and, subject to Landlord's completion of the Commencement Date Conditions, Tenant accepts the Tenant Space in its "AS IS, WHERE IS" condition. Tenant acknowledges and agrees that (i) except as specifically set forth herein, no representation or warranty (express or implied) has been made by Landlord as to the condition of the Property, the Building, the Datacenter or the Tenant Space or their suitability or fitness for the conduct of the Permitted Use, its business or for any other purpose, and (ii) except as specifically set forth herein (including the requirement for Landlord to perform the Commencement Date Conditions), Landlord shall have no obligation to construct or install any improvements in or to make any other alterations or modifications to the Property, Building or the Tenant Space.

1.3 Interconnections; Datacenter Connection Area.

1.3.1 Interconnections . Tenant acknowledges and agrees that all interconnections between the systems of Tenant and those of other tenants of the Datacenter, and all cross-connects between the systems of Tenant and those of carriers and other telecommunications service providers in the Building, must be made in the Meet-Me Room. Tenant acknowledges that the Meet-Me Room is not operated or controlled by Landlord; but, rather, is operated by tel^x. As such, all operations in the Meet-Me Room (including all MMR Services), and all Tenant presences in the Meet-Me Room, including pathway, are governed and controlled by tel^x; each and all of which is subject to such agreements and costs as are mutually agreed in writing, by and between Tenant and tel^x.

1.3.2 Datacenter Connection Area . Tenant acknowledges that the Datacenter connection area (approximately in the location depicted on **Exhibit "A"**, the "**Datacenter Connection Area**") is a Common Area in the Datacenter that will be used by and be accessible by other tenants and their technicians as a common pathway portal.

1.4 Relocation Right . Intentionally Deleted.

1.5 Quiet Enjoyment; Access . Subject to all of the terms and conditions of this Lease, Tenant shall quietly have, hold and enjoy the Tenant Space in conformity with the Permitted Use without hindrance from Landlord or any person or entity claiming by, through or under Landlord. Subject to the terms and conditions of this Lease, including the Datacenter Rules and Regulations and Landlord's Access Control Systems and Force Majeure, Tenant shall have access to the Tenant Space twenty-four (24) hours per day, seven (7) days per week.

1.6 Common Area . The Common Area shall be subject to Landlord's sole management and control and shall be operated and maintained in such manner as Landlord in Landlord's discretion shall determine, provided that changes in the Common Area made by Landlord shall have no material adverse affect on Tenant's use of, or access to, the Tenant Space. Tenant, and the other Tenant Parties, shall have the nonexclusive right to use the Common Area as constituted from time to time; such use to be in common with Landlord, the other members of the Landlord Group, other tenants of the Building and other persons entitled to use the same, and subject to such reasonable written rules and regulations governing use of the Common Areas as Landlord may from time to time prescribe; provided that in the event of any conflict between the provisions of the Lease and the provisions of any rule or regulation, the provisions of the Lease shall control. Landlord agrees that rules and regulations will not discriminate against Tenant, as compared to any similarly situated tenant, in either enforcement or effect. Landlord agrees that Landlord may temporarily close any part of the Common Area for such periods of time as may be necessary to prevent the public from obtaining prescriptive rights or to make repairs or alterations; Landlord agreeing, in effecting such closure, repairs or alterations, to use reasonable efforts to minimize any interference with Tenant's use of, or access to, the Tenant Space.

1.7 Tenant's Datacenter Expansion Right . Subject to the terms and conditions set forth in this Section 1.7, Tenant shall have a one-time right to request that Landlord demise to Tenant additional Datacenter space in the Building ("**Datacenter Expansion Area** ") which would provide Tenant with approximately an additional 500 KW of critical IT capacity. Tenant shall only have the right to lease a Datacenter Expansion Area if Landlord determines, in Landlord's sole, but bona fide, business judgment, that a Datacenter Expansion Area and the associated additional power capacity is available for lease to Tenant. Tenant hereby acknowledges that the availability of any Datacenter Expansion Area depends upon both: (i) the availability of premises in the Building for such use by Tenant, and (ii) the availability of the additional power capacity necessary to service such Datacenter Expansion Area, and the availability of additional power is dependent upon Landlord's ability to purchase such capacity from a utility company.

1.7.1 If Tenant desires to lease a Datacenter Expansion Area, Tenant must give written notice ("**Datacenter Expansion Request** ") to Landlord requesting that Landlord advise Tenant as to whether a Datacenter Expansion Area is available for lease to Tenant.

1.7.2 Landlord shall, within fifteen (15) calendar days after Landlord receives a Datacenter Expansion Request from Tenant, give Tenant written notice (“**Landlord’s Datacenter Offer**”) advising Tenant as to whether a Datacenter Expansion Area is available for lease to Tenant and, if so: (i) the location of the Datacenter Expansion Area, (ii) the estimated Commencement Date with respect to the Datacenter Expansion Area, (iii) the Base Rent and other costs which would be payable by Tenant in connection with Tenant’s demise of the Datacenter Expansion Area, both during the Initial Term (if applicable), the First Extension Term, and the Second Extension Term, and (iv) and such other terms and conditions as may be applicable to Tenant’s demise of the Datacenter Expansion Area. The Base Rent for a Datacenter Expansion Area shall be based upon the Prevailing Base Rent (as defined in Section 1.8.1 below) of the Datacenter Expansion Area, as determined by Landlord in the exercise of its bona fide business judgment (except that Tenant shall have the right to submit Landlord’s determination to Fair Market Rent Arbitration in accordance with Section 1.8.2); such Base Rent and other costs shall take into account, without limitation, costs which Landlord has incurred, or will have to incur, both capital cost and on-going costs, in order to obtain the power capacity from a utility company necessary to serve the Datacenter Expansion Area; and such other terms and conditions shall be based upon the terms and conditions which are then applicable to leases then being executed for comparable Datacenter space in the Building. Tenant shall take the Datacenter Expansion Area in “as-is” condition (i.e., Landlord shall have no obligation to prepare the Datacenter Expansion Area for Tenant’s use and occupancy).

1.7.3 If Landlord advises Tenant that a Datacenter Expansion Area is available for lease to Tenant, then: (i) Tenant may lease the Datacenter Expansion Area offered in Landlord’s Datacenter Offer by giving written notice (“**Datacenter Expansion Exercise Notice**”) to Landlord on or before the date fifteen (15) calendar days after Tenant receives the Landlord’s Datacenter Offer, (ii) if Tenant timely gives Landlord a Datacenter Expansion Exercise Notice, then Tenant shall lease the Datacenter Expansion Area from Landlord for a Term expiring contemporaneously with the expiration of the Term with respect to the Tenant Space initially demised to Tenant, upon the terms and conditions set forth in Landlord’s Datacenter Offer, and otherwise upon all of the same terms and conditions applicable to Tenant’s demise of the Tenant Space initially demised to Tenant, to the extent not inconsistent with the provisions of Landlord’s Datacenter Offer, and Tenant shall have no further right to lease additional Datacenter Expansion Area pursuant to this Section 1.7, and (iii) if Tenant does not timely give Landlord a Datacenter Expansion Exercise Notice, Tenant shall have no further right to lease additional space pursuant to this Section 1.7.

1.7.4 If Landlord advises Tenant that a Datacenter Expansion Area is not available for lease to Tenant, then Tenant shall have the right, from time to time (but subject to the provisions of this Section 1.7) to give Landlord subsequent Datacenter Expansion Exercise Notices, but not more often than one time every three months.

1.7.5 Tenant shall have the right to lease a Datacenter Expansion Area only with respect to the entirety of such Datacenter Expansion Area. If Tenant duly exercises its right to lease a Datacenter Expansion Area, Landlord and Tenant shall execute an amendment reflecting such exercise. Notwithstanding anything to the contrary herein, any attempted exercise by Tenant of its right to lease a Datacenter Expansion Area shall, at the election of Landlord, be invalid, ineffective, and of no force or effect if, on the date on which Tenant delivers a Datacenter Expansion Exercise Notice, or on the Commencement Date with respect to such Datacenter Expansion Area, either: (i) there shall be an uncured Event of Default by Tenant under this Lease, or (ii) the Lease is no longer in full force or effect.

1.8 Determination of Prevailing Base Rent for Datacenter Expansion Area .

1.8.1 Definition of Prevailing Base Rent. The “**Prevailing Base Rent**” shall be defined as the prevailing base rent then being charged by Landlord for comparable space in the Building for new leases (or if there are no leases of comparable datacenter space then being entered into in the Building, then for comparable space in the Market Area, taking into consideration all relevant factors, including the quality, size, utility and location thereof, the length of the term thereof, the credit standing of Tenant, the amenities provided to Tenant, the Tax Base Year, and any economic concessions given to tenants such as free rent and allowance.

If Tenant disagrees with Landlord’s designation of the Prevailing Base Rent set forth in Landlord’s Datacenter Offer, then in Tenant’s Datacenter Expansion Exercise Notice, Tenant shall request that the determination of Prevailing Base Rent for the Datacenter Expansion Area be submitted to arbitration in accordance with the procedure set forth below in Section 1.8.2, failing which Tenant shall be deemed to have accepted Landlord’s designation of Prevailing Base Rent.

1.8.2 Arbitration Procedure. Within ten (10) business days after Tenant's delivery to Landlord of Tenant's Datacenter Expansion Exercise Notice, pursuant to which Tenant elects to have Base Rent determined pursuant to Fair Market Rent Arbitration (the "**Appointment Deadline**"), each party shall give written notice to the other setting forth the name and address of the Disinterested Expert selected by such party, who has agreed to act in such capacity, to determine the Prevailing Base Rent for the Datacenter Expansion Area. If either party shall fail to select a Disinterested Expert within the required time period, then the Disinterested Expert selected by the other party shall determine the Prevailing Base Rent. Each Disinterested Expert shall thereupon independently make its determination of the Prevailing Base Rent within thirty calendar (30) days after the Appointment Deadline (each, an "**Initial Expert Determination**"). If either Disinterested Expert shall fail to make an Initial Expert Determination of the Prevailing Base Rent within thirty (30) days after the Appointment Deadline, then the Initial Expert Determination of the other Disinterested Expert (to the extent that such Disinterested Expert makes such Initial Expert Determination within such thirty (30) day period) shall be deemed the Prevailing Base Rent. If the two (2) Disinterested Experts' Initial Expert Determination are not the same, but the higher of such two (2) values is not more than [***] percent ([***]%) of the lower of such values, then the Prevailing Base Rent shall be deemed to be the average of the two (2) values. If, however, the higher of such two (2) values is more than [***] percent ([***]%) of the lower of such values, then the two (2) Disinterested Experts shall jointly appoint a third (3rd) Disinterested Expert (the "**3rd Expert**") within ten (10) days after the second (2nd) of the two (2) Initial Expert Determinations has been rendered and delivered to the other party. The 3rd Expert shall independently choose which of the Initial Expert Determinations is the more accurate with regard to Prevailing Base Rent, and the Initial Expert Determination chosen by the 3rd Expert shall be deemed to be the Prevailing Base Rent for the Datacenter Expansion Area. The 3rd Expert shall only choose from between the Initial Expert Determinations provided by each of the other Disinterested Experts and shall not be afforded the opportunity to render an independent Initial Expert Determination. For the purposes hereof, "**Disinterested Expert**" shall mean a broker who has been regularly engaged in the business of datacenter leasing in the Market Area for at least the five (5) years immediately preceding such person's appointment hereunder. Each party shall pay for the cost of its Disinterested Expert and one-half of the cost of any 3rd Expert. If the Base Rent for the Datacenter Expansion Area shall not have been determined prior to the Commencement Date with respect to such Datacenter Expansion Area, then Tenant shall commence to pay Base Rent with respect to such Datacenter Expansion Area based upon Landlord's initial determination of the Prevailing Base Rent, and after such Base Rent is determined by arbitration, then either (i) Tenant shall, within thirty (30) calendar days after billing, pay to Landlord any underpayment of Base Rent, or (ii) Landlord shall credit to Tenant's account any overpayment of Base Rent.

1.9 Licenses and Permits . Landlord shall, at Landlord's cost, obtain all licenses, approvals, permits and authorizations required by applicable federal, state, and local laws and regulations that Landlord is required to have in order to perform the Landlord's Essential Services and to perform Landlord's Installations. Landlord shall provide Tenant with all such licenses, approvals, permits and authorizations within ten (10) business days after Landlord's receipt of Tenant's request therefore.

[***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

2. TERM .

2.1 Term . The term of this Lease, and Tenant's obligation to pay Rent under this Lease, shall commence on the Commencement Date and shall continue in effect for the Term of the Lease, as the same may be extended, or earlier terminated, in accordance with the express terms of this Lease.

2.2 Delivery of Tenant Space . Landlord shall use commercially reasonable efforts to satisfy the Commencement Date Conditions prior to the Target Commencement Date. Landlord and Tenant acknowledge and agree that, by virtue of Landlord's delivery of the Commencement Date Notice to Tenant, Landlord shall be deemed to have delivered the Tenant Space to Tenant, and Tenant shall be deemed to have accepted the same.

2.2.1 Failure to Meet Commencement Date Conditions . In the event that the Commencement Date Conditions have not been completed by the Target Commencement Date, subject to extension by virtue of Force Majeure, Landlord shall not be deemed in default hereunder, and the Commencement Date shall be postponed, as Tenant's sole and exclusive alternative remedies, until the date on which the Commencement Date Conditions have occurred. Notwithstanding the foregoing:

2.2.1.1 If the Commencement Date Conditions have not occurred prior to the Outside Liquidated Damages Date, subject to extension by virtue of Force Majeure, Tenant shall receive a credit (" **Rent Credit** ") of [***] days of Rent (calculated using the Rent amounts which would have been payable had the Tenant Space been timely delivered) for each day between the Outside Liquidated Damages Date (as extended by virtue of Force Majeure) and the date on which the Commencement Date Conditions occur, provided however that in no event shall the amount of the Rent Credit exceed 30 days of Rent (calculated using the Rent amounts which would have been payable had the Tenant Space been timely delivered); or

2.2.1.2 If the Commencement Date Conditions have not occurred prior to the Outside Completion Date, subject to extension by virtue of Force Majeure, Tenant shall have the right to terminate this Lease, provided that:

- (a) Tenant notifies Landlord of such termination prior to the earlier to occur of: (1) completion of the Commencement Date Conditions; or (2) ten (10) business days after the Outside Completion Date; and
- (b) Landlord has not caused the Commencement Date Conditions to have been completed within five (5) days after its receipt of such notice of termination from Tenant.

[***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

If (aa) the Commencement Date Conditions are completed prior to Tenant's exercise of the foregoing termination right, (bb) the Commencement Date Conditions are completed within ten (10) days after Tenant's exercise of the foregoing termination right, or (cc) Tenant shall fail to exercise such termination right within ten (10) days after the Outside Completion Date, then such termination right shall, in any such event, be deemed to have expired and shall, thereafter, be of no further force or effect.

2.3 Extension Options.

2.3.1 Subject to and in accordance with the terms and conditions of this Section 2.3, Tenant shall have the following options (" **Extension Options** ") to extend the Term of the Lease.

First Extension Term: Three (3) years (months 63-99)
Second Extension Term: Three (3) years (months 100-136)

Tenant's right to extend the Term of the Lease with respect to any Extension Term shall be conditioned upon Tenant having timely and properly exercised its right to extend the Term of the Lease for all prior Extension Terms.

2.3.2 Each Extension Term shall be upon all of the same terms, conditions and provisions applicable to the then-current Term of this Lease (except as provided otherwise herein). Tenant shall have no further options to extend the Term, except as expressly set forth in this Section 2.3.

2.3.3 The monthly Extension Term Base Rent payable with respect to the Tenant Space for each Extension Term shall be as follows:

First Extension Term: See Item 8 of the Basic Lease Information
Second Extension Term: See Item 8 of the Basic Lease Information

2.3.4 With respect to the First Extension Option and the Second Extension Option, Tenant may exercise each such Extension Option only by delivering an **Extension Option Exercise Notice** to Landlord at least nine (9) calendar months (and not more than twelve (12) calendar months) prior to the then applicable expiration date of the Term, specifying that Tenant is irrevocably exercising its Extension Option so as to extend the Term of this Lease by an Extension Term on the terms set forth in this Section 2.3.

2.3.5 In the event that Tenant shall duly exercise an Extension Option, the Term shall be extended to include the applicable Extension Term (and all references to the Term in this Lease shall be deemed to refer to the Term specified in Item 5 of the Basic Lease Information, plus all Extension Terms properly exercised by Tenant). In the event that Tenant shall fail to deliver an Extension Option Exercise Notice, or an Initial Extension Option Notice, as the case may be, within the applicable time period specified herein for the delivery thereof, time being of the essence, at the election of Landlord, Tenant shall be deemed to have forever waived and relinquished such Extension Option, and any other options or rights to renew or extend the Term effective after the then applicable expiration date of the Term shall terminate and shall be of no further force or effect.

2.3.6 Tenant shall have the right to exercise any Extension Option only with respect to the entire Tenant Space leased by Tenant at the time that Tenant delivers the applicable Extension Option Exercise Notice. If Tenant duly exercises an Extension Option, Landlord and Tenant shall execute an amendment reflecting such exercise. Notwithstanding anything to the contrary herein, any attempted exercise by Tenant of an Extension Option shall, at the election of Landlord, be invalid, ineffective, and of no force or effect if, on the date on which Tenant delivers an Extension Option Exercise Notice, Initial Extension Option Notice, or on the date on which the Extension Term is scheduled to commence, either: (i) there shall be an uncured Event of Default by Tenant under this Lease, or (ii) the Lease is no longer in full force or effect.

3. BASE RENT AND OTHER CHARGES .

3.1 Base Rent . Tenant shall pay Base Rent to Landlord throughout the Term of this Lease. All Base Rent shall be paid to Landlord in monthly installments in advance on the first day of each and every calendar month throughout the Term of this Lease; provided, however, that:

(a) if the Term of this Lease does not commence on the first day of a calendar month, the Base Rent for the Partial Month shall (i) be calculated on a per diem basis determined by dividing the Base Rent above by the total number of calendar days in such Partial Month and multiplying such amount by the number of days remaining in such Partial Month from and after (and including) the Commencement Date, and (ii) be paid by Tenant to Landlord on the Commencement Date; and

(b) if the Term of this Lease is terminated on a date other than the last day of a calendar month, any prepaid Base Rent and Additional Rent shall be refunded to Tenant on a per diem and prorated basis for each day during the calendar month after the effective date of termination for which Tenant has paid Base Rent and Additional Rent, to the extent that such overpayment exceeds any amounts then due from Tenant to Landlord.

Tenant shall not pay any installment of Rent more than one (1) month in advance.

