

# CARBONITE INC

## FORM 10-K (Annual Report)

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Industry Computer Services  
Sector Technology  
Fiscal Year 12/31

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

**FORM 10-K**

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

For the fiscal year ended December 31, 2013

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)  
  
177 Huntington Avenue  
Boston, Massachusetts  
(Address of principal executive offices)

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

02115  
(Zip Code)

(617) 587-1100

(Registrant's telephone number, including area code)

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

<u>Title of Each Class</u>	<u>Name of Exchange on Which Registered</u>
Common Stock, par value \$0.01 per share	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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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 28, 2013, the last business day of the registrant's most recently completed second quarter, the aggregate market value of the voting stock held by non-affiliates of the registrant was \$184,341,431.

As of February 28, 2014, there were 26,552,746 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 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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**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 Annual Report.

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

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

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

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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 independent parties and by us.

## ITEM 1. BUSINESS

### Overview

Carbonite, Inc. (together with its subsidiaries, Carbonite, the Company, our, we, or us) provides easy-to-use, affordable, and secure cloud backup solutions with anytime, anywhere access to files stored on our servers.

Carbonite was incorporated on February 10, 2005 and is a Delaware corporation. We founded Carbonite on one simple idea: all computers need to be backed up, and in this always-connected and highly-mobile world, cloud 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.

While we historically focused on the consumer market for our solutions, we have more recently shifted our attention to the small business market. In October 2012, we acquired Zmanda Inc. and believe this acquisition has enhanced our small business solutions with the ability to backup databases and file systems to the cloud enabling small businesses to obtain all of their backup solutions from one vendor. We offer pricing packages for our Carbonite Pro and Carbonite Server solutions based on the total amount of data stored rather than the number of computers generating this data.

As of December 31, 2013, we had subscribers in more than 100 countries, with subscribers based in the U.S. representing approximately 94% of our total revenue for each of 2013, 2012, and 2011.

We have developed a highly predictable subscription revenue model, with a consistently strong customer retention rate and a scalable infrastructure to support our growth. We generated revenue of \$107.2 million in 2013. We continue to invest in customer acquisition, and as a result we recorded a net loss of \$10.6 million in 2013. Our bookings have grown from \$32.9 million in 2009 to \$116.0 million in 2013. For a reconciliation of bookings to revenue for the last five years, see “Selected Consolidated Financial and Other Data.”

### Industry Trends

Cloud 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 cloud backup industry:

*Rapid growth in unprotected data drives demand for backup services.* According to IDC, an independent research firm, the proportion of information in the digital universe that requires data protection is growing faster than the digital universe itself. By 2020, the digital universe is expected to grow to 40 trillion gigabytes and, from 2013 to 2020, the digital universe will about double every two years, according to IDC. Further, while less than a third of the digital universe required data protection in 2010, that proportion is expected to exceed 40% by 2020. According to IDC, only about half the information that should be protected from loss is currently protected.<sup>1</sup>

*Small business spending increases for data storage.* We expect that increasing interest in leveraging cloud infrastructure will drive increased spending on cloud-based solutions like ours. According to IDC, small business

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<sup>1</sup> IDC, The Digital Universe Study, Sponsored by EMC, December 2012.

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spending on data systems and storage will increase by 3.2% in 2014. IDC also predicts that cloud adoption will continue to climb such that by the end of 2014, one-third of small businesses will use cloud services with the growing share of small business servers residing in the cloud over the next two years.<sup>2</sup>

*Your life is on your computer.* Computers 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 tablets, from financial records, correspondence, passwords, work files, and tax returns to music and photos. 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.

*Increase demand for anytime, anywhere access.* IDC predicts worldwide PC shipments to decline by 3.8% in 2014 before turning slightly positive in the longer term.<sup>3</sup> While this limited interest in PCs has led to little indication of positive growth beyond replacement of existing systems, the popularity of tablet use is growing. This is driving the demand for instant access to information regardless of a user's location. According to IDC, worldwide tablet shipments totaled 217.1 million units in 2013, an increase from 144.2 million units in 2012, for a year-over-year growth rate of 50.6%.<sup>4</sup> According to IDC, a broader number of small business employees are using tablets in a work context, specifically utilizing cloud storage as a way to access data anywhere.<sup>5</sup>

*Plummeting storage and bandwidth costs.* The cost of providing cloud backup is highly dependent on the cost of storage and bandwidth. According to IDC, between 2012 and 2020, the cost per gigabyte (GB) is expected to drop from \$2.00 to \$0.20.<sup>6</sup> 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 in 2014.<sup>7</sup>

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:

<u>Limitation</u>	<u>Key Problems</u>
Limited Capacity	<ul style="list-style-type: none"><li>• Users must select which files to back up</li><li>• Cumbersome to add incremental capacity</li></ul>
Susceptible to failure	<ul style="list-style-type: none"><li>• Unable to protect files in the event of equipment failure, theft, loss, viruses, and accidental deletions</li></ul>
Overly complex	<ul style="list-style-type: none"><li>• Time consuming and labor intensive to manually manage backup</li><li>• Confusing software and processes</li></ul>
Lack of mobile access	<ul style="list-style-type: none"><li>• Do not provide anytime, anywhere access from computers, smartphones, tablets, and other mobile devices</li></ul>

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<sup>2</sup> IDC, Worldwide SMB 2014 Top 10 Predictions: SMB Productivity Push will Drive Cloud and Mobility Interest, Doc #246667, February 2014.

<sup>3</sup> IDC, IDC Forecasts PC Shipments to Fall by Double Digits In 2013; Volumes Are Expected To Stabilize Above 300 Million Units per Year, But With No Significant Recovery, December 2013.

<sup>4</sup> IDC, A Strong Holiday Quarter for the Worldwide Tablet Market, But Signs of Slower Growth Are Clear, According to IDC, January 2014.

<sup>5</sup> IDC, U.S. SMB Cloud Backup and File Sharing Adoption: How Tablet BYOD Trends are Driving Transformation, Doc #240369, March 2013.

<sup>6</sup> IDC, The Digital Universe Study, Sponsored by EMC, December 2012.

<sup>7</sup> DrPeering International: Internet Transit Prices—Historical and Projected, August 2010.

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

### Our Solution

We believe that our customers buy our cloud backup 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 Carbonite protected devices, they can quickly restore files from any device with an internet connection.