3.2 Installation Fee . Intentionally Deleted.

3.3 Payments Generally . Base Rent and all forms of Additional Rent payable hereunder by Tenant (i) shall be payable to Landlord when due, without any prior notice or demand therefor, in lawful money of the United States without any abatement, offset or deduction whatsoever (except as specifically provided otherwise herein), and (ii) shall be payable to Landlord at the address of Landlord specified in Item 12 of the Basic Lease Information (or to such other person or to such other place as Landlord may from time to time designate in writing to Tenant). No receipt of money by Landlord from Tenant after the termination of this Lease shall reinstate, continue or extend the Term of this Lease. No partial payment by Tenant shall be deemed to be other than on account of the full amount otherwise due, nor shall any endorsement or statement on any check or any letter accompanying any check or payment be deemed an accord and satisfaction, and Landlord shall be entitled to accept such payment without compromise or prejudice to any of the rights of Landlord hereunder or under any Applicable Laws. In the event that the Commencement Date or the expiration of the Term (or the date of any earlier termination of this Lease) falls on a date other than the first or last day of a calendar month, respectively, the Rent payable for such partial calendar month shall be prorated based on a per diem basis.

3.4 Late Payments . Landlord and Tenant agree that if Landlord has not received any payment of Rent on or before the Delinquency Date, Tenant shall, in addition to Tenant's obligation to pay the Late Payment to Landlord, also be required to pay to Landlord, as Additional Rent, (i) a Late Charge, and (ii) Late Payment Interest from the Delinquency Date until the date the foregoing are paid, collectively, to cover Landlord's additional administrative costs and damages related to such Late Payment, which are difficult, if not impossible, to determine. Notwithstanding the foregoing, Landlord hereby agrees to waive the Late Charge with respect to the first late payment in any twelve-(12)-month period. In no event, however, shall the charges permitted under this Section 3.4, or elsewhere in this Lease, to the extent the same are considered to be interest under Applicable Law, exceed the maximum lawful rate of interest. Landlord's acceptance of any Late Charge, or any Late Payment Interest, shall not be deemed to constitute a waiver of Tenant's default with respect to the Late Payment, nor prevent Landlord from exercising any of the other rights and remedies available to Landlord hereunder or under any Applicable Laws.

3.5 Utilities .

3.5.1 Tenant's Utility Payment . Tenant shall pay the cost of all utilities (e.g., electricity, chilled water) serving, provided to and/or used in or for the Tenant Space (collectively, "**Tenant's Utility Payment**"). Landlord and Tenant agree that, each month, Tenant's Utility Payment shall be a sum equal to (a) Tenant's actual metered utility costs for the month in question, based on the Metering Equipment – Utility, plus (b) [***] percent ([***]%) of Tenant's actual metered utility costs for such month to account for those portions of such utility costs that are not metered directly to the Premises (i.e., a total of [***] ([***]%) of Tenant's actual metered utility costs). Tenant shall pay Tenant's Utility Payment to Landlord, as Additional Rent, within thirty (30) days after Tenant's receipt of each Tenant's Utility Payment invoice.

[***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

3.5.2 Periods of Premises Underutilization. Tenant acknowledges that Shared Infrastructure Costs will be incurred for the operation of the Building and the Datacenter regardless of whether there is any power being drawn in the Premises. As such, Section 3.5.1 above notwithstanding, Landlord and Tenant hereby agree that, during Periods of Premises Underutilization, Tenant's Utility Payment shall be determined by virtue of a reasonable proration of the Shared Infrastructure Costs (based on power capacity).

3.5.3 Generator Fuel Usage . Additionally, Tenant shall pay Tenant's proportionate share (based on power usage) of the cost of all Generator Fuel Usage, except for the extent to which such Generator Fuel Usage represents Maintenance Fuel Usage. Landlord shall bill Tenant not more frequently than monthly for the amount of the Generator Fuel Payment. Tenant shall pay the Generator Fuel Payment to Landlord, as Additional Rent, within thirty (30) days of delivery of each Generator Fuel Payment invoice. For the avoidance of doubt, it is the intent of the parties that this Section 3.5.3 represents a mechanism only for Landlord's cost recovery with regard to non-maintenance related Generator Fuel Usage, and that there is no intent for Tenant's Generator Fuel Payment to include any element of profit to Landlord in connection therewith.

3.5.4 Billing Disputes and Reports . Landlord and Tenant shall exercise good faith efforts to resolve all billing disputes to their mutual satisfaction within thirty (30) calendar days.

4. TAXES.

4.1 Taxes – Equipment . Tenant shall be liable for and shall pay at least ten (10) days before delinquency all Taxes – Equipment. If any such Taxes – Equipment are levied or assessed against Landlord or the Property, and if Landlord elects to pay the same, Tenant shall pay to Landlord as Additional Rent, within thirty (30) days of Landlord's demand therefor, that part of such Taxes – Equipment for which Tenant is liable hereunder.

4.2 Taxes – Other . Tenant shall pay to Landlord, as Additional Rent and within thirty (30) days of Landlord's demand therefor, and in such manner and at such times as Landlord shall direct from time to time by written notice to Tenant all Taxes – Other.

4.3 Taxes – Real Property .

4.3.1 If the Taxes – Real Property (Actual) during any calendar year are greater than the Taxes – Real Property (Actual) applicable to the Tax Base Year, Tenant shall be obligated to pay to Landlord as Additional Rent an amount equal to Tenant's Proportionate Share of Taxes – Real Property (Actual).

4.3.2 Beginning with the Effective Date (or as soon thereafter as reasonably possible), Landlord shall provide to Tenant a statement of the Taxes – Real Property (Projected) for the Property for the year in which the Effective Date occurs. Tenant shall pay each Projected Real Property Tax Installment to Landlord on the first day of each month during the Term of the Lease. Until Tenant has received the statement of the Taxes – Real Property (Projected) from Landlord, Tenant shall continue to pay Projected Real Property Tax Installments to Landlord in the same amount (if any) as required for the last month of the prior calendar year. Upon Tenant’s receipt of such statement of the Taxes – Real Property (Projected), Tenant shall pay to Landlord, or Landlord shall pay to Tenant (whichever is appropriate), the difference between the amount paid by Tenant as Projected Real Property Tax Installments prior to receiving such statement and the amount payable by Tenant therefor as set forth in such statement. Landlord shall provide Tenant a statement on or before June 15 (or as soon thereafter as reasonably possible) after the end of each calendar year, showing Tenant’s Proportionate Share of Taxes – Real Property (Actual) applicable to such calendar year, as compared to the total of the Projected Real Property Tax Installments for such calendar year. If Tenant’s Proportionate Share of Taxes – Real Property (Actual) for such calendar year exceeds the aggregate of the Projected Real Property Tax Installments collected by Landlord from Tenant with regard to such calendar year, Tenant shall pay to Landlord, within thirty (30) calendar days following Tenant’s receipt of such statement, the amount of such excess. However, if Tenant’s Proportionate Share of Taxes – Real Property (Actual) for such calendar year is less than the aggregate of the Projected Real Property Tax Installments collected by Landlord from Tenant with regard to such calendar year, Landlord shall pay to Tenant, within thirty (30) calendar days following Tenant’s receipt of such statement, the amount of such excess. Landlord shall have the right from time to time during each calendar year to revise the Taxes – Real Property (Projected), based upon Landlord’s reasonable estimate of increases or decreases in Taxes – Real Property (Projected) and provide Tenant with a revised statement thereof. Thereafter, Tenant shall pay Projected Real Property Tax Installments on the basis of the revised statement. If the Commencement Date is not the first day of a calendar year, or the expiration or termination date of this Lease is not the last day of a calendar year, then Tenant’s Proportionate Share of Taxes – Real Property (Actual) shall be prorated. The foregoing adjustment provisions shall survive the expiration or termination of the Term of this Lease. If Landlord receives an abatement of Taxes – Real Property for any fiscal/tax year in respect of which Tenant pays Tenant’s Proportionate Share of Taxes – Real Property, then Landlord shall, within thirty (30) days after Landlord actually receives the proceeds of such abatement, credit or pay to Tenant with Tenant’s Proportionate Share of the net (i.e. net of the reasonable costs incurred by Landlord in obtaining such abatement) amount of such abatement proceeds, provided however, that in no event shall Tenant receive, with respect to any fiscal tax year, more than the actual amount of Tenant’s Proportionate Share of Taxes – Real Property paid by Tenant for Landlord for such fiscal tax year.

5. **SECURITY DEPOSIT** . Intentionally omitted.

6. **PERMITTED USE; COMPLIANCE WITH RULES AND LAWS; HAZARDOUS MATERIALS** .

6.1 Permitted Use . Tenant shall use the Tenant Space only for the Permitted Use. Any other use of the Tenant Space is subject to Landlord’s prior written consent, which consent may be withheld or conditioned in Landlord’s sole and absolute discretion.

6.1.1 Limitations on Permitted Use . Tenant agrees that neither Tenant, nor any other Tenant Party, may use the Tenant Space, or operate within the Tenant Space, the Datacenter and/or the Building, in any manner, which: (i) causes or is reasonably likely to cause damage to the Property, the Building, the Datacenter, the Tenant Space or any Building System; (ii) will invalidate or otherwise violate a requirement or condition of any fire, extended coverage or any other insurance policy covering the Property, the Building, and/or the Tenant Space, or the property located therein, or will increase the cost of any of the same, unless Tenant reimburses Landlord for the amount of increase caused by Tenant, or any Tenant Party; (iii) constitutes a nuisance and/or otherwise interferes with other tenants' or occupants' use of space in the Building or otherwise at the Property, and/or any equipment, facilities or systems of any such tenant or occupant; (iv) interferes with the transmission or reception of microwave, television, radio, telephone, or other communication signals by antennas or other facilities located at the Property. Additionally, and notwithstanding anything to the contrary contained in this Section 6.1, Tenant agrees that neither Tenant, nor any other Tenant Party, may (a) operate a meet-me room (i.e., a facility which has capacities and uses similar to the Meet-Me Room) in the Tenant Space or any other portion of the Building, (b) provide MMR Services in the Tenant Space or any other portion of the Building, or (c) refer to the Tenant Space as a "meet-me room". Tenant agrees to reimburse Landlord for any losses, costs or damages caused by unauthorized parties who gain access to the Tenant Space or the Building through access cards, keys or other access devices provided to Tenant (or any other Tenant Party) by Landlord. Tenant agrees to reimburse Landlord, as Additional Rent, for any additional insurance premium charged by Landlord's insurance carrier for any insurance policy to the extent caused by Tenant's failure to comply with the provisions of this Section 6.1.1.

6.2 Datacenter Rules and Regulations . Tenant's Permitted Use shall be subject to, and Tenant, and all other Tenant Parties, shall comply fully with the Datacenter Rules and Regulations. Landlord shall have the right, from time-to-time, to change, amend and/or supplement the Datacenter Rules and Regulations as may be deemed by Landlord, in the exercise of its sole but good faith discretion, advisable for the safety, care and/or cleanliness of the Tenant Space, the Datacenter, the Building and/or the Property, and/or for the preservation of good order in any of same; provided, however, that such changes to the Datacenter Rules and Regulations may not increase Tenant's monetary obligations under this Lease or unreasonably interfere with Tenant's Permitted Use of the Tenant Space. Landlord shall notify Tenant in writing promptly after making any changes to the Datacenter Rules and Regulations and shall provide Tenant with a copy of, or make available to Tenant electronically, the revised and current version of the Datacenter Rules and Regulations. In the event of a conflict between the Datacenter Rules and Regulations and the terms of this Lease, the terms of this Lease shall govern. Tenant shall be responsible for causing the other Tenant Parties to comply with the Datacenter Rules and Regulations.

6.3 Compliance with Laws; Hazardous Materials .

6.3.1 Compliance with Laws . Tenant, at Tenant's sole cost and expense, shall timely take all action required to cause all Alterations and Tenant's (and all other Tenant Parties') use of the Tenant Space to comply at all times during the Term of this Lease in all respects with all Applicable Laws.

6.4 Electricity Consumption Threshold . Tenant's actual electricity consumption for the Premises, as reasonably determined by Landlord pursuant to such measurement method or methods as Landlord shall employ from time to time (including the use of sub-meters and/or pulse meters, electrical surveys and/or engineer's estimates), shall not at any time, exceed the Electricity Consumption Threshold. The power drawn by all of Tenant's Personal Property shall be included in the calculation of Tenant's actual electricity consumption for the Premises, except that if Tenant leases the Datacenter Expansion Area pursuant to Section 2.6, then the Electricity Consumption Threshold shall be increased by the additional electrical capacity provided to Tenant in connection with its demise of the Datacenter Expansion Area. In the event that an ECT Overage occurs, Tenant agrees to take immediate action to cause power consumption in the Premises to be at or below the Electricity Consumption Threshold.

6.5 Maximum Structural Load . Tenant shall not place a load upon the Premises or the Datacenter exceeding the Maximum Structural Load.

7. ACCESS CONTROL; LANDLORD'S ESSENTIAL SERVICES; INTERRUPTION OF SERVICES .

7.1 Access Control . Landlord will provide Landlord's Access Control Systems during the Term of this Lease. Landlord reserves the right, but without assuming any duty, to institute additional access control measures in order to further control and regulate access to the Building or any part thereof. Except as provided in **Exhibit "F"** , Landlord shall not, under any circumstances, be responsible for providing or supplying security services to the Datacenter, the Tenant Space or any part of the Building in excess of the Landlord's Access Control Systems (and, unless expressly agreed in writing by Landlord, Landlord shall not under any circumstances be **deemed** to have agreed to provide any access control services in excess of the Landlord's Access Control Systems). Tenant acknowledges and agrees that the activities of all persons in the Datacenter are and shall be subject to surveillance by video camera and/or otherwise by Landlord's agents and employees.

7.2 Landlord's Essential Services . Landlord's agreement to provide Landlord's Essential Services and Tenant's remedies for Interruptions of Landlord's Essential Services, are described on **Exhibit "F"** , attached hereto. Landlord shall install temperature sensors under the floor of the Tenant Space at the either end and in the middle of each cold aisle with the Tenant Space. Landlord shall use its best efforts to make available to Tenant results of the temperature monitoring provided by such sensors throughout the Term of the Lease.

7.3 Customer Handbook . Landlord agrees, throughout the Term of the Lease, to operate the Datacenter in accordance with the Digital Realty Trust "Customer Handbook", Version 2.5 dated September 3, 2009 ("Handbook"), as it may be modified by Landlord from time to time; provided that: (i) Landlord shall give Tenant at least thirty (30) days prior written notice of any modifications to the Handbook, and (ii) any modifications to the Handbook shall be consistent with the then current manner of operation of the other datacenters operated by Digital Realty Trust and its affiliates in Arizona.

7.4 Interruption of Services . Landlord shall not be liable or responsible to Tenant for any loss, damage or expense of any type which Tenant may sustain or incur if the quantity or character of the *utility-provided* electric service is changed, is no longer available, or is no longer suitable for Tenant's requirements for any reason other than the fault of Landlord. Additionally, except as expressly set forth on **Exhibit "F"** , attached hereto, with regard to Interruptions of Essential Services, no interruption or malfunction of any electrical or other service to the Premises, or to any other portion of the Building or Property, shall, in any event, (i) constitute an eviction or disturbance of Tenant's use and possession of the Tenant Space, (ii) constitute a breach by Landlord of any of Landlord's obligations under this Lease, (iii) render Landlord liable for damages of any type or entitle Tenant to be relieved from any of Tenant's obligations under this Lease (including the obligation to pay Base Rent, Additional Rent, or other charges), (iv) grant Tenant any right of setoff or recoupment, (v) provide Tenant with any right to terminate this Lease, or (vi) make Landlord liable for any injury to or interference with Tenant's business or any punitive, incidental or Consequential Damages, whether foreseeable or not, whether arising from or relating to the making of or failure to make any repairs, alterations or improvements, or whether arising from or related to the provision of or failure to provide for or to restore any service in or to any portion of the Property, the Building or the Datacenter. In the event of the interruption of any such service, however, Landlord shall employ commercially reasonable efforts to restore such service or cause the same to be restored in any circumstances in which such restoration is within the reasonable control of Landlord.

8. MAINTENANCE; ALTERATIONS; REMOVAL OF TENANT'S PERSONAL PROPERTY .

8.1 Landlord's Maintenance . Except as expressly provided in this Section 8.1, Landlord shall have no obligation to repair and/or maintain the Tenant Space. Landlord will maintain and keep in good repair the Pathway, the PDUs serving the Premises, Landlord's Access Control Systems, the HVAC system serving the Premises, the UPS Plant serving the Premises, the Back-Up Power, the fire suppression systems serving the Premises, the Common Area cable management systems (comprised of ladder racks, fiber trays, under-floor cable trays and other similar equipment located within the Common Areas that are installed for the benefit of all tenants of the Building), all other common utility systems, the floors and foundation of the Building, the exterior walls and windows of the Building, the roof of the Building, the Common Areas, the Common Area HVAC system within the Building, and all other structural portions of the Building.

8.1.1 PM Standards . Tenant acknowledges that Landlord's PM Standards shall be updated on at least an annual basis. Landlord shall provide Tenant with Landlord's PM Schedule as far in advance as is reasonably practicable. Landlord agrees to perform the PM Activities, to substantially adhere to the then current PM Schedule in connection with such performance, and, except in an emergency, to give Tenant at least seven (7) calendar days' written notice prior to any change in the PM Schedule.

8.1.2 **Tenant's PM Audit** . During the Term, Tenant shall have the right, once per rolling six (6) month period, to perform a PM Audit. Tenant shall exercise the foregoing right by delivering its PM Audit Notice to Landlord no less than thirty (30) days before the date upon which Tenant desires to perform its PM Audit. The PM Audit Notice must detail the equipment for which Tenant wishes to inspect the PM Books and Records. Any such PM Audit shall be performed during Landlord's normal business hours at a time and location within the Building reasonably designated by Landlord. Landlord shall respond to Tenant's PM Audit Notice within five (5) business days after Landlord's receipt of Tenant's PM Audit Notice with the date, time and location of Tenant's PM Audit. If Tenant's PM Audit reveals that Landlord is delinquent in complying with the PM Schedule, Tenant shall deliver written notice to Landlord of such delinquency, and Landlord shall cure such delinquency within the time allowed pursuant to Section 16.1.1 of this Lease.

8.1.3 **PM Change** . In connection with the foregoing, in the event that Tenant desires that Landlord make a PM Change, Tenant agrees to provide Landlord a PM Change Request no fewer than *twenty (20) calendar days* prior to the next scheduled occurrence of the PM Activity to which the PM Change Request applies. In the event that Landlord is reasonably able to accommodate the PM Change, Landlord shall provide Tenant PM Change Cost Estimate, within three (3) business days after Landlord's receipt of the PM Change Request. Tenant agrees to notify Landlord within five (5) business days after Tenant's receipt of the PM Change Cost Estimate as to whether or not Tenant elects to have the PM Change implemented. If Tenant timely elects to have the PM Change implemented, Tenant shall pay Landlord the actual incremental amount of the costs incurred by Landlord in connection with the PM Change within thirty (30) calendar days after Tenant's receipt of an invoice for same from Landlord.

8.2 Tenant's Maintenance . During the Term of this Lease, Tenant shall, at Tenant's sole cost and expense, maintain the non-structural portions of the Tenant Space and Tenant's equipment therein in good order and condition. If Tenant fails to maintain the non-structural portions of the Tenant Space as required by the foregoing sentence, or if Tenant or any of Tenant's technicians or representatives physically damages the Property, the Building or any portion of the Building or the Property, or the personal property of any other tenant or occupant, or causes an interruption of services to the Premises, the Datacenter and/or in the Building, Landlord may, but shall not be obligated to: (i) perform the maintenance and repair which Tenant was required to perform, (ii) repair the damage caused by Tenant or its technicians or representatives, or (iii) restore such interruption of services, as the case may be, and any reasonable amounts expended by Landlord in connection therewith, plus an administrative charge of ten percent (10%) of such amounts, shall be reimbursed by Tenant to Landlord as Additional Rent within thirty (30) calendar days after Landlord's demand therefor.

8.3 Alterations .

8.3.1 Except as expressly permitted under this Lease or as otherwise authorized by Landlord in writing, Tenant shall not make or cause to be made any Alterations to the Tenant Space, the Datacenter, or any other portion of the Building or Property without the prior written consent and approval of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. The foregoing notwithstanding, Landlord's consent shall not be required for any usual and customary installations, repairs, maintenance, and removals of equipment and telecommunication cables within the Tenant Space if and to the extent that such installations, repairs, maintenance, and removals (i) are usual and customary within the industry, (ii) are in compliance with the Datacenter Rules and Regulations, and (iii) will not affect the Building's structure, the provision of services to other Building tenants, or the Building's electrical, plumbing, HVAC, life safety or mechanical systems. Landlord and Tenant acknowledge and agree that (a) Landlord's Installations and Landlord's OS Installations are hereby deemed to be Alterations hereunder; and (b) all Alterations shall be left as part of the Tenant Space without any obligation on Tenant's part to remove the same, upon the expiration or earlier termination of this Lease, in good and operable condition, ordinary wear and tear excepted, and damage caused by a Casualty Event, Taking, or the default of Landlord excepted.

8.3.2 Each request for Alterations consent must contain one (1) full size hard copy of all drawings together with one (1) full set of drawings on CD.

8.3.3 In any instance where Tenant desires to conduct Alterations, Tenant's contractors, laborers, material men and others furnishing labor or materials for Tenant's job must work in harmony, and not interfere, with any labor utilized by Landlord, Landlord's contractors or mechanics or by any other tenant or such other tenant's contractors or mechanics; and if at any time such entry by one (1) or more persons furnishing labor or materials for Tenant's work shall cause disharmony or interference for any reason whatsoever without regard to fault, the consent granted by Landlord to Tenant and/or the express or implied permission for such persons to enter the Premises may be withdrawn at any time upon written notice to Tenant. Additionally, all such contractors, laborers, material men and others must obtain (and provide Landlord evidence of) such insurance as Landlord may reasonably require, prior to any such entry; provided that, in no event shall such insurance requirements exceed those that are described on **Exhibit "B-1"** , attached hereto.

8.4 Removal of Tenant's Personal Property . Tenant agrees that, upon the expiration, or on or before the date ten (10) calendar days prior to the earlier termination, of the Term this Lease, Tenant shall at Tenant's sole cost and expense, promptly remove all of Tenant's Personal Property, and shall restore those portions of the Building, the Datacenter, and/or the Tenant Space damaged by such removal of (or by the initial installation of) such Tenant's Personal Property to their condition existing immediately prior to the installation or placement of such items (including the replacement of all damaged floor tiles in the Premises), ordinary wear and tear, and damage caused by a Casualty Event, Taking or default of Landlord excepted. If Tenant fails to promptly remove any such Tenant's Personal Property pursuant to this Section 8.4, Landlord shall have the right to cause the removal of such Tenant's Personal Property and the restoration of those portions of the Building, the Datacenter, and/or the Tenant Space damaged by such removal to their condition existing immediately prior to the installation or placement of such Tenant's Personal Property, ordinary wear and tear, and damage caused by a Casualty Event, Taking or default of Landlord excepted, in which case Tenant agrees to reimburse Landlord within thirty (30) days of Landlord's demand therefor, for all of Landlord's reasonable costs of removal and restoration plus an administrative fee equal to ten percent (10%) of such costs.

9. CASUALTY EVENTS; TAKINGS; INSURANCE .

9.1 Casualty Events; Takings .

9.1.1 Casualty Events . If, during the Term of this Lease, any portion of the Building, the Datacenter, or the Tenant Space shall be damaged or destroyed, in whole or in part, by a Casualty Event, Landlord shall, subject to the terms of this Section 9.1.1, and Sections 9.1.1.1 and 9.1.1.2, below, cause the Casualty Repair to occur. Landlord shall provide the Casualty Repair Notice to Tenant as soon as is reasonably practicable following the Casualty Event. For the avoidance of doubt, however, such repair and reconstruction obligation shall not be deemed to include any obligation on the part of Landlord with regard to any Alteration other than Landlord's Installations and Landlord's OS Installations, nor any of Tenant's Personal Property.

9.1.1.1 Landlord's Termination Right . Notwithstanding the foregoing, in the event that the Repair Period-Estimated exceeds ninety (90) calendar days, Landlord shall have the right to terminate this Lease by, and effective upon, written notice to Tenant as part of the Casualty Repair Notice.

9.1.1.2 Tenant's Termination Right . If (a) a Casualty Event causes damage to the Tenant Space, or (b) a Casualty Event causes damage to the Building, such that Tenant is prevented from accessing the Premises or the Tenant Space is unfit for use by Tenant in the ordinary course of Tenant's business, then Tenant shall have the right to terminate this Lease by, and effective upon, written notice to Landlord if (i) the Repair Period-Estimated exceeds one hundred twenty (120) calendar days (in which case Tenant must provide written notice to Landlord of such termination within ten (10) business days after Tenant's receipt of the Casualty Repair Notice), or (ii) the Repair Period-Actual exceeds ninety (90) calendar days (in which case Tenant must provide written notice to Landlord of such termination prior to the one hundredth (100th) calendar day of the Repair Period-Actual).

9.1.1.3 **Casualty-Complete** . The foregoing notwithstanding, in the event of a Casualty-Complete, this Lease shall automatically terminate as of the date of the Casualty-Complete.

9.1.1.4 **Rent Abatement – Casualty Events** . In the event that this Lease is terminated pursuant to Sections 9.1.1.1, 9.1.1.2 or 9.1.1.3, above, Landlord shall refund to Tenant any prepaid Base Rent, less any sum then owing to Landlord by Tenant. If, however, this Lease is not terminated pursuant to any of said Sections, then the Base Rent and Tenant’s Proportionate Share of Taxes – Property payable by Tenant with respect to the Tenant Space shall be abated proportionately during the Repair Period-Actual to the extent that the Tenant Space (i) is unfit for use by Tenant in the ordinary conduct of Tenant’s business, and (ii) actually is not used by Tenant.

9.1.2 **Takings** .

9.1.2.1 **Total Taking** . If all or substantially all of the Tenant Space, the Building or the Property shall be the subject of a Taking, this Lease shall terminate as of the date of the vesting of title in the condemning authority.

9.1.2.2 **Partial Taking** . If only a part of the Tenant Space, the Building or the Property shall be the subject of a Taking, this Lease shall continue in full force and effect, subject to the terms of Sections 9.1.2.3-9.1.2.7, below.

9.1.2.3 **Landlord’s Termination Right – Partial Taking** . If the part of the Building or the Property that is taken or condemned as part of the Taking contains a part of the Tenant Space, the Building or the Property that, in Landlord’s reasonable discretion, is material to the operation of the Tenant Space, Landlord may terminate this Lease by notice to Tenant given within sixty (60) days following the date upon which Landlord received notice of such Taking. If Landlord so notifies Tenant, this Lease shall terminate upon the date set forth in the notice, which date shall not be more than thirty (30) days following the giving of such notice.

9.1.2.4 **Tenant’s Termination Right – Partial Taking** . If, by reason of a Taking of part of the Building or the Property Tenant no longer has reasonable means of access to the Tenant Space, or the Tenant Space is unfit for use by Tenant in the ordinary course of Tenant’s business, Tenant may terminate this Lease by notice to Landlord given within sixty (60) days following the date upon which Tenant received notice of such Taking. If Tenant so notifies Landlord, this Lease shall terminate upon the date set forth in the notice, which date shall not be more than thirty (30) days following the giving of such notice.

9.1.2.5 **Restoration – Taking** . If this Lease shall not have been terminated pursuant to Sections 9.1.2.3 or 9.1.2.4, above, Landlord, at Landlord’s expense, shall, as soon as is reasonably practicable, restore that part of the Tenant Space that was not taken or condemned as part of the Taking to a self contained rental unit substantially equivalent (with respect to character, quality, appearance and services) to that which existed immediately prior to occurrence of the Taking, excluding Tenant’s Personal Property; provided, however, that in the event Tenant receives an award for Tenant’s Alterations, such amounts shall be applied towards the restoration of such items.

9.1.2.6 **Rent Abatement – Taking** . In the event that this Lease is terminated pursuant to Sections 9.1.2.1, 9.1.2.3 or 9.1.2.4, above, Landlord shall refund to Tenant any prepaid Base Rent and Tenant’s Proportionate Share of Taxes – Property, less any sum then owing to Landlord by Tenant. If, however, this Lease is not terminated pursuant to any of said Sections, Base Rent shall be reduced proportionately to the extent that the Premises is reduced as a result of the Taking.

9.1.2.7 **Taking Award Rights** . Landlord reserves the right to receive the entirety of the condemning authority’s award related to a Taking of any portion of the Property. The foregoing notwithstanding, in the event that this Lease is terminated in connection with any Taking, Landlord expressly permits Tenant to make a separate claim against the condemning authority, in any appropriate proceeding, for the value of Tenant’s unamortized, but taken, leasehold improvements or other improvements to the Tenant Space made by Tenant and for Tenant’s moving expenses related to such Taking, but only if such claim and/or recovery does not reduce the condemnation/taking award otherwise payable to Landlord in connection with such Taking. If any such award that is made, or compensation that is paid, to either party specifically includes an award or amount for the other, the party first receiving the same shall promptly make an accounting of same to the other.

9.1.3 **Tenant’s Remedy** . Tenant’s termination rights and rights to abatement of Base Rent and Tenant’s Proportionate Share of Taxes – Property, to the extent provided above in this Article 9, shall be Tenant’s sole and exclusive remedies in the event of a Casualty Event or Taking. Notwithstanding anything to the contrary contained herein, however, if any Casualty Event is caused by any act of willful misconduct of Tenant or any Tenant Party, then Tenant shall not be entitled to terminate this Lease under Section 9.1.1.2, and there shall be no abatement of any Base Rent (or any other Rent or other amounts) due hereunder.

9.2 Tenant’s Insurance . Tenant shall, at Tenant’s expense, procure and maintain throughout the Term of this Lease a policy or policies of insurance in accordance with the terms and requirements set forth in **Exhibit “B-1”** to this Lease. All of Tenant’s insurance policies with respect to the Tenant Space shall be endorsed so as to include a waiver of subrogation in accordance with and to the full extent of Tenant’s waiver of claims with respect to the Landlord Group set forth in Section 14.1.1 of this Lease.

9.2.1 The commercial general liability policies procured by Tenant hereunder shall name Landlord and Landlord's managing agent, and any Holders designated by Landlord as additional insureds. Prior to occupying the Tenant Space, and prior to the expiration of each such policy, Tenant shall submit to Landlord certificates of insurance evidencing such policies (and the applicable renewals thereof) being in effect. All insurance policies procured hereunder shall contain a provision stating that the insurer shall endeavor to provide at least thirty (30) days' written notice to Landlord and all others named as additional insureds prior to any cancellation or material modification of such policy. If Tenant does not deliver to Landlord a certificate or other proof of renewal or coverage from an insurance carrier at least ten (10) business days prior to the expiration dates of each expiring policy, Landlord may, if Tenant has not cured such default within five (5) business days after receipt of written notice from Landlord, obtain such insurance on behalf of Tenant, and Tenant shall, within ten (10) days after Landlord's demand therefor, pay to Landlord an amount equal to the cost of such insurance policies plus an administrative surcharge of ten percent (10%).

9.3 Landlord's Insurance . Landlord shall, at Landlord's expense, procure and maintain throughout the Term of this Lease a policy or policies of insurance in accordance with the terms and requirements set forth in **Exhibit "B-2"** to this Lease. Each of such insurance policies shall be endorsed so as to include a waiver of subrogation in accordance with and to the full extent of Landlord's waiver of claims with respect to the Tenant Group set forth in Section 14.1.2 of this Lease. For the avoidance of doubt, however, Landlord and Tenant acknowledge and agree that, in no event, shall Landlord be obligated to carry any insurance covering any of Tenant's Personal Property, any Alteration to the Tenant Space made by or on behalf of Tenant, or covering any Tenant Party, other than Landlord's Installations and Landlord's OS Installations.

10. TRANSFERS .

10.1 Restrictions on Transfers; Landlord's Consent . Except as otherwise expressly set forth in Section 10.1.1 and Section 10.5, below, to the contrary, Tenant shall not effect a Transfer, without Landlord's express prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed. Except as otherwise expressly set forth in this Lease, no Transfer (whether voluntary, involuntary or by operation of law) shall be valid or effective without Landlord's prior written consent and, at Landlord's election, any such Transfer or attempted Transfer shall constitute an Event of Default by Tenant under Section 15.1.2 of this Lease.

10.1.1 Permitted Transfer . Tenant may, without the consent of Landlord (and without being subject to Landlord's recapture rights under Section 10.3, below) undertake Permitted Transfers.

10.2 Notice to Landlord . If Tenant desires to make any Transfer (other than a Permitted Transfer, for which Tenant must merely notify Landlord prior to the occurrence of same), then at least twenty (20) business days (but no more than one hundred eighty (180) days) prior to the proposed effective date of the Transfer, Tenant shall submit a Transfer Notice to Landlord. If, thereafter, Tenant modifies any of the terms and conditions relevant to a proposed Transfer specified in the Transfer Notice, Tenant agrees to re-submit such Transfer Notice to Landlord for its consent pursuant to all of the terms and conditions of this Article 10.

10.3 Landlord's Recapture Rights . Except with regard to a Permitted Transfer, at any time within twenty (20) business days after Landlord's receipt of all (but not less than all) of the information and documents described in Section 10.2, Landlord shall have the right (but not the obligation), exercisable by written notice to Tenant, to elect to cancel and terminate this Lease; provided however, that if the proposed Transfer is a sublease or other Transfer of only a portion of the Tenant Space and/or for a portion of the remaining Term, Landlord shall only have the right to terminate (or suspend, as the case may be) the Lease with respect to the portion of the Tenant Space for the portion of the remaining Term which Tenant proposes to sublease or Transfer. If Landlord exercises its right to terminate or suspend the Term of the Lease with respect to only a portion of the Tenant Space, then the Base Rent and Tenant's Proportionate Share shall be reduced based pro-rata for the time period of such termination or suspension based upon the reduction in the electrical capacity available to Tenant in the remaining portion of the Tenant Space.

10.4 No Release; Subsequent Transfers . No Transfer (whether or not a Permitted Transfer) will release the undersigned Tenant from Tenant's obligations under this Lease or alter the primary liability of the undersigned Tenant to pay the Rent and to be responsible for the performance of all Tenant's obligations hereunder. In no event shall the acceptance of any payment by Landlord from any other person be deemed to be a waiver by Landlord of any provision hereof. Consent by Landlord to one Transfer will not be deemed consent to any subsequent Transfer. In the event of breach by any Transferee in the performance of any of the terms hereof, Landlord may proceed directly against the undersigned Tenant without the necessity of exhausting remedies against such Transferee.

10.5 Colocation . Landlord acknowledges that the business to be conducted by the undersigned Tenant in the Premises may require Tenant to enter into Colocation Agreements that will permit Colocation Parties to engage in Colocation Activities. Landlord expressly agrees that Tenant may, without Landlord's consent, enter into such Colocation Agreements; provided, however, that (a) the Colocation Agreements, and each Colocation Party's use of the Tenant Space, must comply with the terms of this Lease (including the Datacenter Rules and Regulations) and all Applicable Laws; (b) the Colocation Agreements, and the Colocation Parties' rights thereunder, shall be subject and subordinate at all times to this Lease and all of its provisions, covenants and conditions; and (c) in no event may the rights of any Colocation Party, *vis a vis* the members of the Landlord Group, be greater than the rights of Tenant hereunder. Anything to the contrary contained herein notwithstanding, Landlord and Tenant acknowledge and agree that the Colocation Agreements shall not constitute, or be deemed to be, the grant of a leasehold interest, or otherwise constitute, or be deemed to be, a real property interest.

10.6 Excess Rent . Landlord and Tenant agree that, if Tenant assigns this Lease, or subleases any part of the Tenant Space, for any Excess Rent, then Tenant shall pay to Landlord, as Additional Rent, fifty percent (50%) of any such Excess Rent immediately upon Tenant's receipt thereof.

11. ESTOPPEL CERTIFICATES .

11.1 Estoppel Certificate by Tenant . At any time and from time to time, within ten (10) business days after written request by Landlord, Tenant shall execute, acknowledge and deliver to Landlord a statement in writing certifying all matters reasonably requested by Landlord and/or any prospective purchaser of the Building and/or the Property and/or any Holder. Tenant acknowledges and agrees that any statement delivered (or to be delivered) pursuant to this Article 11 may be relied upon by Landlord and any prospective purchaser of the Building and/or the Property and by any current and/or prospective Holder, and any assignee of any such Holder.

11.2 Estoppel Certificate by Landlord . At any time and from time to time, within ten (10) days after written request by Tenant, Landlord shall execute, acknowledge and deliver to Tenant a statement in writing certifying all matters reasonably requested by Tenant or any current or prospective transferee of Tenant's, purchaser of Tenant or any current or prospective lender to Tenant or such transferee, including the nature of known defaults by Tenant under the Lease, if any. Landlord acknowledges and agrees that any statement delivered (or to be delivered) pursuant to this Article 11 may be relied upon by any current or prospective transferee and/or purchaser of Tenant, and/or any lender to Tenant or such transferee.

12. SUBORDINATION AND ATTORNMENT; HOLDER RIGHTS .

12.1 Subordination and Attornment . Without the necessity of any additional document being executed by Tenant for the purpose of effecting a subordination, and at the election of Landlord or any Holder, this Lease will be subject and subordinate at all times to all Security Documents, which may now exist or hereafter be executed which constitute a lien upon or affect the Property or any portion thereof, or Landlord's interest and estate in any of said items. Notwithstanding the foregoing, Landlord reserves the right to subordinate (or cause the subordination of) any such Security Documents to this Lease. In the event of any termination or transfer of Landlord's estate or interest in the Property, the Building, the Datacenter or the Tenant Space by reason of any termination or foreclosure of any such Security Documents (and notwithstanding any subordination of such Security Document to this Lease that may or may not have occurred), at the election of Landlord's successor in interest, Tenant agrees to attorn to and become the tenant of such successor, in which event Tenant's right to possession of the Property will not be disturbed as long as Tenant is not in default under this Lease. Tenant hereby waives any right under any Applicable Law or otherwise to terminate or otherwise adversely affect this Lease and the obligations of Tenant hereunder in the event of any termination or transfer of Landlord's estate or interest in the Property, the Building, the Datacenter, or the Tenant Space by reason of any termination or foreclosure of any such Security Documents. Tenant covenants and agrees to execute and deliver, within ten (10) business days after receipt thereof, and in the form reasonably required by Landlord or any Holder, any additional documents evidencing the priority or subordination of this Lease and Tenant's agreement to attorn with respect to any such Security Document; provided, however, any such agreement subordinating this Lease to such lease, mortgage or deed of trust shall contain a non-disturbance provision that is reasonably acceptable to such Holder, Landlord and Tenant in accordance with Section 12.3, below.