*Anytime, anywhere access.* We enable customers to access stored files from Carbonite servers anytime, anywhere using a web browser or from any internet-connected device using one of our free iPad, iPhone, 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 unlimited cloud backup for a fixed price. Our Carbonite Personal Basic subscription costs \$59.99 for one year, with discounts for multi-year plans. Our small business solutions allow for an unlimited number of computers, external hard drives, and NAS devices with tiered pricing based on the total amount of data backed up.

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

*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.

### 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 cloud backup market. We promote our brand through our multi-channel marketing program, which includes a broad presence in television, radio, online display advertising, print advertising, paid and natural search, and an affiliate and reseller network.

*Scale.* We believe that our large scale infrastructure, built over the last nine 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.

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*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 cloud 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 cloud backup solutions. CARBONITE is a registered trademark in the U.S. and in over 30 other countries, including countries in the European Union. Carbonite also has additional registrations and/or pending applications for additional marks in the U.S. and/or other countries, including but not limited to “Carbonite The Better Backup Plan” Logo, Green Dot Logo, “Back it up. Get it back”, “Because Your Life is On Your Computer”, Carbonite and the Green Dot Logo, Carbonite Lock Logo and Chinese character representations for Carbonite. In addition, we have four issued patents and 18 pending patent applications in the U.S. and internationally that cover both our technical infrastructure and our key usability and design concepts.

## Our Offerings

We intend to be a leading provider of business continuity for small businesses by keeping them up and running and introducing new solutions with this focus. Currently 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 cloud backup at three different service levels, each with discounts for multi-year subscriptions. We offer small business customers cloud 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. For small business customers with servers, we offer cloud backup for an unlimited number of servers for a flat annual fee based on the total amount of data backed up, with the option to purchase additional incremental storage capacity. Our server solutions also offers advanced management capabilities including scheduling, retention, bandwidth and compression settings, and detailed monitoring and reporting via a personalized server dashboard.

The following table sets forth key features of our Carbonite Personal Basic, Carbonite Personal Plus, and Carbonite Personal Prime consumer offerings:

	<b>Carbonite Personal Basic</b>	<b>Carbonite Personal Plus</b>	<b>Carbonite Personal Prime</b>
Coverage	One Computer	One computer plus one external hard drive for backup	One computer plus one external hard drive for backup
Supported operating systems	Windows and Mac	Windows	Windows
Pricing	\$59.99/year; unlimited storage	\$99.99/year; unlimited storage	\$149.99/year; unlimited storage
Subscription Period	Annual or multi-year	Annual or multi-year	Annual or multi-year
Customer support	U.S.-based telephone, live chat, and email	U.S.-based telephone, live chat, and email	U.S.-based telephone, live chat, and email
Sync & Share	Access, edit and share your backed-up files from any of your devices (computer and select tablet and mobile devices)	Access, edit and share your backed-up files from any of your devices (computer and select tablet and mobile devices)	Access, edit and share your backed-up files from any of your devices (computer and select tablet and mobile devices)
Features	Automatic and continuous backup to the cloud, state-of-the-art security and file encryption.	Automatic and continuous backup to the cloud, state-of-the-art security and file encryption.	Automatic and continuous backup to the cloud, state-of-the-art security and file encryption.



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The following table sets forth key features of our Carbonite Pro Basic, Carbonite Pro Plus, and Carbonite Pro Prime small business offerings:

	<b>Carbonite Pro Basic</b>	<b>Carbonite Pro Plus</b>	<b>Carbonite Pro Prime</b>
Coverage	Unlimited computers, external hard drives and NAS devices	Unlimited computers, external hard drives, NAS devices and Windows file servers	Unlimited computers, external hard drives, NAS devices and Windows file servers
Supported operating systems	Windows and Mac	Windows and Windows Server	Windows and Windows Server
Pricing	\$269.99/year; 250 GB of backup storage space	\$499.99/year; 250 GB of backup storage space	\$599.99/year; 500 GB of backup storage space
Subscription Period	Annual or multi-year	Annual or multi-year	Annual or multi-year
Customer support	U.S.-based telephone, live chat, and email	U.S.-based telephone, live chat, and email	U.S.-based telephone, live chat, and email
Remote file access	Anytime, anywhere using a web browser	Anytime, anywhere using a web browser	Anytime, anywhere using a web browser
Sync & Share	Access, edit and share your backed-up files from any of your devices (computer and select tablet and mobile devices)	Access, edit and share your backed-up files from any of your devices (computer and select tablet and mobile devices)	Access, edit and share your backed-up files from any of your devices (computer and select tablet and mobile devices)
Features	Automatic and continuous backup to the cloud, state-of-the-art security and file encryption, recovery.	Automatic and continuous backup to the cloud, state-of-the-art security and file encryption, recovery.	Automatic and continuous backup to the cloud, state-of-the-art security and file encryption, recovery.

The following table sets forth key features of our Carbonite Server Basic, Carbonite Server Plus, and Carbonite Server Pro Bundle solutions:

	<b>Carbonite Server Basic</b>	<b>Carbonite Server Plus</b>	<b>Carbonite Server Pro Bundle</b>
Coverage	Unlimited servers	Unlimited servers	Unlimited servers
Supported operating systems	Windows NTFS and ReFS file systems; Microsoft SQL Server 2000, 2005, 2008 and 2012; Microsoft Exchange Server 2003, 2007, 2010 and 2013; Microsoft SharePoint Server 2007, 2010, 2013 and WSS 3.0; Windows System State; MySQL Server 5.0 and above; Oracle Server 11i, 11g and above; Hyper-V (Windows Server 2008 and 2012, and Windows 8)	Windows NTFS and ReFS file systems; Microsoft SQL Server 2000, 2005, 2008 and 2012; Microsoft Exchange Server 2003, 2007, 2010 and 2013; Microsoft SharePoint Server 2007, 2010, 2013 and WSS 3.0; Windows System State; MySQL Server 5.0 and above; Oracle Server 11i, 11g and above; Hyper-V (Windows Server 2008 and 2012, and Windows 8)	All servers to the left, plus Windows XP SP3, Vista, 7, and 8; Mac OS X 10.5, 10.6, 10.7, 10.8 and 10.9; Windows Server 2003, 2008, 2011 and 2012
Pricing	\$799.99/year; 250 GB of cloud storage	\$899.99/year; 500 GB of cloud storage	\$999.99/year; 500 GB of cloud storage
Subscription Period	Annual or multi-year	Annual or multi-year	Annual or multi-year
Customer support	U.S.-based telephone, live chat, and email	U.S.-based telephone, live chat, and email	U.S.-based telephone, live chat, and email

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.