12.2 Holder Protection . Tenant agrees to give each Noticed Holder, by registered or certified mail, a copy of any notice of default served upon the Landlord by Tenant. Tenant further agrees that if Landlord shall have failed to cure such default within thirty (30) days after such notice to Landlord (or if such default cannot be cured or corrected within that time, then within such additional time as may be necessary if Landlord has commenced such cure within such thirty (30) days and is diligently pursuing the remedies or steps necessary to cure or correct such default), then, prior to Tenant pursuing any remedy for such default provided hereunder, at law or in equity, any Noticed Holder shall have an additional thirty (30) days within which to cure or correct such default (or if such default cannot reasonably be cured or corrected within that time, then such additional time as may be necessary if the Noticed Holder has commenced within such thirty (30) days and is diligently pursuing the remedies or steps necessary to cure or correct such default).

12.3 SNDA . At any time that the Building is hereafter made subject to any Security Document(s), Landlord shall use commercially reasonable good faith efforts to cause the Holder to deliver an SNDA to Tenant. Notwithstanding anything herein to the contrary, the subordination of this Lease to any Security Document hereafter placed upon the Building, and Tenant's agreement to attorn to the Holder as provided in this Article 12, shall be conditioned upon the Holder entering into an SNDA. Landlord represents to Tenant that, as of the Execution Date of this Lease, there is no mortgage affecting the Building.

13. SURRENDER OF TENANT SPACE; HOLDING OVER .

13.1 Tenant's Method of Surrender . Upon the expiration of the Term of this Lease, or upon any earlier termination of this Lease or the termination of Tenant's right to possess the Tenant Space, Tenant shall, subject to the provisions of this Article 13 and Section 8.4, quit and surrender possession of the Tenant Space to Landlord in good working order and clean condition, ordinary wear and tear, and damage caused by a Casualty Event, Taking or a default of Landlord excepted.

13.2 Disposal of Tenant's Personal Property . If any property not belonging to Landlord remains in the Tenant Space after the expiration of, or within fifteen (15) calendar days after any earlier termination of, the Term of this Lease or the termination of Tenant's right to possess the Tenant Space, Tenant shall be deemed to have abandoned such property and to have authorized Landlord to make such disposition of such property as Landlord may desire without liability for compensation or damages to Tenant or any other Tenant Party.

13.3 Holding Over . If Tenant should remain in possession of all or any portion of the Tenant Space after the expiration of the Term of this Lease (or any earlier termination of this Lease or the termination of Tenant's right to possess the Tenant Space), without the execution by Landlord and Tenant of a new lease or an extension of the Term of this Lease, then Tenant shall be deemed to be occupying the entire Tenant Space as a tenant-at-sufferance, upon all of the terms contained herein, except as to term and Base Rent and any other provision reasonably determined by Landlord to be inapplicable. During any such holdover period, Tenant shall pay to Landlord a monthly Base Rent in an amount equal to the Hold Over Percentage, as hereinafter defined, of the Base Rent payable by Tenant to Landlord during the last month of the Term of this Lease and one hundred percent (100%) of the Additional Rent payable by Tenant to Landlord during the last month of the Term of this Lease. The "**Hold Over Percentage**" shall be defined as 150% for the first sixty (60) days of hold over in the Tenant Space by Tenant, or anyone claiming by, through or under Tenant after the expiration of the Term of this Lease (or any earlier termination of this Lease or the termination of Tenant's right to possess the Tenant Space) and 200% for any period of hold over by Tenant after the first sixty (60) days. The monthly rent payable for such holdover period shall in no event be construed as a penalty or as liquidated damages for such retention of possession, nor shall such monthly rent be considered to be any form of Consequential Damages related to such retention of possession. Neither any provision hereof nor any acceptance by Landlord of any rent after any such expiration or earlier termination shall be deemed a consent to any holdover hereunder or result in a renewal of this Lease or an extension of the Term, or any waiver of any of Landlord's rights or remedies with respect to such holdover. As such, and notwithstanding any provision to the contrary contained herein, Landlord expressly reserves the right to require Tenant to surrender possession of the Tenant Space upon the expiration of the Term of this Lease or upon the earlier termination hereof or at any time during any holdover and the right to assert any remedy at law or in equity to evict Tenant and collect damages in connection with any such holdover.

13.4 Survival . The provisions of this Article 13 shall survive the expiration or early termination of this Lease.

14. WAIVERS; INDEMNIFICATION; CONSEQUENTIAL DAMAGES; LIENS .

14.1 Waivers .

14.1.1 Tenant hereby waives its rights against the Landlord Group with respect to any claims, damages or losses for bodily injury to persons and/or damage to any Tenant's Personal Property, which are caused by or result from (i) risks insured against under any insurance policies which are required to be obtained and maintained by Tenant under this Lease, and were, in fact, carried by Tenant at the time of such claim, damage, loss or injury, or (ii) risks which would have been covered under any insurance required to be obtained and maintained by Tenant under this Lease had such insurance been obtained and maintained as required, including all such claims, damages and losses, which are caused by or result from the negligence or willful misconduct of any member of the Landlord Group. The foregoing waivers shall be in addition to, and not a limitation of, any other waivers or releases contained in this Lease.

14.1.2 Landlord hereby waives its rights against the Tenant Group with respect to any claims, damages or losses for bodily injury to persons and/or for damage to the Building, the Property and/or Landlord's equipment and fixtures, which are caused by or result from (i) risks insured against under any insurance policies which are required to be obtained and maintained by Landlord under this Lease and that were, in fact, carried by Landlord at the time of such claim, damage, loss or injury, or (ii) risks which would have been covered under any insurance required to be obtained and maintained by Landlord under this Lease had such insurance been obtained and maintained as required, including all such claims, damages and losses, which are caused by or result from the negligence or willful misconduct of any member of the Tenant Group. The foregoing waivers shall be in addition to, and not a limitation of, any other waivers or releases contained in this Lease.

14.2 Indemnifications.

14.2.1 Indemnification by Tenant .

14.2.1.1 To the maximum extent permitted law, but subject to Sections 9.3 and 14.1, Tenant hereby agrees to indemnify, defend, and hold harmless Landlord and the other members of the Landlord Group from and against (and to reimburse Landlord and the other members of the Landlord Group for) any and all Claims arising from and/or in connection with:

(i) the use or occupancy of the Tenant Space or any portion of the Building or the Property by Tenant or any other Tenant Party and/or any person claiming by, through or under Tenant or any other Tenant Party, including:

- (a) Claims related to any Colocation Agreement;
- (b) the acts or omissions of any Colocating Party;
- (c) the payment (or non-payment) of Taxes – Equipment;
- (d) the malfunctioning Tenant's Security System;
- (e) Claims related to any of Tenant's Personal Property;
- (f) Claims by any Tenant Party (or any individual accessing the Tenant Space on any Tenant Party's behalf) for bodily injury;

(g) Tenant's failure to surrender the Tenant Space upon the expiration or any earlier termination of this Lease or the termination of Tenant's right to possess the Tenant Space in accordance with the terms of this Lease (including third party Claims for Consequential Damages related to such failure); and

(h) the removal, exercise of dominion over and/or disposition of any of Tenant's Personal Property that is left in the Tenant Space after the expiration of the Term in violation of Section 13.2 (including third party Claims for Consequential Damages related to such removal).

(ii) injuries to persons or damage to property to the extent caused by the active gross negligence or willful misconduct of Tenant or any other Tenant Party with respect to the Tenant Space, the Building or the Property;

(iii) any person or entity making a claim for any commission or other compensation in connection with the execution of this Lease or the leasing of the Tenant Space to Tenant if based on an allegation that such claimant dealt through Tenant.

14.2.1.2 In the event that any Claim for which Landlord is entitled to indemnification under this Lease is brought against Landlord or any other member of the Landlord Group, Tenant, upon notice from Landlord, shall defend such action or proceeding at Tenant's cost and expense. Tenant agrees that no settlement offer that involves the admission of liability by Landlord or obligation to make payment or pay damages shall be offered or accepted by Tenant in connection with any such indemnification and/or defense without Landlord's prior written consent, which shall not be unreasonably withheld, conditioned or delayed. This indemnity provision and Tenant's obligations under this Section 14.2 shall survive the expiration or termination of this Lease as to any matters arising prior to such expiration or termination or prior to Tenant vacating the Tenant Space and the Building. Notwithstanding any provision to the contrary contained in this Section 14.2, nothing contained in this Section 14.2 shall be interpreted or used in any way to affect, limit, reduce or abrogate any insurance coverage provided by any insurer to either Tenant or Landlord.

14.2.2 Subject to the limitations on Landlord's liability expressly set forth in this Lease, Landlord hereby agrees to defend, indemnify and hold harmless Tenant and the Tenant Parties from and against (and to reimburse Tenant and any Tenant Parties for) all third party Claims to the extent arising from, in connection with, or in any manner relating to (or alleged to arise from, to be in connection with, or to be in any manner related to) injuries to persons or damage to property to the extent caused by the active gross negligence or willful misconduct of Landlord or any member of the Landlord Group at the Property, provided however, that the foregoing indemnification obligations contained in this Section 14.2.2 shall not include the obligation of Landlord to indemnify any Tenant Party to the extent that such claims are caused directly or indirectly, by the active or passive, joint, concurrent, or comparative negligence of any Tenant Party.

14.2.2.1 In the event that any Claim for which Tenant is entitled to indemnification under this Lease is brought against Tenant or any other member of the Tenant Group, Landlord, upon notice from Tenant, shall defend such action or proceeding at Landlord's cost and expense. Landlord agrees that no settlement offer that involves the admission of liability by Tenant or obligation to make payment or pay damages shall be offered or accepted by Tenant in connection with any such indemnification and/or defense without Tenant's prior written consent, which shall not be unreasonably withheld, conditioned or delayed. This indemnity provision and Landlord's obligations under this Section 14.2 shall survive the expiration or termination of this Lease as to any matters arising prior to such expiration or termination or prior to Tenant vacating the Tenant Space and the Building. Notwithstanding any provision to the contrary contained in this Section 14.2, nothing contained in this Section 14.2 shall be interpreted or used in any way to affect, limit, reduce or abrogate any insurance coverage provided by any insurer to either Landlord or Tenant.

14.3 Consequential Damages . Notwithstanding anything to the contrary (express or implied) contained herein, except with regard to Tenant's obligations to indemnify Landlord, as expressly set forth in Section 14.2.1.1(i)(g) and (h) above, under no circumstances whatsoever shall Landlord or Tenant ever be liable under this Lease for first-party or third-party Consequential Damages.

14.4 Liens . Notwithstanding anything to the contrary herein, in no event shall Tenant have any right (express or implied) to create or permit there to be established any lien or encumbrance of any nature against the Tenant Space, the Building or the Property or against Landlord's or Tenant's interest therein or hereunder, including for any improvement or improvements by Tenant, and Tenant shall fully pay the cost of any improvement or improvements made or contracted for by Tenant. Tenant shall require each contractor which it engages to perform any improvements or alterations within the Tenant Space or elsewhere in the Building or the Property, to acknowledge and agree in writing that it is performing its work under its agreement with Tenant solely for the benefit of Tenant and that Tenant is not acting as Landlord's agent. Any mechanic's lien filed against the Tenant Space, the Building or the Property, or any portion of any of the above, for work claimed to have been done, or materials claimed to have been furnished to Tenant, shall be duly discharged by Tenant, by bonding or otherwise, within thirty (30) calendar days after the later of: (i) filing of the lien, or (ii) Tenant being made aware of the lien.

15. TENANT DEFAULT .

15.1 Events of Default By Tenant . Each of the following shall constitute an Event of Default by Tenant under this Lease:

15.1.1 Any failure or refusal by Tenant to timely pay any Rent or any other payments or charges required to be paid hereunder, or any portion thereof, within five (5) business days after notice that the same is due.

15.1.2 Any failure by Tenant to perform or observe any other covenant or condition of this Lease (including those contained in the Datacenter Rules and Regulations) to be performed or observed by Tenant (other than those described in Section 15.1.1, above or Sections 15.1.3, 15.1.4, or 15.1.5, below) if such failure continues for a period of twenty (20) days following written notice to Tenant of such failure; provided, however, that in the event Tenant's failure to perform or observe any covenant or condition of this Lease to be performed or observed by Tenant cannot reasonably be cured within twenty (20) days following written notice to Tenant, Tenant shall not be in default if Tenant commences to cure same within such twenty (20) day period and thereafter diligently prosecutes the curing thereof to completion.

15.1.2.1 **Event of Default-ECT Overage** . Section 15.1.2, above, notwithstanding, it shall be an Event of Default by Tenant (i) if Tenant fails to remedy an ECT Overage within one hundred twenty (120) hours after its receipt of an ECT Default Notice, and/or (ii) if three (3) ECT Overages occur in any rolling thirty (30) day period. In connection with this Section 15.1.2.1, the term "remedy" shall mean and refer to a meaningful and relatively permanent remedy of the condition causing the ECT Overage.

15.1.3 The filing or execution or occurrence of any one of the following: (i) a petition in bankruptcy or other insolvency proceeding filed by Tenant, (ii) a petition in bankruptcy or other insolvency proceeding filed against Tenant which is not dismissed within ninety (90) days of filing, (iii) a petition or answer seeking relief under any provision of the Bankruptcy Act, (iv) an assignment for the benefit of creditors, (v) a petition or other proceeding by or against Tenant for the appointment of a trustee, receiver or liquidator of Tenant or any of Tenant's property, (vi) a proceeding by any governmental authority for the dissolution or liquidation of Tenant, or (vii) any other instance whereby Tenant or any general partner of Tenant or any guarantor of Tenant's obligations under this Lease shall cease doing business as a going concern.

15.1.4 Any failure by Tenant to execute and deliver any statement or document described in Article 11, Section 12.1 or Section 17.21 requested to be so executed and delivered by Landlord within the time periods specified in such Article or Section, where such failure continues for ten (10) business days after delivery of written notice of such failure by Landlord to Tenant.

The parties hereto acknowledge and agree that all of the notice periods provided in this Section 15.1 are in lieu of, and not in addition to, the notice requirements of any Applicable Laws.

15.2 Remedies . Upon the occurrence of any Event of Default by Tenant, Landlord shall, in addition to an action for money damages, specific performance and/or injunctive relief, have the option to pursue any one or more of the remedies described in Section 1 of **Exhibit "D"** attached hereto and incorporated herein by this reference, each and all of which shall, subject to applicable law, be cumulative and nonexclusive.

15.3 Limitations on Tenant's Liability.

15.3.1 Liability of Certain Members of the Tenant Group . In no event shall Tenant's directors, officers, shareholders, members, employees, constituent partners, or Tenant Affiliates have any personal liability or personal responsibility of any sort with respect to any of Tenant's obligations under the Lease

15.3.2 Tenant's Liability Cap.

The collective recourse of Landlord and its successors and assigns against Tenant (and the liability of Tenant to Landlord, its successors and assigns) with respect to (a) any actual or alleged breach or breaches by or on the part of Tenant of any of its obligations under the Lease, and (b) any other matter relating to Tenant's occupancy of the Tenant Space, shall be limited, in the aggregate, solely to an amount equal to Five Million (\$5,000,000.00) Dollars, provided that the limitations on Tenant's liability set forth in this Section 15.3.2 not apply to: (i) rent payments due under the Lease, (ii) claims arising from breach of Tenant's obligations with respect to hazardous materials, and (iii) claims based upon claims of third parties for injuries to persons or damages to physical property to the extent based upon the negligence or willful misconduct of Tenant Parties.

16. LANDLORD'S LIABILITY .

16.1 Landlord Default; Tenant's Remedies .

16.1.1 Landlord Default . It shall constitute a Landlord Default if: (a) Landlord shall fail to perform or observe any of Landlord's Lease Undertakings, and (b) such failure continues for a period of twenty (20) days following written notice to Landlord of such failure; provided, however, that in the event that Landlord's failure to perform or observe any of Landlord's Lease Undertakings cannot reasonably be cured within twenty (20) days following written notice to Landlord, such failure to cure shall not be a Landlord Default if Landlord commences its cure within such twenty (20) day period and thereafter diligently prosecutes the curing thereof to completion.

16.1.2 Tenant's Remedies . Except as otherwise expressly provided herein, (a) in the event of any Landlord Default, Tenant's sole and exclusive remedies for any such failure shall be an action for money damages, specific performance and/or injunctive relief, and (b) in no event shall Tenant have the right to terminate the Lease nor shall Tenant's obligation to pay Base Rent or other charges under this Lease abate based upon any default by Landlord of its obligations under the Lease. In that connection, Tenant hereby expressly waives any right conveyed to Tenant by virtue of any law granting Tenant a lien upon the property of Landlord and/or upon rental due to Landlord or granting Tenant a right to withhold Rent and/or terminate this Lease.

16.2 Landlord's Liability . In consideration of the benefits accruing under this Lease to Tenant, and notwithstanding anything to the contrary contained in the Lease Documents, it is expressly understood and agreed by and between the parties to this Lease that:

(i) the collective recourse of Tenant and its successors and assigns against Landlord (and the liability of Landlord to Tenant, its successors and assigns) with respect to (a) any actual or alleged breach or breaches by or on the part of Landlord of any of Landlord's Lease Undertakings, and (b) any other matter relating to Tenant's occupancy of the Tenant Space, shall be limited, in the aggregate, solely to an amount equal to Landlord's Liability Cap, provided that the limitations on Landlord's liability set forth in this Section 16.2(i) shall not apply to: (x) claims based upon claims of third parties for injuries to persons or damages to physical property to the extent based upon the negligence or willful misconduct of the Landlord Parties, or (y) any Outage Credits, Security/Access Credits, Full SOC 2 Credits, or Partial SOC2 Credits to which Tenant is entitled pursuant to **Exhibit "F"** ;

(ii) other than Landlord's Liability Cap, Tenant shall have no recourse against any other assets of Landlord and in the uncollected rent and proceeds of the Building;

(iii) Tenant shall have no recourse against any assets of any member of the Landlord Group other than Landlord;

(iv) except to the extent of Landlord's Liability Cap, no personal liability or personal responsibility of any sort with respect to any of Landlord's Lease Undertakings, or any alleged breach thereof, is assumed by, or shall at any time be asserted or enforceable against, Landlord; and

(v) no personal liability or personal responsibility of any sort with respect to any of Landlord's Lease Undertakings, or any alleged breach thereof, is assumed by, or shall at any time be asserted or enforceable against, any member of the Landlord Group other than Landlord.

16.3 Transfer of Landlord's Interest . Landlord (and each of Landlord's successors-in-interest) shall have the right, from time to time, to assign its interest and obligations, in writing and/or by operation of law, in and under this Lease to any third party to whom Landlord conveys its interest in the Property. Once and if Landlord (and/or any successor to Landlord) shall convey its interest in the Property to a third party, (a) Landlord (and each such successor) shall be fully released from all of the obligations and liabilities of Landlord under the Lease Documents accruing on or after the date of such transfer of Landlord's interest in the Property to such third party, and (b) Tenant agrees to look solely to the successor-in-interest of Landlord for all such obligations and liabilities accruing on or after the date of such transfer. If any security has been given by Tenant to secure the faithful performance of any of the covenants of this Lease, Landlord shall transfer or deliver said security, as such, to Landlord's successor in interest and thereupon Landlord shall be discharged from any further liability with regard to said security.

16.3.1 Status as a Real Estate Investment Trust . Landlord shall have the right, from time to time, to assign part of its interest and obligations in and under this Lease to a wholly owned subsidiary of Landlord (or a wholly owned subsidiary of Landlord's parent company), if and to the extent that Landlord determines such partial transfer is necessary or advisable in connection with the status of Landlord, or any other member of the Landlord Group, as a real estate investment trust.

17. MISCELLANEOUS .

17.1 Severability . If it is found in a final judgment by a court of competent jurisdiction (not subject to further appeal) that any term or provision hereof is invalid or unenforceable, (i) the remaining terms and provisions hereof shall be unimpaired and shall remain in full force and effect; and (ii) the invalid or unenforceable term or provision shall be replaced by a term or provision that is valid and enforceable and that comes closest to effectuating the intention of such invalid or unenforceable term or provision.

17.2 No Waiver . No failure or delay by either party to insist on the strict performance of any obligation, covenant, agreement, term or condition of this Lease, or to exercise any right or remedy available upon such non-performance, will constitute a waiver thereof, and no breach or failure by either party to perform will be waived, altered or modified, except by written instrument signed by such party.

17.3 Attorneys' Fees and Costs . If either Landlord or Tenant initiates any litigation, mediation, arbitration or other proceeding regarding the enforcement, construction or interpretation of this Lease, then the non-prevailing party shall pay the prevailing party's attorneys' fees and costs (including all expense reimbursements, expert witness fees, litigation costs, court or arbitration tribunal costs, filing fees, exhibit fees, forensic consultant fees, litigation support costs, expert witness fees, the costs of appeals and attorneys' fees and costs incurred in connection with post-judgment collection and enforcement efforts). In addition, if it should otherwise be necessary or proper for Landlord to consult an attorney concerning this Lease for the review of instruments evidencing a proposed Transfer or for the purpose of collecting Rent, Tenant agrees to pay to Landlord its actual attorneys' fees whether suit be brought or not to the extent such fees exceed \$500.00. The parties agree that this Section 17.3 shall survive the expiration or termination of this Lease.

17.4 Waiver of Right to Jury Trial . TO THE FULLEST EXTENT PERMITTED BY LAW, LANDLORD AND TENANT EACH EXPRESSLY WAIVES ITS RIGHT TO TRIAL BY JURY IN ANY TRIAL HELD AS A RESULT OF A CLAIM ARISING OUT OF, IN CONNECTION WITH, OR IN ANY MANNER RELATED TO THIS LEASE IN WHICH LANDLORD AND TENANT ARE ADVERSE PARTIES. FOR THE AVOIDANCE OF DOUBT, THE FILING OF A CROSS-COMPLAINT BY ONE AGAINST THE OTHER IS SUFFICIENT TO MAKE THE PARTIES "ADVERSE."

17.5 Headings; Time; Survival . The headings of the Articles, Sections, Schedules and Exhibits of this Lease are for convenience only and do not define, limit or construe the contents thereof. Words of any gender used in this Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, unless the context otherwise requires. Unless otherwise expressly stated, the words “herein,” “hereof,” and “hereunder” and other words of similar import refer to this Lease as a whole and not to any particular Section, subsection, or other subpart of this Lease. The words “include” and “including” shall not be construed as terms of limitation and shall, in all instances, be interpreted as meaning “including, but not limited to.” In all instances where a party is required to pay any sum or do any act at a particular indicated time or within an indicated period, it is understood that time is of the essence. Any obligations of a party accruing prior to the expiration or termination of this Lease shall survive the expiration or termination of this Lease, and such party shall promptly perform all such obligations whether or not this Lease has expired.

17.6 Notices . Any notice which may or shall be given under the provisions of this Lease shall be in writing and may be delivered by (i) hand delivery or personal service, (ii) a reputable overnight courier service which provides evidence of delivery, (iii) facsimile (so long as a confirming copy is forwarded by a reputable overnight courier service within twenty-four (24) hours thereafter), or (iv) e-mail (so long as a confirming copy is forwarded by a reputable overnight courier service within twenty-four (24) hours thereafter), if for Landlord, to the Building office and at the address specified in Item 11 of the Basic Lease Information, or if for Tenant, at the address specified in Item 3 of the Basic Lease Information, or at such other addresses as either party may have theretofore specified by written notice delivered in accordance herewith. Such address may be changed from time to time by either party by giving notice as provided herein. Notice shall be deemed given, (a) when delivered (if delivered by hand or personal service), (b) if sent by a reputable overnight courier service, on the business day immediately following the business day on which it was sent, (c) the date the facsimile is transmitted, or (d) the date the e-mail is transmitted.

17.7 Governing Law; Jurisdiction . This Lease shall be governed by, and construed in accordance with, the laws of the state in which the Property is located. In addition, Landlord and Tenant hereby submit to the local jurisdiction of the State in which the Property is located. Each party agrees that any action by the other against such party shall be instituted in the State in which the Property is located.

17.8 Incorporation; Amendment; Merger . This Lease, along with any schedules, exhibits and attachments or other documents referred to herein, all of which are hereby incorporated into this Lease by this reference, constitutes the entire and exclusive agreement between Landlord and Tenant relating to the Tenant Space and the Datacenter and each of the aforementioned documents may be altered, amended or revoked only by an instrument in writing signed by the party to be charged thereby. All prior or contemporaneous oral or written agreements, understandings and/or practices relative to the leasing or use of the Tenant Space are merged herein or revoked hereby.

17.9 Brokers . Each party hereto represents to the other that the representing party has not engaged, dealt with or been represented by any broker in connection with this Lease other than the respective broker specified in Item 13 of the Basic Lease Information.

17.10 Examination of Lease; Binding on Parties . Each of the parties hereto acknowledges that it has read and reviewed this Lease and that it has had the opportunity to confer with counsel in the negotiation of this Lease. Accordingly, this Lease shall be construed neither for nor against Landlord or Tenant, but shall be given a fair and reasonable interpretation in accordance with the meaning of its terms and the intent of the parties. This Lease shall not be binding or effective until each of the parties hereto has executed and delivered an original counterpart hereof to each other. No contractual or other rights shall exist between Landlord and Tenant with respect to the Tenant Space until both have executed and delivered this Lease, notwithstanding that Landlord has delivered to Tenant an unexecuted copy of this Lease. The submission of this Lease to Tenant shall not constitute the grant of an option for the Tenant to lease, or otherwise create any interest by Tenant in, the Tenant Space. The execution of this Lease by Tenant and return to Landlord shall not be binding upon Landlord, notwithstanding any time interval, until Landlord has, in fact, executed and delivered this Lease to Tenant.

17.11 Recordation . Neither Tenant nor any person or entity acting through, under or on behalf of Tenant shall record or cause the recordation of this Lease, but Landlord agrees to execute, acknowledge and deliver a statutory form of Notice of Lease.

17.12 Authority . Each of Landlord and Tenant represents to the other party that the person executing this Lease on its behalf is duly authorized to execute and deliver this Lease pursuant to its respective by-laws, operating agreement, resolution or other legally sufficient authority. Further, each party represents to the other party that (i) if it is a partnership, the undersigned are all of its general partners, (ii) it has been validly formed or incorporated, (iii) it is duly qualified to do business in the state in which the Property is located, and (iv) this Lease is being executed on its behalf and for its benefit.

17.13 Successors and Assigns . Except as otherwise provided in this Lease, all of the covenants, conditions and provisions of this Lease shall be binding upon, and shall inure to the benefit of the parties hereto and their respective heirs, personal representatives and permitted successors and assigns.

17.14 Force Majeure . Except for the extent to which a party's obligations or rights are expressly stated herein to apply notwithstanding the effect of Force Majeure events, a party shall incur no liability to the other party with respect to, and shall not be responsible for any failure to perform, any of its obligations hereunder (other than payment obligations or obligations that may be cured by the payment of money (e.g., maintaining insurance)) if such failure is caused by a Force Majeure event. The amount of time for a party to perform any of its obligations (other than payment obligations) shall be extended by the amount of time such party is delayed in performing such obligation by reason of any Force Majeure event.

17.15 No Partnership or Joint Venture; No Third Party Beneficiaries . Nothing contained in this Lease shall be deemed or construed to create the relationship of principal and agent, or partnership, or joint venturer, or any other relationship between Landlord and Tenant other than landlord and tenant. Landlord shall have no obligations hereunder to any person or entity other than Tenant, and no other parties shall have any rights hereunder as against Landlord.

17.16 Access by Landlord . Landlord, Landlord's agents and employees shall have the right to enter upon any and all parts of the Tenant Space at any reasonable time upon prior reasonable oral or written notice (except in the case of an emergency when no prior notice shall be required, and except as otherwise expressly set forth below) to examine the condition thereof, to clean, to make any repairs, alterations or additions required to be made by Landlord hereunder, to show the Tenant Space to prospective purchasers or prospective or current mortgage lenders (in either case only upon forty-eight (48) hours' prior oral or written notice), to show the Tenant Space to prospective tenants (only during the last nine (9) months of the Term, and only upon forty-eight (48) hours' prior oral or written notice), to determine whether Tenant is complying with all of its obligations under this Lease, and/or to exercise any of Landlord's rights or remedies hereunder. In connection with Landlord's rights hereunder, Tenant agrees that Landlord shall at all times have and retain a key that will unlock all of the doors in, on or about the Tenant Space; and, in the absence of such a key, Landlord shall have the right to use any reasonable means to open such doors to obtain entry to the Tenant Space. Notwithstanding anything herein to the contrary, except for emergencies, Landlord shall use reasonable efforts to minimize disruption of Tenant's business or occupancy during such entries.

17.17 Rights Reserved by Landlord . Except as otherwise expressly provided to the contrary in this Lease, Landlord hereby expressly reserves all rights related to the Premises, the Datacenter, the Building and the Property, including the right: (i) to change the name or street address of the Building and/or the Property; (ii) to install, affix and maintain all signs on the exterior and/or interior of the Building and/or the Property; (iii) to change, from time to time, the dimensions, configurations and locations of the Common Areas, and/or to otherwise make such alterations to the Datacenter or the Building as Landlord deems desirable; (iv) to install, operate and maintain systems which monitor, by closed circuit television or otherwise, all persons entering or leaving the Building, the Datacenter, and/or the Property; (v) to install and maintain pipes, ducts, conduits, wires and structural elements located in the Datacenter or the Tenant Space and which serve other parts or other tenants or occupants of the Datacenter, the Building and/or the Property; (vi) to create any additional improvements to structural and/or mechanical systems, interior and exterior walls and/or glass; and (vii) to lease space in the Datacenter, the Building and the Property, and to create such other tenancies in the Datacenter, the Building and the Property as Landlord shall desire. In exercising its rights under this Section 17.17, Landlord shall not (i) reduce the size or volume of the Tenant Space more than a de minimus amount, (ii) except in an emergency, impact the operation of Tenant's business operations in any material manner, or the privacy of Tenant's customers in the Tenant Space without having given Tenant at least seven (7) calendar days prior written notice, or (iii) materially affect the visibility of Tenant's Lobby Signage to visitors to the lobby of the Building. In scheduling any Datacenter, Building, or Property repair or maintenance, Landlord shall use reasonable efforts to minimize any impact on Tenant's operations in the Tenant Space.

17.18 Counterparts; Delivery by Facsimile or E-mail . This Lease may be executed simultaneously in two or more counterparts each of which shall be deemed an original, but all of which shall constitute one and the same Lease. Landlord and Tenant agree that the delivery of an executed copy of this Lease by facsimile or e-mail shall be legal and binding and shall have the same full force and effect as if an original executed copy of this Lease had been delivered.

17.19 Confidentiality of Lease . Each party agrees that (i) the terms and provisions of this Lease are confidential and constitute proprietary information of the parties and (ii) it shall not disclose, and it shall cause its partners, officers, directors, shareholders, employees, brokers and attorneys to not disclose any term or provision of this Lease to any other person without first obtaining the prior written consent of the other party, except that each party shall have the right to disclose such information for valid business, legal and accounting purposes and/or if advisable under any applicable securities laws regarding public disclosure of business information and/or as required by Applicable Law or any court ruling.

17.20 Incorporation of Schedules and Exhibits . All of the terms and conditions of all of the Schedules and Exhibits to this Lease are hereby incorporated into this Lease.

17.21 Financial Statements . Within ten (10) days after Landlord's written request therefore, which request shall be made only in the event that any actual or prospective lender, mortgagee or purchaser of the Building has required same, Tenant shall deliver Tenant's Financial Statements to Landlord for the two (2) fiscal years immediately preceding Landlord's request. If Tenant does not then have its Financial Statements audited, Tenant must forward unaudited Financial Statements certified by Tenant's chief financial officer as true, complete and correct in all material respects. Landlord hereby agrees to maintain Tenant's Financial Statements as proprietary and confidential and agrees not to disclose Tenant's Financial Statements to any third party other than any actual or prospective lender, mortgagee, or purchaser of the Building, and Landlord's attorneys, accountants and similar business advisors. Notwithstanding the foregoing, this Section 17.21 shall not apply with regard to Tenant's Financial Statements if, as the case may be, (a) the entity named as "Tenant" or the entity that is named as "Guarantor" under this Lease is a publicly traded entity that is traded on a nationally recognized stock exchange, and (b) such entity's Financial Statements are available online at no cost to Landlord.

17.22 Non-Exclusive Remedies . Unless expressly provided otherwise in this Lease, no remedy which a party may have as set forth in this Lease is intended to be, nor shall be, exclusive of, or mutually exclusive with regard to, any other remedy which such party may have as set forth in this Lease.

18. CONFIDENTIALITY .

18.1 Definition of Confidential Information. “ **Confidential Information** ” shall mean and refer to, with respect to a party hereto, all information or material that: (a) gives that party some competitive business advantage, gives that party the opportunity of obtaining some competitive business advantage, or the disclosure of which would be detrimental to the interests of that party; and (b) is marked “Confidential,” “Restricted,” “Proprietary,” or with some other, similar, marking. Confidential Information includes all of Tenant’s Data, prices, trade secrets, databases, hardware, software, designs and techniques, programs, engine protocols, models, displays and manuals, and the selection, coordination and arrangement of the contents of such materials, and any unpublished information concerning research activities and plans, members, potential members, employees, customers, marketing or sales plans, product development or time to market, sales forecasts or results of marketing efforts, pricing or pricing strategies, costs, operational techniques, strategic plans, and unpublished financial information, including information concerning revenues, profits and profit margins. “ **Tenant’s Data** ” shall mean and refer to all of Tenant’s data, records and information to which Landlord has access, under this Lease in connection with Landlord’s provision of the Landlord’s Essential Services and Landlord’s performance under this Lease.

18.2 Exclusions.

Confidential Information will not include any information or material, or any element thereof, whether or not such information or material is Confidential Information for the purposes of this Lease, to the extent any such information or material, or any element thereof:

- (a) has previously become or is generally known to the public, unless it has become generally known to the public through a breach of this Lease or a confidentiality or non-disclosure agreement;
- (b) was already rightfully known to the party receiving such information (the “ **Receiving Party** ”) prior to being disclosed by or obtained from the Party (or its agents or affiliates) disclosing such information (the “ **Disclosing Party** ”) as evidenced by written records kept in the ordinary course of business of or by proof of actual use by the Receiving Party;
- (c) has been or is hereafter rightfully received by the Receiving Party from a third person (other than the Disclosing Party) without restriction or disclosure and without breach of a duty of confidentiality to the Disclosing Party; or
- (d) has been independently developed by the Receiving Party without access to Confidential Information of the Disclosing Party.

18.3 Use.

The parties agree to hold each other's Confidential Information in strict confidence during the Term of this Lease and after any termination or expiration of this Lease. Each party recognizes the importance of the other's Confidential Information and recognizes and agrees that the Confidential Information of the other party is critical to such other party's business and that neither party would enter into this Lease without assurance that its Confidential Information and the value thereof will be protected as provided in this Section 18 (Confidentiality) and elsewhere in this Lease. Accordingly, each party agrees as follows:

- (a) the Receiving Party will hold any and all Confidential Information it obtains in strictest confidence and will use and permit use of Confidential Information solely for the purposes of this Lease;
- (b) the Receiving Party may disclose or provide access to its responsible employees, attorneys, auditors, affiliates, lenders, prospective lenders, investors, prospective investors and prospective purchasers of the Property who have a need to know such Confidential Information in the ordinary course of the Receiving Party's business; provided that, in any such case, the party disclosing Confidential Information shall advise the recipient of the fact that such information is Confidential Information under this Agreement and the party's obligations under this Article 18; and
- (c) the Receiving Party will notify the Disclosing Party of any actual or attempted unauthorized disclosure or use of the other party's Confidential Information promptly after it becomes aware of such attempt or use, and will cooperate with the Disclosing Party, in any manner which the Disclosing Party reasonably requests and at no cost to the Receiving Party, to protect all proprietary rights in and ownership of its Confidential Information.

18.4 Compelled Disclosures.

To the extent required by Applicable Law or by lawful order or requirement of a court or governmental authority having competent jurisdiction over the Receiving Party, the Receiving Party may disclose Confidential Information in accordance with such law or order or requirement, provided that, promptly after becoming aware of such law, order, or requirement and, if possible, prior to disclosing Confidential Information pursuant thereto, the Receiving Party will so notify the Disclosing Party in writing. The Receiving Party will use reasonable efforts not to release Confidential Information pending the outcome of any measures taken by the Disclosing Party to contest, otherwise oppose, or seek to limit such disclosure by the Receiving Party and any subsequent disclosure or use of Confidential Information that may result from such disclosure. The Receiving Party will cooperate with and provide assistance to the Disclosing Party regarding such measures in such manner as the Disclosing Party may reasonably request, and at no cost to the Receiving Party.

18.5 Return of Confidential Information.

On the Disclosing Party's written request or upon expiration or termination of this Lease for any reason, the Receiving Party will, promptly after written request from the Disclosing Party, with respect to either Landlord or Tenant, as the case may be, return or destroy, at the Disclosing Party's option, all tangible (the parties acknowledging that information provided in electronic format shall not be considered "tangible" for the purposes of this Section 18.5) originals and copies of all documents and materials it has received containing the Disclosing Party's Confidential Information.

18.6 Non-Exclusive Equitable Remedy.

Each Party acknowledges and agrees that due to the unique nature of Confidential Information there is no adequate remedy at law for any breach of its obligations hereunder and that any such breach or threatened breach may result in irreparable harm to such Party and, therefore, that upon any such breach or any threat thereof, each Party will be entitled to seek and obtain appropriate equitable and injunctive relief from a court of competent jurisdiction without the necessity of proving actual loss, in addition to whatever remedies either of them might have at law or equity.

IN WITNESS WHEREOF, the parties hereto have duly executed this Lease on the respective dates set forth below to be effective as of the Effective Date.