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### Our Proprietary Server Software

At the core of our offerings is our proprietary server software designed specifically for cloud backup. The server software is comprised of two major components: the Carbonite Communications System (CCS) and the Carbonite File System (CFS). 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.

We invest heavily in the development of our technologies. In 2013, 2012 and 2011, we spent \$20.9 million, \$19.9 million and \$16.5 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 single points of failure. The modular design of these components uses well-defined protocols intended to ensure that customer 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 customer 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 and sales 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 and reseller marketing. Our public relations efforts include engaging the traditional press, new media, and social networks. Our distribution strategy is designed to sell large volumes of our solutions through our sales channel relationships including resellers.

*Marketing.* Most of our revenue is from consumers who sign up for Carbonite backup on our website in response to our direct marketing campaigns. Our marketing efforts are designed to attract prospective customers, both consumer and small business, to our website and enroll them as paying customers, either through free trials or communication of the benefits of our solutions to the small business market.

*Channel distribution.* In order to further penetrate the extensive and diverse population of small businesses, we have and will continue to invest in our sales channel relationships. Our network of sales channel relationships includes distributors, resellers and retailers and is designed to sell large volumes of our relatively low-priced solutions to small business customers.

*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,

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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, 2013, 2012 and 2011, 28%, 29%, and 30%, respectively, 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, as well as confidentiality procedures and contractual restrictions. CARBONITE is a registered trademark in the U.S. and in over 30 other countries, including countries in the European Union. Carbonite also has additional registrations and/or pending applications for additional marks in the U.S. and/or other countries, including but not limited to “Carbonite The Better Backup Plan”, Green Dot Logo, “Back it up. Get it back”, “Because Your Life is On Your Computer” Logo, Carbonite and the Green Dot Logo, Carbonite Lock Logo and Chinese character representations for Carbonite. In addition, we have four issued patents, expiring at various times between 2029 and 2030, and 18 pending patent applications in the U.S. and internationally that cover both our technical infrastructure and our key usability and design concepts.

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

The market for cloud backup solutions is competitive and rapidly changing. We compete with both cloud backup providers and providers of traditional hardware-based backup systems. Our solutions compete with offerings from Mozy, Symantec, Code 42, and Infracore, among others. In addition, certain of our features, including our mobile backup and remote access service compete with current or potential services offered by Apple, Google, Microsoft, and Amazon, and features such as the ability to share data with third parties compete with DropBox, SugarSync, and Box, among 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 major distribution agreements with computer manufacturers, internet service providers, and resellers, giving them access to larger customer bases.

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

- ease of installation and use;
- affordability;
- remote access;
- storage capacity;

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- 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 cloud 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 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, 2013, we had 421 full-time and 13 part-time employees. Of our full-time employees, 245 were in operations and support, 49 were in sales and marketing, 93 were in research and development, and 33 were in general and administrative functions. None of our employees are covered by collective bargaining agreements.

## Subsequent Events

On February 10, 2014, David Friend, our founder, chairman, president, and chief executive officer informed our board of directors that he would resign as our president and chief executive officer effective upon his successor being named. Effective upon such resignation, Mr. Friend will become executive chairman of our board of directors and will continue to advise Carbonite on key strategic issues. Our board of directors has engaged a search firm to conduct a search for a new president and chief executive officer to lead Carbonite.

## Available Information

We file reports with the Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other filings required by the SEC. We make available on our website ([www.carbonite.com](http://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](http://www.carbonite.com). References to our website address in this report are intended to be inactive textual references only, and none of the information contained on our website is part of this Annual Report or incorporated in this Annual Report by reference.

The public may read and copy any materials that 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.

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

We experienced net losses of \$23.5 million for 2011, \$18.9 million for 2012, and \$10.6 million for 2013, and have an accumulated deficit of \$130.0 million as of December 31, 2013. We do not expect to be profitable for the foreseeable future. We expect to develop and expand our business by continuing to make significant investments, including for customer acquisition, advertising, technology infrastructure, storage capacity, product development, and international expansion, in an effort to increase and service our customer base. 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 investments, 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 cloud backup solution 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, customer stored files. Any event that significantly disrupts our service or exposes customer 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 cloud backup solutions is competitive, and if we do not compete effectively, our operating results could be harmed.*

The market for cloud backup solutions is competitive and rapidly changing. We compete with both cloud backup providers and providers of traditional hardware-based backup systems. Our solutions compete with offerings from Mozy, Symantec, Code 42, and Infracore, among others. In addition, certain of our features,

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including our mobile backup and remote access service compete with current or potential services offered by Apple, Google, Microsoft, and Amazon, and features such as the ability to share data with third parties compete with DropBox, SugarSync, and Box, among 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, and larger marketing budgets, as well as greater financial, technical, and other resources. In addition, many of our competitors have established marketing relationships and major distribution agreements with computer manufacturers, internet service providers, and resellers, giving them access to larger customer bases. Some of our competitors may make acquisitions or enter into strategic relationships to offer a more comprehensive service than we do. These combinations may make it more difficult for us to compete effectively. We expect these trends to continue as competitors attempt to strengthen or maintain their market positions.

Demand for our cloud 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 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 \$19.1 million in 2009 to \$107.2 million in 2013, representing a compound annual growth rate of 54% 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 cloud 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 cloud backup solutions, a rapidly changing market. Changes in customer preferences for cloud backup solutions may have a disproportionately greater impact on us than if we offered multiple products and services. The market for cloud 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 cloud backup solutions include:

- awareness of our brand and the cloud 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;

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- 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 cloud backup solutions in the U.S. could have a disproportionately greater impact on us than if our geographic mix of revenue was less concentrated.

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

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



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

We maintain a network of active partners, which refer customers to us through links on their websites and outbound promotion to their customers. If we are unable to maintain our contractual relationships with existing partners or establish new contractual relationships with potential partners, we may experience delays and increased costs in adding customers, which could have a material adverse effect on us. The number of customers that we are able to add through these relationships is dependent on the marketing efforts of our partners, over which we have very little control.

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

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

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

In addition, small businesses frequently have limited budgets and are more likely to be significantly affected by economic downturns than larger, more established companies. As a result, they may choose to spend funds on items other than our solutions, particularly during difficult economic times. If we are unsuccessful in meeting the needs of potential small business 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 small business and consumer market focus, maintaining and enhancing the Carbonite brand is critical to our success. We believe that the importance of brand recognition and loyalty will increase in light of increasing competition in our markets. We plan to continue investing substantial resources to promote our brand, both domestically and internationally, but there is no guarantee that our brand development strategies will enhance the recognition of our brand. Some of our existing and potential competitors have well-established brands with greater recognition than we have. If our efforts to promote and maintain our brand are not successful, our operating results and our ability to attract and retain customers may be adversely affected. In addition, even if our brand recognition and loyalty increases, this may not result in increased use of our solutions or higher revenue.

Our solutions, as well as those of our competitors, are regularly reviewed in computer and business publications. Negative reviews, or reviews in which our competitors' 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, 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



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feedback through such online channels where consumers seek and share information. If actions that we take or changes that we make to our solutions upset these customers, their blogging could negatively affect our brand and reputation. Complaints or negative publicity about our solutions or billing practices could adversely impact our ability to attract and retain customers and our business, financial condition, and operating results.

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

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

Our brand, reputation, and ability to attract, retain and serve our customers are dependent upon the reliable performance of our websites, network infrastructure and payment systems, and our customers' ability to readily access their stored files. We have experienced interruptions in these systems in the past, including server failures that temporarily slowed down our websites' performance and our customers' ability to access their stored files, or made our websites and infrastructure inaccessible, and we may experience interruptions in the future. In addition, while we operate and maintain the primary elements of our websites and network infrastructure, some elements of this complex system are operated by third parties that we do not control and that would require significant time to replace. We expect this dependence on third parties to increase. In particular, portions of our solution are hosted by Amazon Web Services and Google Cloud Storage, which provides us with computing and storage capacity pursuant to agreements that continue until terminated upon written notice by either party. Interruptions in our systems or the third-party systems on which we rely, 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 stored 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. 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 stored 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 stored copies of their data. If this were to occur, our reputation could be compromised and we could be subject to liability to the customers that were affected.

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

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failures, telecommunications failures, and similar events. As the majority 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.

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

Many of our servers are hosted by our own network servers, which are located in data center facilities operated by third parties. While we control and have access to these 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 in 2015, 2016, and 2018 with rights of extension, and a separate data center hosting arrangement is cancellable by us upon 120 days' notice. 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.

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 center operators could decide to close their facilities without adequate notice. In addition, any financial difficulties, such as bankruptcy, faced by our third-party data center 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 credits or refunds to customers, subject us to potential liability, or harm our renewal rates.

***If the security of customer 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, customer 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

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error, malfeasance, or other errors in the storage, use, or transmission of personal information could result in a breach of customer or employee privacy. We maintain insurance coverage to mitigate the potential financial impact of these risks; however, our insurance may not cover all such events or may be insufficient to compensate us for the potentially significant losses, including the potential damage to the future growth of our business, that may result from the breach of customer or employee privacy.

Many states have enacted laws requiring companies to notify 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 cloud backup service provider or other major consumer website were to occur, there could be a general public loss of confidence in the use of the internet for cloud backup services or commercial transactions generally. Any of these events could have material adverse effects on our business, financial condition, and operating results.

***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, our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other customer data, may result in governmental enforcement actions, litigation, or public statements against us by consumer advocacy groups or others and could cause our customers to lose trust in us, which could have an adverse effect on our reputation and business. Our customers may also accidentally disclose their passwords or store them on a mobile device that is lost or stolen, creating the perception that our systems are not secure against third-party access. Additionally, if third parties that we work with, such as vendors or developers, violate applicable laws or our policies, such violations may also put our customers' information at risk and could in turn have an adverse effect on our business. Any significant change to applicable laws, regulations, or industry practices regarding the use or disclosure of our customers' data, or regarding the manner in which the express or implied consent of customers for the use and disclosure of such data is obtained, could require us to modify our solutions and features, possibly in a material manner, and may limit our ability to develop new services and features that make use of the data that our customers voluntarily share with us.

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

Our solutions are used by customers in the health care industry and we must comply with numerous federal and state laws related to patient privacy in connection with providing our solutions to these customers. In particular, the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and the 2009 Health Information Technology for Economic and Clinical Health Act, or HITECH, include privacy standards that protect individual privacy by limiting the uses and disclosures of individually identifiable health information and implementing data security standards. Because our solutions may backup individually identifiable health

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

- a description of our permitted uses of individually identifiable health information;
- a covenant not to disclose that information except as permitted under the agreement and to make our subcontractors, if any, subject to the same restrictions;
- assurances that appropriate administrative, physical, and technical safeguards are in place to prevent misuse of that information;
- an obligation to report to our customers any use or disclosure of that information other than as provided for in the agreement;
- a prohibition against our use or disclosure of that information if a similar use or disclosure by our customers would violate the HIPAA standards;
- the ability of our customers to terminate their subscription to our solution if we breach a material term of the business associate agreement and are unable to cure the breach;
- the requirement to return or destroy all individually identifiable health information at the end of the customer’s subscription; and
- access by the Department of Health and Human Services to our internal practices, books, and records to validate that we are safeguarding individually identifiable health information.

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

***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 cloud 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 decrease 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 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

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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 securities 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 securities 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 cyclicalities in the demand for our solutions, including the purchasing and budgeting cycles of our small business 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.

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.

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### ***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, financial condition, and operating results 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. We may also enter into relationships with other businesses to expand our portfolio of solutions or our ability to provide our solutions in foreign jurisdictions, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing, or investments in other companies. We do not have substantial 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.

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

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

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

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

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



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The integration of an acquired company may cost more than we anticipate, and it is possible that we will incur significant additional unforeseen costs in connection with such integration, which may negatively impact our earnings.

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

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

***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. 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 that 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.

***We are currently involved in a search for a new chief executive officer and if this search is delayed, or if the new chief executive officer is not successfully integrated, our business could be negatively impacted.***

On February 10, 2014, David Friend, our founder, chairman, president, and chief executive officer informed our board of directors that he would resign as our president and chief executive officer effective upon his successor being named and thereafter become executive chairman of our board of directors. Our board of directors has engaged a search firm to conduct a search for a new president and chief executive officer to lead Carbonite. To the extent that (i) there is a delay in selecting Mr. Friend's successor, (ii) Mr. Friend chooses to not continue as our president and chief executive officer until his successor is appointed, or (iii) Mr. Friend's successor is not successfully integrated, our business could be negatively impacted.