LANDLORD :

DIGITAL PHOENIX VAN BUREN, LLC ,
a Delaware limited liability company

By: Digital Realty Trust, L.P.,
a Maryland limited partnership,
its Sole Member and Manager

By: Digital Realty Trust, Inc.,
a Maryland corporation,
its General Partner

By: /s/ Richard Berk
Print Name: Richard Berk
Title: VP, Portfolio Management, West Region

Date: 11/29/11

TENANT :

CARBONITE, INC.,
a Delaware corporation

By: /s/ Andrew Keenan
Name: Andrew Keenan
Title: Chief Financial Officer

Date: 11/21/11

EXHIBIT "A"

DEPICTION OF DATACENTER, PREMISES, MEET-ME ROOM, AND UPS ROOM

***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

EXHIBIT "B-1"

TENANT'S INSURANCE REQUIREMENTS

Policies

- | | |
|--|--|
| A. Commercial general liability insurance (including contractual liability): | \$1,000,000 single limit; \$2,000,000 aggregate limit, with umbrella coverage providing an additional \$3,000,000 in excess coverage |
| B. "Special Peril Form" property insurance: | Full replacement value of Tenant's Personal Property. |
| C. Workers' compensation insurance: | In accordance with the laws of the state in which the Property is located, and Employer's Liability insurance with a limit not less than \$1,000,000 Bodily Injury Each Accident; \$1,000,000 Bodily Injury By Disease – Each Person; and \$1,000,000 Bodily Injury By Disease – Policy Limit. |
| D. Automobile liability insurance: | Primary auto liability insurance with limits of not less than \$1,000,000 per occurrence covering owned, hired and non-owned vehicles used by Tenant or any other member of the Tenant Group. |
| E. Business interruption insurance: | In such amount as will reimburse Tenant for direct or indirect loss of earnings attributable to all perils insured against by the property insurance described above for a period of not less than twelve (12) months. |

Requirements :

All insurance required of Tenant under this Lease shall be issued by insurers with a "General Policyholders Rating" of at least A-, VIII, as set forth in "Best's Insurance Guide." Such insurers shall be authorized to do business in the State in which the Property is located. Tenant's commercial general liability policy shall be written to apply to all bodily injury (including death), property damage and personal injury losses, and shall include contractual liability, broad form property damage, cross liability and severance of interest clauses.

EXHIBIT "B-2"

LANDLORD'S INSURANCE REQUIREMENTS

Policies

- | | |
|--|--|
| A. Commercial general liability insurance (including contractual liability): | \$1,000,000 single limit; \$2,000,000 aggregate limit; with an umbrella policy providing an additional \$3,000,000 in excess coverage. |
| B. "Special Peril Form" property insurance: | Full replacement value of the Building and Landlord's personal property installed therein. |
| C. Workers' compensation insurance: | In accordance with the laws of the state in which the Property is located, and Employer's Liability insurance with a limit not less than \$1,000,000 Bodily Injury Each Accident; \$1,000,000 Bodily Injury By Disease – Each Person; and \$1,000,000 Bodily Injury By Disease – Policy Limit. |
| D. Automobile liability insurance: | Primary auto liability insurance with limits of not less than \$1,000,000 per occurrence covering owned, hired and non-owned vehicles used by Landlord or any other member of the Landlord Group. |

Requirements :

All insurance required of Landlord under this Lease shall be issued by insurers with a "General Policyholders Rating" of at least A-, VIII, as set forth in "Best's Insurance Guide." Such insurers shall be authorized to do business in the State in which the Property is located. Landlord's commercial general liability policy shall be written to apply to all bodily injury (including death), property damage and personal injury losses, and shall include contractual liability, broad form property damage, cross liability and severance of interest clauses.

EXHIBIT "C"

DESCRIPTION OF PATHWAY

Two (2) maxcell sleeves one from each four-inch (4") conduit from the Premises to Landlord's interconnection rack in the Meet-Me Room, along pathway as hereafter designated by Landlord (the "**Original Fiber Pairs**").

Eight (8) ports, as hereafter designated by Landlord, on Landlord's interconnection rack in the Meet-Me Room (the "**Original VIII Ports**").*

* Section 1.3 of the Lease notwithstanding, but subject to the terms of Section 6.1 of the Lease, the Original VIII Ports may be utilized by Tenant to effect interconnections with other occupants, tenants and/or telecommunications carriers in the Meet-Me Room without monthly recurring charges; provided, however, that if Tenant requests that Landlord perform a cross-connection utilizing the Original VIII Ports, Landlord or tel^x shall, at Tenant's cost, install such cross-connection, and Tenant shall pay to Landlord a non-recurring service fee for such service at Landlord's standard then-current rate, which shall be set forth on the mutually-accepted order form for such cross-connection.

From and after the Commencement Date, until the expiration of the Term of the Lease, the "**Pathway**" shall mean and refer to the Original Fiber Pairs, together with the Original VIII Ports, collectively.

Tenant, at Tenant's sole cost and expense, shall install the fiber running from Tenant's Space through the Pathway to the Landlord's Rack in the Meet-Me Room, subject to the following:

(i) such installation shall be subject to Tenant's obtaining Landlord's prior written approval of the plans therefor, which approval shall not be unreasonably withheld, conditioned, or delayed; and

(ii) such installation shall be performed by Tenant's contractor, subject to the supervision of Landlord's representative.

EXHIBIT "D"

ARIZONA STATE LAW PROVISIONS

1. REMEDIES FOR EVENTS OF DEFAULT .

1.1 Landlord's Right to Terminate Upon Tenant Default . This Lease and the Term and estate hereby granted and the demise hereby made are subject to the limitation that if and whenever any Event of Default shall occur, Landlord may, at Landlord's option, in addition to all other rights and remedies given hereunder or by law or equity, do any one or more of the following without notice or demand, any such notice or demand being hereby waived, to the extent that such waiver is allowed by Applicable Laws:

1.1.1 Terminate this Lease, in which event Tenant shall immediately surrender possession of the Tenant Space to Landlord.

1.1.2 Enter upon and take possession of the Tenant Space and expel or remove Tenant and any other occupant therefrom, with or without having terminated this Lease.

1.1.3 Alter locks and other security devices at the Tenant Space.

1.1.4 Terminate any and all agreements, subleases, licenses, concessions or other consensual arrangements for possession entered into by Tenant, with Landlord or with third parties, and affecting the Tenant Space or any part of the Building.

1.2 No Surrender or Merger . Exercise by Landlord of any one or more remedies hereunder granted or otherwise available shall not be deemed to be an acceptance of surrender of all or any part of the Tenant Space by Tenant, whether by agreement or by operation of law, it being understood that such surrender can be effected only by the written agreement of Landlord and Tenant. No such alteration of security devices and no removal or other exercise of dominion by Landlord over the property of Tenant or others on or about the Tenant Space shall be deemed unauthorized or constitute a conversion, Tenant hereby consenting, after any Event of Default, to the aforesaid exercise of dominion over Tenant's property within the Building. All claims for damages by reason of such re-entry and/or possession and/or alteration of locks or other security devices are hereby waived (subject to Section 1.7 of this **Exhibit "D"**), as are all claims for damages by reason of any distress warrant, unlawful detainer proceedings, sequestration proceedings or other legal process, to the extent that such waiver is allowed by Applicable Laws. Tenant agrees that any re-entry by Landlord may be pursuant to judgment obtained in unlawful detainer proceedings or other legal proceedings or without the necessity for any legal proceedings, as Landlord may elect, and Landlord shall not be liable in trespass or otherwise.

1.3 Damages Upon Default . If Landlord elects to terminate this Lease by reason of an Event of Default, then, notwithstanding such termination, Landlord may hold Tenant liable for all rental and other indebtedness accrued to the date of such termination, plus, at Landlord's election, either:

(i) such rental and other indebtedness as would otherwise have been required to be paid by Tenant to Landlord during the period following termination of the Term of this Lease measured from the date of such termination by Landlord until the expiration of the Term of this Lease (had Landlord not elected to terminate this Lease on account of such Event of Default) diminished by any net sums thereafter received by Landlord through reletting the Tenant Space during said period (after deducting expenses incurred by Landlord in good faith as provided in Section 1.5 below), or

(ii) the amount (discounted to present value) by which, at the time of the termination of this Lease (or at any time thereafter if Landlord shall have initially elected damages under clause (i) above), (x) the aggregate of the rent and other charges projected over the period commencing with such termination and ending on the last day as of which the Term of the Lease would have expired, but for such Event of Default, exceeds (ii) the aggregate projected market rental value (including other charges) for the Tenant Space for such period.

Actions to collect amounts due by Tenant provided for in clause (i) of this Section 1.3 may be brought from time to time by Landlord during the aforesaid period, on one or more occasions, without the necessity of Landlord's waiting until the expiration of such period, and in no event shall Tenant be entitled to any excess of rental (or rental plus other sums) obtained by reletting over and above the rental provided for in this Lease.

1.4 Repossession of Tenant Space . If Landlord elects to repossess the Tenant Space without terminating this Lease, Tenant shall be liable for and shall pay to Landlord all rental and other indebtedness accrued to the date of such repossession, plus Rent required to be paid by Tenant to Landlord during the remainder of the Term of this Lease until the expiration of the Term of this Lease, diminished by any net sums thereafter received by Landlord through reletting the Tenant Space during said period (after deducting expenses incurred by Landlord as provided in Section 1.5 below). In no event shall Tenant be entitled to any excess of any rental obtained by reletting over and above the rental herein reserved. Actions to collect amounts due by Tenant as provided in this Section 1.4 may be brought from time to time, on one or more occasions, without the necessity of Landlord's waiting until the expiration of the Term of this Lease.

1.5 Landlord's Expenses . Upon an Event of Default, Tenant shall also be liable for and shall pay to Landlord, in addition to any sum provided to be paid pursuant to this Lease: (i) the costs and expenses of securing new tenants, including expenses for refixturing, alterations and other costs in connection with preparing the Tenant Space for the new tenant and any reasonable or necessary alterations, (ii) the cost, incurred by Landlord in good faith, of removing and storing Tenant's or other occupant's property, and (iii) all reasonable expenses incurred by Landlord in enforcing Landlord's remedies, including reasonable attorneys' fees. Past due rental and other past due payments shall bear interest from maturity at the Default Rate (as defined in Section 3.5 of this Lease) until paid.

1.6 Cumulative Remedies; Equitable Relief. The specific remedies to which Landlord may resort under the provisions of this Lease are cumulative and are not intended to be exclusive of any other remedies or means of redress to which it may be lawfully entitled in case of any breach or threatened breach by Tenant of any provisions of this Lease. In addition to the other remedies provided in this Lease, subject to Applicable Laws, Landlord shall be entitled to a restraint by injunction of the violation or attempted or threatened violation of any of the covenants, conditions or provisions of this Lease or to a decree compelling specific performance of any such covenants, conditions or provisions.

1.7 Reletting . Landlord agrees to use reasonable efforts to relet the Tenant Space after Tenant vacates the Tenant Space in the event that the Lease is terminated based upon a default by Tenant hereunder. Marketing of the Tenant Space in a manner similar to the manner in which Landlord markets other premises within Landlord's control in the Building shall be deemed to have satisfied Landlord's obligation to use "reasonable efforts." Tenant agrees that, in any event, Landlord has no obligation to: (i) relet the Tenant Space prior to leasing any other space within the Building; or (ii) relet the Tenant Space (A) at a rental rate or otherwise on terms below market, as then determined by Landlord in its sole discretion; (B) to any entity not satisfying Landlord's then standard financial credit risk criteria; (C) for a use (1) not consistent with Tenant's use prior to default; (2) which would violate then applicable law or any restrictive covenant or other lease affecting the Building; (3) which would impose a greater burden upon the Building's facilities; or (4) which would involve any use of Hazardous Materials (other than those which Tenant is expressly permitted to use under the Lease); or (iii) solicit or entertain negotiations with any other prospective tenants for the Tenant Space until Landlord obtains full and complete possession of this Tenant Space, including the final and unappealable legal right to re-let the Tenant Space free of any claim of Tenant to occupy the Tenant Space.

1.8 Landlord's Right to Cure . All covenants and agreements to be performed by Tenant under this Lease shall be performed by Tenant at Tenant's sole cost and expense. If Tenant should fail to make any payment (other than Base Rent) or cure any default hereunder within the time herein permitted, Landlord, without being under any obligation to do so, without thereby waiving such default and in addition to and without prejudice to any other right or remedy of Landlord, may make such payment and/or remedy such other default for the account of Tenant (and enter the Tenant Space for such purpose), and thereupon Tenant shall be obligated to, and hereby agrees to, pay to Landlord as Additional Rent, within ten (10) days following Landlord's demand therefor, all costs, expenses and disbursements incurred by Landlord in good faith (including reasonable attorneys' fees) incurred by Landlord in taking such remedial action, plus an administrative fee of ten percent (10%) of such amount.

2. CALCULATION OF CHARGES . Landlord and Tenant are knowledgeable and experienced in commercial transactions and agree that the provisions set forth in this Lease for determining charges, amounts and additional rent payable by Tenant (including payments under Section 3.5) are commercially reasonable and valid even though such methods may not state a precise mathematical formula for determining such charges.

EXHIBIT "E"

LANDLORD'S INSTALLATIONS

Landlord shall cause:

- The installation of Metering Equipment – Tenant Space related to electrical power.
- Cage substantially in the lay out set forth on **Exhibit "A"** .
- The installation of the Pathway described on **Exhibit "C"**.
- An under floor grounding feed to be delivered to Premises.*

* Tenant is responsible for all individual H-taps and grounding to cabinets, equipment and relay racks, including the cost thereof.

Landlord's Warranty :

(A) Landlord hereby warrants and represents to Tenant that (collectively "**Landlord's Warranty** "):

- (1) Landlord's Installations shall be performed: (i) in a good and workmanlike manner, and (ii) in compliance with all Applicable Laws; and
- (2) Landlord's Installations will be free from defects.

(B) Exclusions from Landlord's Warranty

Landlord's Warranty expressly excludes remedy for damage or defect caused by abuse, modifications not executed by the Landlord, or Landlord's agents, employees, or contractors, improper or insufficient maintenance by Tenant or anyone claiming by, through or under Tenant, improper operation, or normal wear and tear and normal use.

(C) Tenant's Remedies in the Event of Breach of Landlord's Warranty

If, on or before the Warranty Expiration Date, as hereinafter defined, Tenant gives Landlord written notice of any breach of Landlord's Warranty promptly after Tenant becomes aware of such breach, Landlord shall, at no cost to Tenant, correct or repair such breach as soon as conditions reasonably permit and as to which, in either case, Tenant shall have given notice to Landlord, as aforesaid. The "**Warranty Expiration Date**" shall be defined as the date twelve (12) months after the Commencement Date. Except to the extent to which Tenant shall have given Landlord notice of respects in which Landlord has breached Landlord's Warranty, Tenant shall be deemed conclusively to have: (i) approved Landlord's construction, (ii) waived any claim that Landlord has breached Landlord's Warranty, and (iii) agreed that Tenant has no claim that Landlord has failed to perform any of Landlord's obligations with respect to Landlord's Installations and the Commencement Date Conditions. The provisions of this Section (C) sets forth the Tenant's sole remedies for any breach of the Landlord's Warranty; however nothing in this Section (C) shall be deemed to relieve the Landlord of its responsibilities to perform maintenance and repairs as required pursuant to Section 8 of the Lease.

(D) Landlord hereby represents to Tenant that, as of the Effective Date, Landlord has obtained such documentation as is customarily issued by the City of Phoenix evidencing that the Datacenter (including the Tenant Space and the Meet-Me Room) may be lawfully used for datacenter purposes.

EXHIBIT "E-1"

[INTENTIONALLY OMITTED]

EXHIBIT “F”

SERVICE LEVEL

Table A.

Landlord shall provide the following:

1. Electricity Consumption Threshold: 400 total kW.
2. Target Battery Capacity: Six (6) minutes.
3. Back-Up Power Specifications : Two (2) 2.0 MW Building generator plant supplies dedicated back-up power for the Premises
Back-up power is included in all AC amperage usage.
4. HVAC Specifications.
 - (a) Target Temperature Range : Average temperature of the Premises, measured at the return air vents in the Premises, between 68 degrees Fahrenheit and 78 degrees Fahrenheit.
 - (b) Target Humidity Range : Average relative humidity of the Premises, measured at the return air vents in the Premises, between 35% and 55%.

Service Level – Terms.

1. Landlord’s Essential Services .

A. **Electricity** . Landlord shall furnish electricity to the Premises sufficient to meet the Electricity Consumption Threshold. The obligation of Landlord to provide electricity to the Premises shall be subject to the rules, regulations and requirements of the supplier of such electricity and of any governmental authorities regulating providers of electricity and shall be limited, except as expressly set forth in the next sentence, to providing power sufficient to meet the Electricity Consumption Threshold. In addition, Landlord shall furnish back-up power for the Premises sufficient to meet the Back-Up Power Specifications, at all times except during maintenance operations and Force Majeure events. Except for the Back-Up Power Specifications, Landlord shall have no obligation to provide emergency, supplemental or back-up power systems for use in the Premises, or otherwise in, or for, the Tenant Space.

B. **HVAC** . Landlord shall furnish HVAC to the Premises sufficient to cause the average temperature and humidity of the Premises (measured at the return air vents in the Premises) to meet the HVAC Specifications. The obligation of Landlord to provide HVAC to the Premises shall be limited to providing HVAC sufficient to meet the HVAC Specifications.

2. Credits.

A. Outage Credits .

Upon the occurrence of each Separate/Independent Interruption of Landlord's Essential Services, Tenant shall be entitled to an Outage Credit in the amount set forth opposite the duration of such Interruption of Landlord's Essential Services in Table 2.A.(1)-A and 2.A.(1)-B, below, as applicable:

Table Related to the Calculation of Outage Credits (Table 2.A.(1)-A)

Interruption Duration:	Tenant's Remedy:
0-4 consecutive hours	The Level-1 Outage Credit(s) described in Table 2.A.(1)-B, below.
5-8 consecutive hours	One (1) additional Outage Credit
Each eight (8) hour period thereafter during which such Interruption of Landlord's Essential Services occurs or continues.	One (1) additional Outage Credit

Table Describing the Level-1 Outage Credits (Table 2.A.(1)-B)

Interruption Occurrence:	Level-1 Outage Credit:
Each First Interruption.	One (1) Outage Credit.
Each Second Interruption.	Two (2) Outage Credits.
Each Third Interruption	Three (3) Outage Credits.
Each Four-Plus Interruption and each Interruption after the Fourth Interruption.	Four (4) Outage Credits.

B. Security/Access Credits .

Any breach by Landlord of its obligations with respect to Security or Access, as set forth in the then current version of the Handbook (such security and access obligations being set forth in Section 7 of the Version 2.5 of the Handbook, dated September 3, 2009), shall be considered to be a "Security/Access Incident". Tenant shall be entitled to a Credit ("Security/Access Credits") against Rent in the amount of \$[***] for each Security/Access Incident and \$[***] for each day that any Security Access/Incident is unresolved.