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

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

***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.***

Primarily due to the nature of our services, we do not believe that we are required to collect sales or other related taxes from our customers in certain states or countries. However, one or more states or countries may seek to impose sales or other tax collection obligations on us, including for past sales by us or our resellers and other partners. A successful assertion that we should have been or should be collecting sales or other taxes on our services could result in substantial tax liabilities for past sales, 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, 2013, we had federal, state, and foreign net operating loss carryforwards, or NOLs, of \$123.6 million, \$99.7 million, and \$1.8 million, respectively, available to offset future taxable income, which expire in various years through 2034 if not utilized. A lack of future taxable income would adversely affect our ability to utilize these NOLs before they expire. Under the provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, substantial changes in our ownership may limit the amount of pre-change NOLs that can be utilized annually in the future to offset taxable income. Section 382 of the Internal Revenue Code, or Section 382, imposes limitations on a company's ability to use NOLs if a company experiences a more-than-50-percent ownership change over a three-year testing period. Based upon our analysis as of December 31, 2013, there was no ownership change experienced during 2013. If changes in our ownership occur in the future, our ability to use NOLs may be further limited. For these reasons, we may not be able to utilize a material portion of the NOLs, even if we achieve profitability. If we are limited in our ability to use our NOLs in future years in which we have taxable income, we will pay more taxes than if we were able to fully utilize our NOLs. This could adversely affect our operating results and the market price of our common stock.

***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 credit or 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 information 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.



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### ***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.

### ***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 solutions are discretionary purchases, and our customers may reduce their discretionary spending on our solutions during an economic downturn. Although we have not 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 cloud backup and related services to customers. Our revenue from new foreign markets may not exceed the costs of establishing, marketing, and maintaining our international solutions, and therefore may not be profitable on a sustained basis, if at all.

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

- localization of our solutions, including translation into foreign languages and adaptation for local practices and regulatory requirements;
- lack of experience in other geographic markets;
- strong local competitors;
- cost and burden of complying with, lack of familiarity with, and unexpected changes in foreign legal and regulatory requirements, including consumer and data privacy laws;
- difficulties in managing and staffing international operations;
- 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;

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- dependence on third parties, including channel partners with whom we do not have extensive experience;
- compliance with the Foreign Corrupt Practices Act, economic sanction laws and regulations, export controls, and other U.S. laws and regulations regarding international business operations;
- increased financial accounting and reporting burdens and complexities;
- political, social, and economic instability abroad, terrorist attacks, and security concerns in general; and
- reduced or varied protection for intellectual property rights in some countries.

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

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

### 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 their 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 cloud backup storage services, and the other companies' products or services, infringe certain of Oasis Research's patents. Oasis Research sought an award for damages in an unspecified amount. A trial was

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held in March 2013 and a jury verdict was returned against Oasis Research that found all of the asserted patents invalid. The court has not yet entered a judgment against Oasis Research and the parties are awaiting decision on certain post-trial motions. We are not able to assess with certainty the outcome of this lawsuit or the amount or range of potential damages or future payments associated with this lawsuit 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.

***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 is a registered trademark in the U.S. and in over 30 other countries, including countries in the European Union. Carbonite also has additional registrations and/or pending applications for additional marks in the U.S. and/or other countries, including but not limited to “Carbonite The Better Backup Plan”, Green Dot Logo, “Back it up. Get it back”, “Because Your Life is On Your Computer” Logo, Carbonite and the Green Dot Logo, Carbonite Lock 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 currently have four issued patents and 18 pending patent applications in the U.S. and internationally. 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 that we take will be adequate to protect our technologies and intellectual property, that our trademark and patent applications will lead to registered trademarks or issued patents, that others will not develop or patent similar or superior technologies, 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 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. 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

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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.

***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

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equivalent technology is either developed by us, or, if available from others, is identified, obtained, and integrated, which delay could harm our business. Any errors or defects in third-party software could result in errors or a failure of our solutions, which could harm our business.

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

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

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### 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 share, and our common stock has subsequently traded as high as \$21.10 and as low as \$5.75. 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 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 cloud backup market or our solutions;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- sales of our shares of common stock by our existing stockholders; 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, financial condition, and operating results. In addition, recent fluctuations in the financial and capital markets have resulted in volatility in securities prices.

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***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 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 and 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.

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

If our existing stockholders sell, or indicate an intent to sell, a substantial number of shares of our common stock in the public market, the trading price of our common stock could decline significantly. A large portion of our outstanding shares of common stock is held by our directors, executive officers, and holders of more than 5% of our common stock, or their respective affiliates. Two of our largest shareholders are venture capital funds, which are typically structured to have a finite life. As these venture capital funds approach or pass the respective terms of their funds, their decision to sell or hold our common stock may be based not only on the underlying investment merits of our securities but also on the requirements of their internal fund structure. Additionally, our directors, executive officers, and holders of more than 5% of our common stock, and their respective affiliates beneficially own approximately 18.0 million shares of our common stock, which represents 68% of our issued



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and outstanding shares of common stock as of December 31, 2013. If these shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our common stock could decline substantially.

***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, beneficially 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, consolidation, or sale of all or substantially all of our assets. In addition, these stockholders, acting together, 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 securities 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 remaining net proceeds from our 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 these proceeds to acquire, invest in, or obtain rights to complementary technologies, solutions, or businesses. Until we use these proceeds from our 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 remaining net proceeds from our 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.



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

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 certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

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### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

### ITEM 2. PROPERTIES

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. We also maintain a small office in Sunnyvale, California.

Our data centers are located at two facilities in Massachusetts and two facilities in Arizona. Our Wakefield, Massachusetts and two Arizona data center leases expire between September 2015 and April 2018 and our Somerville, Massachusetts separate data hosting arrangement is cancellable by us upon 120 days' notice.

### 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 cloud backup storage services, and the other companies' products or services, infringe certain of Oasis Research's patents. Oasis Research sought an award for damages in an unspecified amount. A trial was held in March 2013 and a jury verdict was returned against Oasis Research that found all of the asserted patents invalid. The court has not yet entered a judgment against Oasis Research and the parties are awaiting decision on certain post-trial motions. We are not able to assess with certainty the outcome of this lawsuit or the amount or range of potential damages or future payments associated with this lawsuit at this time.

While we intend to defend ourselves and prosecute our counterclaims vigorously, any litigation is subject to inherent uncertainties, and there can be no assurance that the expenses associated with defending these lawsuits or their resolution will not have a material adverse impact on our business, operations, financial condition, or cash flows. In addition to this 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 is traded on The NASDAQ Global Market under the symbol "CARB." The following table shows the high and low sale prices per share of our common stock as reported on The NASDAQ Global Market for the periods indicated:

	2013		2012	
	High	Low	High	Low
First Quarter	\$11.03	\$ 9.12	\$11.69	\$7.90
Second Quarter	\$13.50	\$ 9.54	\$11.70	\$6.74
Third Quarter	\$16.50	\$12.15	\$10.14	\$5.78
Fourth Quarter	\$16.02	\$10.11	\$10.12	\$5.75

On February 28, 2014, the closing price as reported on The NASDAQ Global Market, of our common stock was \$10.16 per share. As of February 28, 2014, we had approximately 45 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, 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 that our board of directors may deem relevant.

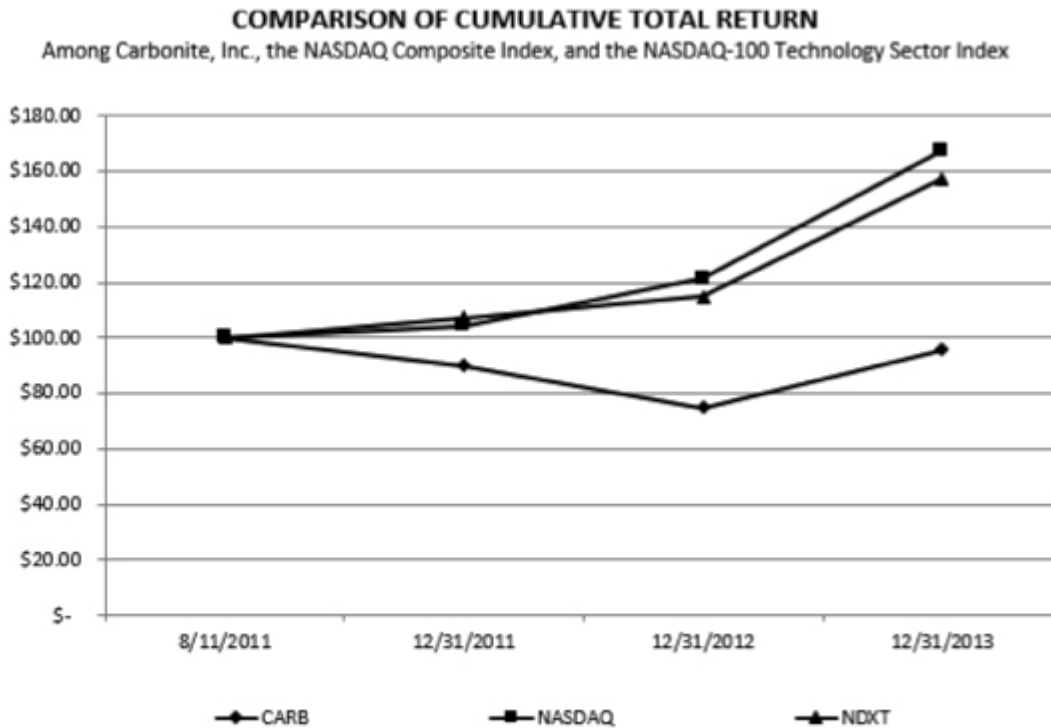
Our equity plan information required by this item is incorporated by reference to the information in Part III, Item 12 of this Annual Report on Form 10-K.

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### 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, 2013, 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.



*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

There were no unregistered sales of our equity securities during the twelve months ended December 31, 2013.

### 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

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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 a 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.

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### 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, 2013, 2012, and 2011 and the consolidated balance sheets data as of December 31, 2013 and 2012 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, 2010 and 2009 and the consolidated balance sheets data as of December 31, 2011, 2010 and 2009 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.

	Years Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except share and per share data)				
<b>Consolidated statements of operations data:</b>					
Revenue	\$ 107,194	\$ 84,043	\$ 60,512	\$ 38,563	\$ 19,114
Cost of revenue (1)	34,881	29,060	23,202	16,284	8,954
Gross profit	72,313	54,983	37,310	22,279	10,160
Operating expenses (1):					
Research and development	20,919	19,925	16,511	10,868	6,210
General and administrative	14,275	9,928	6,631	4,209	2,485
Sales and marketing	47,349	42,719	37,722	33,098	21,067
Restructuring charges	322	1,345	—	—	—
Total operating expenses	82,865	73,917	60,864	48,175	29,762
Loss from operations	(10,552)	(18,934)	(23,554)	(25,896)	(19,602)
Interest and other income (expense), net	2	38	41	133	377
Loss before income taxes	(10,550)	(18,896)	(23,513)	(25,763)	(19,225)
Provision for income taxes	(55)	(40)	(23)	—	—
Net loss	(10,605)	(18,936)	(23,536)	(25,763)	(19,225)
Accretion of redeemable convertible preferred stock	—	—	(128)	(210)	(210)
Net loss attributable to common stockholders	<u>\$ (10,605)</u>	<u>\$ (18,936)</u>	<u>\$ (23,664)</u>	<u>\$ (25,973)</u>	<u>\$ (19,435)</u>
Basic and diluted net loss per share attributable to common stockholders	<u>\$ (0.41)</u>	<u>\$ (0.74)</u>	<u>\$ (1.84)</u>	<u>\$ (5.90)</u>	<u>\$ (4.78)</u>
Weighted-average number of common shares used in computing basic and diluted net loss per share	26,166,554	25,503,068	12,841,233	4,399,137	4,065,230

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

	Years Ended December 31,				
	2013	2012	2011 (in thousands)	2010	2009
Cost of revenue	\$ 508	\$ 440	\$207	\$ 45	\$ 35
Research and development	955	1,199	511	171	88
General and administrative	2,250	1,579	346	227	188
Sales and marketing	1,064	913	381	99	79

	As of December 31,				
	2013	2012	2011 (in thousands)	2010	2009
<b>Consolidated balance sheet data:</b>					
Cash	\$ 50,392	\$ 40,341	\$59,842	\$ 13,855	\$ 28,276
Working capital (deficit)	(11,080)	(11,685)	18,838	(12,381)	12,595
Total assets	109,161	100,925	99,606	40,941	46,433
Deferred revenue, including current portion	84,000	75,206	59,696	38,722	23,144
Total liabilities	96,340	86,994	72,004	47,834	29,149
Preferred stock warrant liability	—	—	—	82	18
Redeemable and convertible stock	—	—	—	68,730	67,770
Total stockholders' equity (deficit)	12,821	13,931	27,602	(75,623)	(50,486)