[***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

C. SOC 2 Audit Credits .

Landlord shall cause a SOC 2 Audit of the Datacenter be performed at least once every twelve months by a qualified independent auditor. If such audit determines that the Datacenter is not in compliance with then current SOC 2 standards (or equivalent successor standards) and either: (i) Tenant is unable to use the Tenant Space for the purposes permitted under the Lease by reason of such non-compliance for any period of time, then Tenant shall be entitled a Credit (“ **Full SOC 2 Credit** ”) equal to 100% of the Rent payable by Tenant for each day that Tenant is unable use the Datacenter by reason of such non-compliance, or (ii) if, despite such non-compliance, Tenant is able to use the Tenant Space for the purposes permitted under the Lease for a period after the date (“ **SOC 2 Cure Date** ”) which is (20) days after Landlord receives notice from such auditor of such non-compliance, then Tenant shall be entitled to a Credit (“ **Partial SOC 2 Credit** ”) equal to 10% of the Rent payable by Tenant for each day between SOC 2 Cure Date and the date that Landlord cures such non-compliance.

D. Procedures .

In the event that Tenant is entitled to an Outage Credit, Security/Access Credit, Full SOC 2 Credit, or Partial SOC 2 Credit, such Credit shall be applied as a credit towards Tenant’s Base Rent due in the immediately following month of the Term; provided, however, in the event that a Credit accrues during the final month of the Term, Landlord will pay to Tenant the amount of such Credit within thirty (30) days following the expiration of the Term.

E. Limits on Credits .

The foregoing notwithstanding, (a) the total aggregate amount of Outage Credits, Security/Access Credits, Full SOC 2 Credits, and Partial SOC 2 Credits to which Tenant may become entitled in any calendar month shall not exceed Tenant’s total monthly Base Rent (at the time of the event); and (b) Tenant’s entitlement to, and accrual of, Outage Credits related to any Interruption – Electrical shall occur only from and after the point at which the aggregate duration of all Interruptions – Electrical during any rolling twelve (12) month period exceeds the Interruption – Electrical Duration Threshold.

F. **Cure Notices** . Once Landlord has rectified a particular Interruption of Landlord’s Essential Services, Security/Access Incident, or SOC 2 non-compliance, Landlord shall provide notice of such rectification or cure to Tenant as soon as is reasonably practicable thereafter.

3. Termination Rights .

A. **Continuous Outage Termination Right** . In the event of a Continuous Outage, Tenant may terminate this Lease by timely delivery of the Continuous Outage Termination Notice to Landlord. Tenant’s failure to timely deliver Tenant’s Continuous Outage Termination Notice shall automatically extinguish Tenant’s right to terminate this Lease with respect to that particular Continuous Outage. If Tenant exercises its termination right under this Paragraph B, then Landlord shall reimburse Tenant for the reasonable costs incurred by Tenant in moving Tenant’s Personal Property from the Tenant Space to a new location.

B. Chronic Outage Termination Right . In the event of a Chronic Outage, Tenant may terminate this Lease by timely delivery of the Chronic Outage Termination Notice to Landlord. Tenant's failure to timely deliver Tenant's Chronic Outage Termination Notice shall automatically extinguish Tenant's right to terminate this Lease with respect to that particular Chronic Outage.

4. **Remedies Exclusive** . Tenant agrees that Tenant's entitlement to Outage Credits, Security/Access Credits, Full SOC 2 Credits, and Partial SOC 2 Credits and the termination rights set forth above, all as expressly set forth in this **Exhibit "F"** , shall be Tenant's sole and exclusive remedies with regard to each Interruption of Landlord's Essential Services.

EXHIBIT "G"

INTENTIONALLY OMITTED

EXHIBIT "H"

COMMENCEMENT DATE NOTICE

, 2011

**VIA [FAX/E-MAIL]: [# OR E-MAIL ADDRESS]
AND FEDERAL EXPRESS**

CARBONITE, INC.

Re: That certain TURNKEY DATACENTER LEASE with an effective date of _____, 2011 (as amended and modified from time to time, the "**Lease**"), by and between CARBONITE, INC. ("**Tenant**"), as tenant, and _____ ("**Landlord**"), as landlord, covering certain premises more particularly described in the Lease at that certain building located at 120 EAST VAN BUREN STREET, PHOENIX, ARIZONA. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Lease.

Ladies and Gentlemen:

Please be advised that Landlord has caused each of the Commencement Date Conditions to occur. Accordingly, Landlord confirms the following:

1. The Commencement Date of the Lease is _____, 20__ .
2. The Rent Commencement Date of the Lease is _____, 20__ .
3. Tenant's Base Rent schedule is as follows:
 - \$ _____ for the period _____, 20__ through _____, 20__
(the Partial Month) [DELETE IF COMMENCEMENT DATE IS THE 1ST]
 - \$ _____ per month for the period _____, 20__ through _____, 20__
(months 1-12 of the Term)
 - \$ _____ per month for the period _____, 20__ through _____, 20__
(months 13-24 of the Term)
 - \$ _____ per month for the period _____, 20__ through _____, 20__
(months 25-36 of the Term)
 - \$ _____ per month for the period _____, 20__ through _____, 20__
(months 37-48 of the Term)

Should you have any questions, please contact

(Property Manager) at

, who will be glad to assist you.

Sincerely,

DIGITAL PHOENIX VAN BUREN, LLC,
a Delaware limited liability company

By: Digital Realty Trust, L.P.,
a Maryland limited partnership,
its Sole Member and Manager

By: Digital Realty Trust, Inc.,
a Maryland corporation,
its General Partner

Attest: _____

By: _____

Print Name: _____

Title: _____

Date: _____

CARBONITE, INC.

By: _____

Name: _____

Title: _____

Date: _____

cc: **ADDITIONAL TENANT NOTICE ADDRESSES**

**120 EAST VAN BUREN STREET
PHOENIX, ARIZONA**

OFFICE SPACE RIDER

Between

DIGITAL PHOENIX VAN BUREN, LLC
a Delaware limited liability company

as Landlord

and

CARBONITE, INC., a Delaware corporation
as Tenant

Dated

November 29, 2011

SCHEDULE "1"

CERTAIN DEFINED TERMS

“**Building Office Standard**” shall mean and refer to the type, grade, quantity and design of materials and construction as are customarily utilized by Landlord in the Building for the construction of “garden-variety” office uses.

“**Landlord**” shall mean and refer to the Landlord set forth in Item 1 of the Basic Rider Information.

“**Landlord’s OS Installations**” shall mean and refer to the installations defined as such, as set forth on **Exhibit “E”**, attached hereto.

“**Landlord’s Repair Obligations**” shall mean and refer to Landlord’s obligations to arrange for the repair and maintenance of the foundation, exterior walls and roof of the Building; the Common Areas within the Building; and the HVAC systems serving the OS Premises and/or the Common Areas of the Building, and all other common utilities serving the Building and the Common Areas.

“**Lease**” shall mean that certain Turnkey Datacenter Lease related to Suite [***] in the Building, having an Effective Date of November 29, 2011 by and between Landlord and Tenant, as amended from time to time.

“**Maximum Structural Load – OS**” shall mean and refer to the Maximum Structural Load – OS set forth in Item 12 of the Basic Rider Information.

“**OS Base Rent**” shall mean and refer to the amounts of OS Base Rent set forth in Item 6 of the Basic Rider Information.

“**OS Commencement Date Conditions**” shall mean and refer to Landlord’s completion of Landlord’s OS Installations.

“**OS Commencement Date Notice**” shall mean and refer to a notice from Landlord to Tenant, substantially in the form attached hereto as **Exhibit “F”**, which shall memorialize Landlord’s delivery of the OS Tenant Space to Tenant and confirm the actual OS Commencement Date.

“**OS Demising Walls**” shall mean and refer to Building Office Standard drywall office demising walls.

“**OS Electrical Metering Equipment**” shall mean and refer to a Building Office Standard electrical metering device (or electrical metering devices) compatible with Landlord’s energy management system for separately (i.e., by either direct meter or check meter) monitoring electricity only in the OS Tenant Space.

“**OS Electricity Consumption Threshold**” shall mean and refer to the amount of electrical power specified in Item 11 of the Basic Rider Information.

“**OS Partial Month**” shall, in the event of an OS Commencement Date that occurs on a date that is other than the first (1st) day of a calendar month, mean and refer to the number of calendar days (including the OS Commencement Date) remaining in the month in which the OS Commencement Date occurs.

“**OS Permitted Use**” shall mean and refer to the OS Tenant Space being used only for general office purposes and storage purposes related to Tenant’s use of the Tenant Space only.

“**OS Power Payment**” shall mean and refer to the actual cost of all electricity provided to and/or used in the OS Tenant Space based solely upon the OS Electrical Metering Equipment and shall exclude any fees and profit to Landlord or any other “markup” above the actual cost of electricity charged to Landlord by the utility company.

[***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

“ **OS Rider Term** ” shall mean and refer to the period described in Item 4 of the Basic Rider Information, subject to the terms of such Item 4.

“ **OS Rules and Regulations** ” shall mean and refer to Landlord’s written rules and regulations for the OS Tenant Space, as same may be amended from time to time by Landlord in Landlord’s reasonable discretion. Landlord agrees that it will not discriminate against Tenant in the enforcement of OS Rules and Regulations as compared to other similarly-situated tenants. The terms of the Lease shall supersede and prevail over any inconsistent or conflicting OS Rules and Regulations.

“ **OS Tenant Space** ” shall mean and refer to the OS Tenant Space set forth in Item 5 of the Basic Rider Information.

“ **OS Tenant Work** ” shall mean and refer to any and all work (other than the completion of Landlord’s OS Installations) for the OS Tenant Space that Tenant shall be responsible for installing, at Tenant’s sole cost and expense.

“ **Substantial Completion** ” shall mean and refer to the final completion of the Tenant Finish Work, as reasonably determined by a representative of Landlord.

“ **Target OS Commencement Date** ” shall mean and refer to the Target OS Commencement Date set forth in Item 3 of the Basic Rider Information, subject to the terms of Section 1.3 of the Standard Rider Provisions.

“ **Tenant** ” shall mean and refer to the Tenant set forth in Item 2 of the Basic Rider Information.

**120 EAST VAN BUREN STREET
PHOENIX, ARIZONA**

OFFICE SPACE RIDER

This Office Space Rider (this “**Rider**”) is entered into as of the OS Effective Date by and between Landlord and Tenant with reference to the following:

R E C I T A L S

A. Tenant leases Tenant Space in the Building from Landlord pursuant to the Lease.

B. Landlord desires to lease to Tenant certain office space within the Building and Tenant desires to lease such space, pursuant to the terms and conditions of this Rider.

C. Unless otherwise specifically indicated to the contrary, all initially capitalized terms contained in this Rider shall have the meanings set forth on **Schedule “1”**, attached to this Rider. All initially capitalized terms contained in this Rider not otherwise defined herein shall have the meanings ascribed to them in the Lease.

NOW, THEREFORE, in consideration of the covenants and agreements hereinafter set forth, Landlord and Tenant agree to the following terms of this Rider, which shall supplement the Lease as of the OS Effective Date:

BASIC RIDER INFORMATION

1. Landlord: Digital Phoenix Van Buren, LLC, a Delaware limited liability company
2. Tenant: Carbonite, Inc., a Delaware corporation
3. OS Effective Date/OS Commencement Date:
 - a. OS Effective Date: November 29, 2011, being the latest of the parties’ respective dates of execution of this Rider, as set forth on the signature page of this Rider (and which date shall be inserted in this Item 3 by Landlord, upon Landlord’s counter-execution of this Rider).
 - b. Target OS Commencement Date: February 1, 2012.
 - c. OS Commencement Date: Subject to the terms of Section 1.3 of the Standard Rider Provisions, the date as of which: (x) Landlord has completed the OS Commencement Date Conditions, (y) the Commencement Date with respect to the Tenant’s Space has occurred, and (z) Datacenter Commencement Date has occurred
4. OS Rider Term: Commencing on the OS Commencement Date and continuing until the expiration or earlier termination of the term of the Lease (as same may be extended or reduced from time to time in accordance with the terms of the Lease), such that the OS Rider Term shall be coterminous with the Term of the Lease.

5. OS Tenant Space : Approximately 288 rentable square feet in Suite [***] on the ([***)] floor of the Building, as depicted on the diagram of the OS Tenant Space contained on **Exhibit “A”**, attached hereto.
- Tenant acknowledges that Tenant has had the opportunity to measure the OS Tenant Space. Therefore, Landlord and Tenant hereby stipulate that notwithstanding anything herein to the contrary, the OS Tenant Space shall be deemed to consist of two offices, each containing 144 rentable square feet, for a total of 288 rentable square feet, and that no shortage or overage in the rentable square feet of the OS Tenant Space purported by either party shall be the basis for changing the number of rentable square feet herein stipulated.
6. OS Base Rent : \$8,640.00 per year.
7. Intentionally Deleted . Intentionally Deleted.
8. OS Installation Fee : None.
9. Intentionally Deleted . Intentionally Deleted.
10. Intentionally Deleted . Intentionally Deleted.
11. OS Electricity Consumption Threshold: Three (3) watts per rentable square foot for lighting and below ceiling convenience power.
12. Maximum Structural Load
—OS: 200 pounds of live load per square foot.
13. OS Rules and Regulations : The current version of the OS Rules and Regulations is attached hereto as **Exhibit “G”** .

This Rider shall consist of the foregoing Basic Rider Information, and the provisions of the Standard Rider Provisions below “ **Schedule 1** ”, above, and **Exhibits “ A ”** through “ **G** ”, all of which are incorporated herein by this reference as of the OS Effective Date. In the event of any conflict between the provisions of the Basic Rider Information and the provisions of the Standard Rider Provisions, the Basic Rider Information shall control.

[no further text on this page]

[***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

STANDARD RIDER PROVISIONS

1. OS TENANT SPACE.

1.1 **OS Tenant Space** . Upon and subject to the terms and conditions of this Rider, the Lease is hereby modified to reflect that Landlord does hereby lease, demise and let unto Tenant and Tenant does hereby lease from Landlord the OS Tenant Space, to have and to hold for the OS Rider Term, together with the non-exclusive right to use the Common Areas of the Building (as they may be changed from time to time by Landlord pursuant to the provisions of the Lease), appurtenant to or necessary for the use of the OS Tenant Space.

1.2 **Condition of OS Tenant Space** . Tenant agrees that Tenant shall be deemed to have accepted the OS Tenant Space in its "AS IS, WHERE IS" condition on the OS Commencement Date. Tenant acknowledges that, aside from Landlord's Repair Obligations, Landlord shall have no obligation to perform any work in the OS Tenant Space (including, without limitation, demolition of any improvements existing therein or construction of any tenant finish-work or other improvements therein), and Landlord shall not be obligated to reimburse Tenant or provide an allowance for any costs related to the demolition or construction of improvements therein. Tenant acknowledges that, except as expressly set forth herein, no representation or warranty (express or implied) has been made by Landlord as to the condition of the OS Tenant Space or its suitability or fitness for Tenant's intended purpose.

1.3 **Delivery of OS Tenant Space** . Landlord and Tenant acknowledge and agree that, by virtue of Landlord's delivery of the OS Commencement Date Notice to Tenant, Landlord shall be deemed to have delivered the OS Tenant Space to Tenant, and Tenant shall be deemed to have accepted the same. Landlord shall use commercially reasonable efforts to cause Landlord's OS Installations to be completed prior to the Target OS Commencement Date. Upon the completion of Landlord's OS Installations, Landlord shall deliver the OS Commencement Date Notice to Tenant. In the event, however, that Landlord's OS Installations have not been completed by the Target OS Commencement Date, Landlord shall not be deemed in default hereunder, and the OS Commencement Date shall be postponed, as Tenant's sole and exclusive remedy, until the date on which Landlord's OS Installations have been completed and Landlord shall have delivered the OS Commencement Date Notice to Tenant.

1.4 **Rights Reserved to Landlord** . Intentionally Deleted.

2. **OS RIDER TERM** . The term of this Rider, and Tenant's obligation to pay OS Base Rent and other sums due under this Rider, shall commence on the OS Commencement Date and shall continue in effect for the OS Rider Term, unless this Rider is earlier terminated as provided herein.

3. OS BASE RENT AND OTHER CHARGES .

3.1 **OS Base Rent** . Landlord hereby acknowledges receipt of all the OS Base Rent due and payable for the entire OS Rider Term.

3.2 **Intentionally Deleted.**

3.3 **OS Base Rent and Charges** . The OS Base Rent and all other charges under this Rider are in addition to, and not in lieu of, Base Rent and all other charges under the Lease, and shall constitute Rent under the Lease. For the avoidance of doubt, Tenant acknowledges and agrees that all Rent due under this Rider shall be subject to the terms of Section 3.4 of the Standard Lease Provisions of the Lease.

3.4. **OS Installation Fee** . Intentionally Deleted.

3.5. **Electrical Power** . Landlord shall furnish electricity to the OS Tenant Space in the amount of the Electricity Consumption Threshold set forth in Item 11 of the Base Rider Information of this Rider. The obligation of Landlord to provide electricity to the OS Tenant Space shall be subject to the rules, regulations and requirements of the supplier of such electricity and of any governmental authorities regulating providers of electricity and shall be limited to providing the OS Electricity Consumption Threshold. Landlord shall have no responsibility to provide Back-Up Power for use in the OS Tenant Space.

3.6. **OS Electricity Consumption Threshold** . Tenant's actual electricity consumption for the OS Tenant Space, as determined by the use of the OS Electrical Metering Equipment shall not at any time, exceed the OS Electricity Consumption Threshold. The electrical power draw by all equipment (belonging to Tenant or otherwise, Landlord hereby agreeing that Landlord will not permit the installation of any equipment in the OS Tenant Space using electricity belonging to Landlord or other tenants/occupants of the Property) located within the OS Tenant Space shall be included in the calculation of Tenant's actual electricity consumption for the OS Tenant Space. In the event that the power consumption in the OS Tenant Space exceeds the OS Electricity Consumption Threshold, Tenant agrees to take immediate action to cause power consumption in the OS Tenant Space to be at or below the OS Electricity Consumption Threshold.

3.7. **Maximum Structural Load—OS** . Tenant shall not place a load upon the OS Tenant Space exceeding the Maximum Structural Load—OS.

4. USE.

4.1 **OS Permitted Use** . The OS Tenant Space may be used only for the OS Permitted Use. Tenant shall not use any portion of the OS Tenant Space as a datacenter or telecommunications facility or similar use but the OS Tenant Space may be used for purposes ancillary to Tenant's datacenter use of the Tenant Space, provided, however, that in no event shall Tenant install, maintain or use the datacenter equipment in the OS Tenant Space.

4.2 **OS Tenant Space Access** . Subject to all of the terms and conditions of this Rider and the Lease, Tenant shall quietly have, hold and enjoy the OS Tenant Space without hindrance from Landlord or any person or entity claiming by, through or under Landlord. Subject to the terms and conditions of the Lease and this Rider (including, without limitation, the OS Rules and Regulations), Landlord's Access Control Systems and Force Majeure, Tenant shall have access to the OS Tenant Space twenty-four (24) hours per day, seven (7) days per week, fifty-two (52) weeks per year. Tenant and its Tenant Parties shall comply with the OS Rules and Regulations. Tenant acknowledges that Landlord may revise the OS Rules and Regulations from time to time.