	Years Ended December 31,				
	2013	2012	2011 (in thousands, except percentage data)	2010	2009
<b>Key metrics:</b>					
Total customers (1)	1,513	1,431	1,223	951	590
Annual retention rate (2)	84%	84%	82%	83%	79%
Renewal rate (3)	80%	82%	82%	81%	78%
Bookings (4)	\$115,988	\$98,488	\$80,900	\$ 54,141	\$32,857
Free cash flow (5)	\$ 5,974	\$ (4,065)	\$ (5,972)	\$(12,204)	\$(8,045)

- (1) We define total customers as the number of paid Carbonite subscriptions at the end of the relevant period.
- (2) 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.
- (3) 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.
- (4) 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.
- (5) We define free cash flow as net cash provided by (used in) operating activities, less capital expenditures, and adjusted for the cash portion of the lease exit charge.

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.

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Our management uses bookings as a proxy for cash receipts. Bookings represent 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 do 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,				
	2013	2012	2011 (in thousands)	2010	2009
Revenue	\$107,194	\$84,043	\$60,512	\$38,563	\$19,114
Add change in deferred revenue (excluding acquisition)	8,794	14,445	20,388	15,578	13,743
Bookings	<u>\$115,988</u>	<u>\$98,488</u>	<u>\$80,900</u>	<u>\$54,141</u>	<u>\$32,857</u>

	Years Ended December 31,				
	2013	2012	2011 (in thousands)	2010	2009
Cash provided by (used in) operating activities	\$14,625	\$ 9,195	\$ 7,572	\$ (1,552)	\$ (946)
Add cash portion of lease exit charge	1,150	157	—	—	—
Subtract capital expenditures	(9,801)	(13,417)	(13,544)	(10,652)	(7,099)
Free cash flow	<u>\$ 5,974</u>	<u>\$ (4,065)</u>	<u>\$ (5,972)</u>	<u>\$(12,204)</u>	<u>\$(8,045)</u>



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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and related notes appearing elsewhere in this Annual Report 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 provide easy-to-use, affordable, and secure cloud backup solutions with anytime, anywhere access to files stored on our servers for small businesses and consumers primarily in the U.S.

In 2005, we began development of our cloud backup solution and raised our first capital from investors. We sold the first Carbonite subscription in 2006. In 2010, we introduced our small business solution and expanded our management team to better focus on our small business and consumer 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, 2013, we had subscribers in more than 100 countries, with subscribers based in the U.S. representing approximately 94% of our total revenue for 2013.

In October 2012, we acquired Zmanda, Inc. for \$13.4 million, net of cash acquired. We believe that this acquisition has enhanced our small business solutions with the ability to backup databases and file systems to the cloud, and enables small businesses to obtain all of the backup solutions that they need from one vendor.

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. Our total advertising expense in 2013, 2012, and 2011 was \$25.2 million, \$24.1 million, and \$25.1 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. We currently have a distribution strategy designed to sell large volumes of our solutions through our sales channel relationships including resellers.

As we grow our business we continue to invest in additional storage and infrastructure. Our capital expenditures in 2013, 2012, and 2011 were \$9.8 million, \$13.4 million, and \$13.5 million, respectively.

Our revenue has grown from \$60.5 million in 2011 to \$84.0 million in 2012 and \$107.2 million in 2013. At the same time, our total operating costs have grown from \$60.9 million in 2011 to \$73.9 million in 2012 and \$82.9 million in 2013, principally as a result of our investment in customer acquisition and research and development. We expect to continue to devote substantial resources to customer acquisition, improving our technologies, and expanding our solutions. In 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.

#### Our Business Model

We evaluate the profitability of a customer relationship over its lifecycle because of the nature of our business model. We generally incur customer acquisition costs and capital equipment costs in advance of subscriptions while recognizing revenue ratably over the terms of the subscriptions. As a result, a customer relationship may not be profitable or result in positive cash flow at the beginning of the subscription period, even though it may be profitable or result in positive cash flow over the life of the customer relationship. While we

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offer both annual and multi-year subscription plans, a significant majority of our customers are currently on annual subscription plans. The annual or multi-year commitments of our customers enhance our visibility into future revenue, and charging customers at the beginning of the subscription period provides working capital. 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 Carbonite subscriptions at the end of the relevant period. Each small business subscription covers all computers, servers, and databases of the small business entity; therefore, a small business with multiple computers, servers, or databases may have only one subscription. Each consumer subscription covers a single computer; therefore, a consumer with multiple computers would have multiple subscriptions.
- *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. Our management uses these measures to determine the stability of our customer base and to evaluate the lifetime value of our customer relationships.
- *Renewal rate.* We define renewal rate for a period as the percentage of customers who renew annual or multi-year subscriptions that expire during the period presented. Our management uses this measure to monitor trends in customer renewal activity.
- *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 represent 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 the cash portion of the lease exit charge. Our management uses this measure to evaluate our operating results.

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,		
	2013	2012	2011
	(in thousands, except percentage data)		
<b>Key metrics:</b>			
Total customers	1,513	1,431	1,223
Annual retention rate	84%	84%	82%
Renewal rate	80%	82%	82%
Bookings	\$115,988	\$98,488	\$80,900
Free cash flow	\$ 5,974	\$ (4,065)	\$ (5,972)

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Our total customers and bookings increased over the periods presented and we continue to invest in customer acquisition in an effort to drive continued growth in total customers and bookings, with bookings for our small business solutions representing 27% of total bookings for the year ended December 2013, up from 19% in the year ended December 31, 2012. 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.

Free cash flow for the year ended December 31, 2013 improved by \$10.0 million, and \$11.9 million compared to the years ended December 31, 2012, and December 31, 2011, respectively. Our free cash flow over the periods presented has improved due to improved management of our working capital accounts, reduced purchases of property and equipment, higher per customer profitability associated with consistently strong renewal rates, and increased efficiencies in our business model.

### **Key Components of our Consolidated Statements of Operations**

#### *Revenue*

We derive our revenue principally from subscription fees related to our service solutions. 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, amortization of developed technology, 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. On a per customer basis, our costs have been decreasing as we purchase equipment and services in larger quantities and our customer support personnel become more efficient in supporting our customers. We have also experienced a downward trend in the cost of storage equipment and broadband service, which we expect will continue in the future. We expect these expenses to increase in absolute dollars as we continue to increase our number of customers, but decrease as a percentage of revenue due to increased efficiencies in supporting customers.