4.3 **Services to be Provided by Landlord** . Subject to the OS Rules and Regulations, Landlord shall furnish Tenant, at Landlord's expense, while Tenant is occupying the OS Tenant Space, the following services during the OS Rider Term:

(1) Air conditioning and heating in season, Monday through Friday from 8:00 a.m. to 6:00 p.m., and on Saturday from 9:00 a.m. to 1:00 p.m., at such temperatures and in office-use standard amounts for the Building, but such service on Saturday after 1:00 p.m., Sundays and holidays to be furnished only upon the request of Tenant, who shall bear the cost thereof. Tenant acknowledges that such service and temperature may be subject to change by local, county, state or federal regulation. Whenever machines or equipment that generate abnormal heat are used in the OS Tenant Space which affect the temperature otherwise maintained by the air conditioning system, Landlord shall have the right to install supplemental air conditioning in the OS Tenant Space, and the cost thereof, including the cost of installation, operation, use and maintenance, shall be paid by Tenant to Landlord as Additional Rent upon demand.

(2) Water at those points of supply provided for general use.

(3) Janitor service in and about the Building, and the OS Tenant Space, as may in the judgment of Landlord be reasonably required; however, Tenant shall pay the additional costs attributable to the cleaning of improvements within the OS Tenant Space other than building standard improvements. Landlord shall provide the janitorial services to the OS Tenant Space throughout the term of the Lease with respect to the OS Tenant Space.

(4) Elevators for ingress to and egress from the Building as may in the judgment of Landlord be reasonably required. Landlord may reasonably limit the number of elevators in operation after usual and customary business hours and on Saturday afternoons, Sundays and legal holidays.

(5) Replacement of fluorescent lamps in the building standard ceiling mounted fixtures installed by Landlord and incandescent bulb replacement in all public areas.

4.4 Interruption of Services . Landlord shall not be liable or responsible to Tenant for any loss, damage or expense of any type which Tenant may sustain or incur if the quantity or character of the utility provided electric service is changed, is no longer available, or is no longer suitable for Tenant's requirements. No interruption or malfunction of any electrical or other service (including, without limitation, HVAC) to the OS Tenant Space (or to any other portion of the Building or Property) shall, in any event, (i) constitute an eviction or disturbance of Tenant's use and possession of the OS Tenant Space, (ii) constitute a breach by Landlord of any of Landlord's obligations under the Lease or this Rider, (iii) render Landlord liable for damages of any type or entitle Tenant to be relieved from any of Tenant's obligations under the Lease or this Rider (including the obligation to pay Additional Rent, or other charges), (iv) grant Tenant any right of setoff or recoupment, (v) provide Tenant with any right to terminate the Lease or this Rider, or (vi) make Landlord liable for any injury to or interference with Tenant's business or any punitive, incidental or consequential damages (of any type), whether foreseeable or not, whether arising from or relating to the making of or failure to make any repairs, alterations or improvements, or whether arising from or related to the provision of or failure to provide for or to restore any service in or to any portion of the OS Tenant Space, the Property, or the Building. In the event of any interruption, however, Landlord shall employ commercially reasonable efforts to restore such service or cause the same to be restored in any circumstances in which such restoration is within the reasonable control of Landlord.

5. MAINTENANCE; ALTERATIONS .

5.1 Landlord's Maintenance . Aside from Landlord's Repair Obligations, Landlord shall have no repair and maintenance obligations in connection with the OS Tenant Space. Subject to Section 6 below, Landlord shall be responsible for Landlord's Repair Obligations, all as necessary to maintain such elements of the Building and the OS Tenant Space in a first class, clean, and safe condition. In the event that the OS Tenant Space becomes in need of repairs which are within Landlord's Repair Obligations, Tenant shall give immediate notice to Landlord of the nature of such repair needs; and Landlord shall cause such repairs to be completed within thirty (30) days after such request, or such additional reasonable period of time as is reasonably necessary to repair such condition(s).

5.2 Tenant's Maintenance . Aside from Landlord's Repair Obligations, during the OS Rider Term, Tenant shall, at Tenant's sole cost and expense, maintain the OS Tenant Space and Tenant's property, fixtures and equipment therein in clean, safe and good condition, in as good condition as when Tenant took possession, ordinary wear and tear excepted. If Tenant fails to perform its covenants of maintenance and repair hereunder within thirty (30) days after written notice that Tenant has failed to perform such maintenance and repair (or such longer time as Tenant may reasonably require to perform such maintenance and repair, provided that Tenant commences to perform such maintenance and repair within such thirty (30) day period and thereafter diligently prosecutes such maintenance and repair to completion), or if Tenant or any of Tenant's technicians or representatives physically damages the OS Tenant Space, the personal property of any other tenant or anything else in the Building or the Property, Landlord may, but shall not be obligated to, perform all necessary or appropriate maintenance and repair, and any amounts expended by Landlord in connection therewith, plus an administrative charge of ten percent (10%), shall be reimbursed by Tenant to Landlord as Additional Rent upon demand, provided, however, that, in an emergency, Landlord shall not be required to give Tenant prior notice as a condition to exercising its rights under this sentence.

5.3 Alterations; Fixtures .

5.3.1 Tenant will make no alteration, change, improvement, repair, replacement or physical addition in or to the OS Tenant Space or the Building without the prior written consent and approval of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. All materials introduced by or for Tenant, or anyone claiming by, through, or under Tenant, into the OS Tenant Space and/or, except as otherwise permitted pursuant to the provisions of the Lease, the Property must be consented to in advance by Landlord. All cable installed by or for Tenant, or anyone claiming by, through, or under Tenant, in the OS Tenant Space and/or otherwise at the Property must be plenum rated. If such prior written consent of Landlord is granted, the work in such connection shall be at Tenant's expense by workmen and contractors approved in advance in writing by Landlord and in a manner and upon terms and conditions and at times that are reasonably satisfactory to and reasonably approved in advance in writing by Landlord. In any instance where Landlord grants such consent, Landlord may grant such consent contingent and conditioned upon Tenant's contractors, laborers, materialmen and others furnishing labor or materials for Tenant's job working in harmony and not interfering with any labor utilized by Landlord, Landlord's contractors or mechanics or by any other tenant or such other tenant's contractors or mechanics; and if at any time such entry by one (1) or more persons furnishing labor or materials for Tenant's work shall cause disharmony or interference for any reason whatsoever without regard to fault, the consent granted by Landlord to Tenant may be withdrawn at any time upon written notice to Tenant.

5.3.2 Tenant shall remove Tenant's trade fixtures, office supplies and movable office furniture and equipment not attached to the Building prior to the expiration of the OS Rider Term. All other property in the OS Tenant Space and any alteration or addition to the OS Tenant Space (including wall-to-wall carpeting, paneling or other wall covering) and any other article attached or affixed to the floor, wall or ceiling of the OS Tenant Space or the Building shall, upon such expiration or termination, become the property of Landlord, shall be surrendered in good condition, normal wear and tear and damage caused by a Casualty Event, Taking or a Landlord breach excepted, and shall remain upon, and be surrendered with, the OS Tenant Space or the Building, as applicable, as part thereof at the expiration of the OS Rider Term, Tenant hereby waiving all rights to any payment or compensation therefor; provided, however, that Tenant shall, in any event, remove all cabling, including, without limitation, telephone and computer cabling, installed in the OS Tenant Space and/or the risers of the Building in connection with Tenant's lease of the OS Tenant Space. If, however, Landlord so requests in writing, Tenant will, prior to the termination of this Rider, remove in a good and workmanlike manner any and all alterations, additions, fixtures, equipment and property placed or installed by Tenant in or about the OS Tenant Space and/or the Building in connection with each alteration, including, without limitation, above ceiling alterations, and will repair any damage occasioned by such removal. Landlord agrees to make such election at the time that Landlord approves Tenant's plans for any such alteration, if Tenant requests in writing that Landlord make such election at the time that Tenant request Landlord's approval of such alteration.

6. MISCELLANEOUS.

6.1 **Incorporation; Amendment; Merger** . The OS Tenant Space shall be deemed to be a part of the Tenant Space under the Lease for the purposes of Sections 2.3 (except for rent), 6.3.1, 8.1, 8.4, 9, 10, 11, 12, 13, 14, 15 and 16. This Rider, along with any exhibits and attachments or other documents referred to herein, all of which are hereby incorporated into this Rider by this reference, constitutes the entire and exclusive agreement between Landlord and Tenant relating to the OS Tenant Space, and each of the aforementioned documents may be altered, amended or revoked only by an instrument in writing signed by the party to be charged thereby. All prior or contemporaneous oral or written agreements, understandings and/or practices relative to the leasing or use of the OS Tenant Space are merged herein or revoked hereby. This Rider is hereby incorporated into the Lease by this reference.

6.2 **Effectiveness of Rider** . This Rider shall not be binding or effective until the parties have executed and delivered an original or counterpart hereof to each other.

6.3 **Authority** . Landlord and Tenant hereby represent to one another that the persons executing this Rider on behalf of Landlord and Tenant are duly authorized to execute and deliver this Rider pursuant to their respective by-laws, operating agreement, resolution or other legally sufficient authority. Further, Landlord and Tenant represent to one another that (i) if it is a partnership, the undersigned are all of its general partners, (ii) it has been validly formed or incorporated, (iii) it is duly qualified to do business in the state in which the Property is located, and (iv) this Rider is being executed on its behalf and for its benefit.

6.4 **Counterparts; Delivery by Facsimile or E-mail** . This Rider may be executed simultaneously in two or more counterparts each of which shall be deemed an original, but all of which shall constitute one and the same Rider. Landlord and Tenant agree that the delivery of an executed copy of this Rider by facsimile or e-mail shall be legal and binding and shall have the same full force and effect as if an original executed copy of this Rider had been delivered.

6.5 **Confidentiality** . Each party agrees that (i) the terms and provisions of this Rider are confidential and constitute proprietary information of the parties; and (ii) as such, the terms and provisions of this Rider are, and shall be, subject to the terms of Section 17.19 of the Lease.

[SIGNATURES APPEAR ON NEXT PAGE]

IN WITNESS WHEREOF, the parties hereto have duly executed this Rider on the respective dates set forth below to be effective as of the OS Effective Date.

LANDLORD :

DIGITAL PHOENIX VAN BUREN, LLC ,
a Delaware limited liability company

By: Digital Realty Trust, L.P., a
Maryland limited partnership,
Its Sole Member and Manager

By: Digital Realty Trust, Inc., a
Maryland corporation,
Its General Partner

By: /s/ Richard Berk
Name: Richard Berk
Title: VP, Portfolio Management, West Region

Date: 11/29/11

TENANT :

CARBONITE, INC.,
a Delaware corporation

By: /s/ Andrew Keenan
Name: Andrew Keenan
Title: CFO

Date: 11/21/11

EXHIBIT "A"

DEPICTION OF OS TENANT SPACE

See attached.

EXHIBITS “B”, “C”, and “D”

Intentionally Deleted.

EXHIBIT "E"

LANDLORD'S OS INSTALLATIONS

Landlord agrees to cause:

1. The OS Demising Walls to be constructed in the OS Tenant Space, approximately as set forth on **Exhibit "A"** attached hereto.*
2. The OS Demising Walls to be painted with Building Office Standard type, color and quantity of paint.*
3. Building Office Standard carpeting to be installed in the OS Tenant Space.*

*Landlord agrees to complete Landlord's OS Installations at Landlord's sole cost and expense; provided, however, in the event that Tenant requests changes to the foregoing description of Landlord's OS Installations (including any request for other than "Building Office Standard" materials, design and/or quantity), Tenant shall bear the incremental costs related to all such change requests, and shall pay the same to Landlord within thirty (30) days after Tenant's receipt of an invoice therefor from Landlord.

Landlord's Warranty, as set forth on **Exhibit "E"** to the Lease, shall apply to the Landlord's Installations with respect to the OS Tenant Space.

EXHIBIT "F"

OS COMMENCEMENT DATE NOTICE

_____, 20 __

**VIA [FAX/E-MAIL]: [# OR E-MAIL ADDRESS]
AND FEDERAL EXPRESS**

[INSERT TENANT'S ADDRESS
FOR NOTICES FROM BLI #3]

Re: That certain Office Space Rider with an effective date of _____, 20 __ (as amended and modified from time to time, the "**Rider**"), by and between **CARBONITE, INC.** ("**Tenant**"), as tenant, and **DIGITAL PHOENIX VAN BUREN, LLC** ("**Landlord**"), as landlord, covering Suite ____ at that certain building located at **120 EAST VAN BUREN STREET, PHOENIX, ARIZONA**. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Rider.

Ladies and Gentlemen:

Please be advised that Landlord has caused each of the Commencement Date Conditions to occur. Accordingly, Landlord confirms the following:

1. The OS Commencement Date is _____, 20 __.
2. Tenant's OS Base Rent schedule is as follows: \$100 per year which has been paid in full for the entire OS Rider Term.

Should you have any questions, please contact _____ (Property Manager) at _____, who will be glad to assist you.

Sincerely,

By: _____
 Name: _____
 Title: _____

On behalf of Landlord

cc: **[INSERT ADDITIONAL NOTICE
ADDRESSES, IF APPLICABLE]**

EXHIBIT "G"

OS RULES AND REGULATIONS

1. Upon termination of this Rider, Tenant agrees to return all keys to Landlord.

2. Tenant shall refer all contractors, contractor's representatives and installation technicians rendering any service to Tenant, to Landlord for Landlord's supervision, approval (not to be unreasonably withheld, delayed or conditioned) and control, before performance of any contractual service. This provision shall apply to all work performed in the Building, including, without limitation, installation of telephones, telegraph equipment, electrical devices and attachments and installations of any nature affecting floors, walls, woodwork, trim, windows, ceilings, equipment or any other physical portion of the Building.

3. Movement in and out of the Building of furniture, office equipment or other bulky materials, or movement through Building entrances or lobby, or dispatch or receipt by Tenant of any merchandise or materials which requires use of elevators or stairways shall be restricted to hours designated by Landlord. All such movement shall be under supervision of Landlord and in the manner agreed between Tenant and Landlord by prearrangement before performance of any such movement. Such prearrangements initiated by Tenant shall include determination by Landlord, and subject to Landlord's decision and control, of the time, method and routing of movement, and limitations imposed by safety or other concerns which may prohibit any article, equipment or any other item from being brought into the Building. Tenant shall assume all risk as to damage to articles moved and injury to persons or public engaged or not engaged in such movement, including equipment, property and personnel of Landlord if damaged or injured as a result of acts in connection with carrying out this service for Tenant from the time of entering property to completion of work.

4. No signs, advertisements or notices shall be allowed in any form on windows or doors inside or outside the OS Tenant Space or any other part of the Building, and no signs except in uniform location and uniform styles fixed by Landlord shall be permitted on exterior identification pylons, if any, in the public corridors or on corridor doors or entrances to the OS Tenant Space. All signs shall be contracted for by Landlord for Tenant at the rate fixed by Landlord from time to time, and Tenant shall be billed and pay for such service accordingly upon demand.

5. No draperies, shutters, or other window covering shall be installed on exterior windows or walls or windows and doors facing public corridors without Landlord's written approval. Landlord shall have the right to require installation and continued use of uniform window covering for such windows.

6. No portion of the OS Tenant Space or any other part of the Building shall at any time be used or occupied as sleeping or lodging quarters.

7. Tenant shall not place, install or operate in the OS Tenant Space or in any other part of the Building any machinery or conduct mechanical operations, or place or use in or about the OS Tenant Space any explosives, gasoline, kerosene, oil, acids, caustics or any other inflammable, explosive or hazardous materials, fluid or substance without the prior written consent of Landlord.

8. Landlord shall not be responsible for lost or stolen personal property, equipment, money or jewelry from the OS Tenant Space or public rooms regardless of whether such loss occurs when any such area is locked against entry or not.

9. No birds or animals shall be brought into or kept in or about the OS Tenant Space or any other part of the Building.

10. None of the entries, sidewalks, vestibules, elevator shafts, passages, doorways or hallways and similar areas shall be blocked or obstructed, or any rubbish, litter, trash or material of any nature placed, emptied or thrown into such areas, or such areas be used at any time for any purpose except for ingress or egress by Tenant, Tenant's agents, employees or invitees to and from the OS Tenant Space and for going from one to another part of the Building.

11. Tenant and Tenant's employees, agents and invitees shall observe and comply with the driving and parking signs and markers on the premises or parking facilities surrounding the Building.

12. Landlord shall have the right to prescribe the weight and position of safes and other heavy equipment which shall, in all cases, in order to distribute their weight, stand on supporting devices approved by Landlord. All damage done to the OS Tenant Space or to the Building by placing in or taking out any property of Tenant, or done by Tenant's property while in the OS Tenant Space or the Building, shall be repaired immediately at the sole expense of Tenant.

13. Plumbing fixtures and appliances shall be used only for purposes for which constructed, and no sweeping, rubbish, rags or other unsuitable material shall be thrown or placed therein. Damage resulting to any such fixtures or appliances from misuse by Tenant, or Tenant's agents or employees shall be paid by Tenant, and Landlord shall not in any case be responsible therefor.

14. Tenants on multi-tenant floors shall keep all entrance doors to the OS Tenant Space closed at all times.

15. Landlord reserves the right to rescind any of these rules and make such other and further reasonable rules and regulations as in Landlord's judgment shall from time to time be needful for the safety, protection, care and cleanliness of the Building, the operation thereof, the preservation of good order therein, and the protection and comfort of its tenants, their agents, employees and invitees, which rules when made and notice thereof given to a tenant shall be binding upon such tenant in like manner as if originally prescribed.

Subsidiaries of Carbonite, Inc.

<u>Subsidiary</u>	<u>Jurisdiction</u>
Carbonite Holdings, Inc.	United States (Delaware)
Carbonite Securities Corporation	United States (Massachusetts)
6745385 Canada, Inc.	Canada
Carbonite (China) Co., Ltd.	China

Each of the subsidiaries is a wholly owned subsidiary of Carbonite, Inc., except for Carbonite (China) Co., Ltd., which is a wholly owned subsidiary of Carbonite Holdings, Inc.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-176373) of our report dated March 7, 2012 with respect to the consolidated financial statements of Carbonite, Inc., included in this Annual Report (Form 10-K) of Carbonite, Inc. for the year ended December 31, 2011.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 7, 2012

CERTIFICATIONS

I, David Friend, certify that:

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

Dated: March 7, 2012

/s/ David Friend

David Friend

Chief Executive Officer

CERTIFICATIONS

I, Andrew P. Keenan, certify that:

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

Dated: March 7, 2012

/s/ Andrew P. Keenan
Andrew P. Keenan
Chief Financial Officer

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

In connection with the Annual Report of Carbonite, Inc. (the "Company") on Form 10-K for the period ending December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Friend, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ David Friend

David Friend
President, Chairman of the Board and
Chief Executive Officer

March 7, 2012

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

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

In connection with the Annual Report of Carbonite, Inc. (the "Company") on Form 10-K for the period ending December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrew P. Keenan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Andrew P. Keenan

Andrew P. Keenan
Chief Financial Officer

March 7, 2012

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