#### *Gross profit and gross margin*

Our gross margins have expanded due to price increases for our consumer solutions, the introduction of higher priced solutions targeting both small businesses and consumers, a downward trend in the cost of storage equipment and services, and efficiencies of our customer support personnel in supporting our customers. We expect these trends to continue.

#### *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 solutions and developing new solutions. The majority of our research and development employees are located at our corporate headquarters in the U.S. We expect that research and development expenses will increase in absolute dollars on an annual basis as we continue to enhance and expand our services, but decrease as a percentage of revenue over time, as we expect to grow our revenue at a faster rate.

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*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 that general and administrative expenses will increase in absolute dollars on an annual basis as we continue to add personnel and enhance our internal information systems in connection with the anticipated growth of our business and incur costs related to operating as a public company.

*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, online, 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 may 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 solutions. 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, as we expect to grow our revenue at a faster rate.

*Restructuring charges* . Restructuring charges consist of costs associated with the March 2012 closure of our Boston, Massachusetts data center and moving expenses to relocate equipment formerly hosted in that facility and the charges incurred related to the restructuring of our Carbonite China operations, which are now dormant. See *Note 13—Restructuring* to our financial statements included elsewhere in this Annual Report on Form 10-K for additional information.

### 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 are summarized below.

See *Note 2—Summary of Significant Accounting Policies* 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 cloud 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 our services 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 of service 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.

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### *Business Combinations*

In accordance with ASC 805, *Business Combinations*, we allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. Determining these fair values requires management to make significant estimates and assumptions, especially with respect to intangible assets.

The fair value of identifiable intangible assets is based on detailed valuations that use information and assumptions provided by management, which reflect management's best estimates of inputs and assumptions that a market participant would use. Our identifiable intangible assets acquired consist of developed technology, customer relationships, tradenames, and non-compete agreements. Developed technology consists of products that have reached technological feasibility and tradenames represent acquired company and product names. Customer relationships represent the underlying relationships and agreements with customers of the acquired company's installed base. Non-compete agreements represent the protection against the loss of business and resultant cash flows from direct competition. We estimate the useful lives of our intangible assets based upon the expected period over which we anticipate generating economic benefits from the related intangible asset.

### *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. Our estimates of fair value are based upon assumptions believed to be reasonable at that time, but that are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events or circumstances may occur, that may affect the accuracy or validity of such assumptions, estimates or actual results. 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 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. To date, we have not identified any impairment to goodwill.

Intangible assets acquired in a business combination are recorded at their estimated fair values at the date of acquisition. We amortize acquired intangible assets over their estimated useful lives based on the pattern of consumption of the economic benefits or, if that pattern cannot be readily determined, on a straight-line basis. We review our intangible assets with definite lives for impairment when events or changes in circumstances indicate that the carrying amount of any of these assets may not be recoverable. We have not identified any impairment of our long-lived assets as of December 31, 2013, 2012, and 2011.

### *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 11—Income Taxes* 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

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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 an annual basis, and our assessment at December 31, 2013 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.

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.

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### Results of Operations

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

	Years Ended December 31,		
	2013	2012	2011
	(% of revenue)		
<b>Consolidated statements of operations data:</b>			
Revenue	100%	100%	100%
Cost of revenue	32.5	34.6	38.3
Gross profit	67.5	65.4	61.7
Operating expenses:			
Research and development	19.5	23.7	27.3
General and administrative	13.3	11.8	11.0
Sales and marketing	44.2	50.8	62.3
Restructuring charges	0.3	1.6	—
Total operating expenses	77.3	87.9	100.6
Loss from operations	(9.8)	(22.5)	(38.9)
Interest and other income (expense), net	—	—	—
Loss before income taxes	(9.8)	(22.5)	(38.9)
Provision for income taxes	(0.1)	—	—
Net loss	(9.9)%	(22.5)%	(38.9)%

### Comparison of Years Ended December 31, 2013, 2012, and 2011

#### Revenue

	Years Ended December 31,			2012 to 2013 % Change	2011 to 2012 % Change
	2013	2012	2011		
	(in thousands, except percentage data)				
Revenue	\$ 107,194	\$ 84,043	\$ 60,512	27.5%	38.9%

Revenue increased by \$23.2 million in 2013 and by \$23.5 million in 2012, primarily due to increases in the average selling prices for our small business and consumer solutions and also due to a 5.7%, and 17.0% increase in the number of total customers in 2013 and 2012, respectively. Revenue from our small business solutions was approximately \$21.4 million in 2013 compared to \$12.0 million in 2012.

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

	Years Ended December 31,			2012 to 2013 % Change	2011 to 2012 % Change
	2013	2012	2011		
	(in thousands, except percentage data)				
Cost of revenue	\$ 34,881	\$ 29,060	\$ 23,202	20.0%	25.2%
Percent of revenue	32.5%	34.6%	38.3%		
Components of cost of revenue:					
Personnel related costs	\$ 10,766	\$ 8,666	\$ 6,094	24.2%	42.2%
Hosting and depreciation costs	20,555	18,463	14,627	11.3%	26.2%
Software, amortization and other	3,560	1,931	2,481	84.4%	(22.2)%
Total cost of revenue	\$ 34,881	\$ 29,060	\$ 23,202	20.0%	25.2%
Gross profit	\$ 72,313	\$ 54,983	\$ 37,310	31.5%	47.4%
Gross margin	67.5%	65.4%	61.7%		



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Cost of revenue increased by \$5.8 million in 2013 and by \$5.9 million in 2012, primarily due to an increase in the total number of customers. The increase in cost of revenue in 2013 was comprised primarily of personnel costs of \$2.1 million related to an increase in customer support and operations employees, hosting costs of \$2.1 million related to rent, utilities, and depreciation of equipment, and software and amortization costs of \$1.6 million related to investments in our customer support organization to support our growth as well as additional amortization expense related to our Zmanda, Inc. acquisition. The increase in cost of revenue in 2012 was comprised primarily of hosting costs of \$3.8 million related to depreciation of equipment and increases in our data storage capacity, and \$2.6 million of personnel related costs related to our increase of operations and customer support employees, partially offset by lower third-party outsourcing costs as a result of having replaced our outsourced support in India during 2011. Gross margin improvement continues to be driven by sales growth in higher margin small business products coupled with lower storage costs and operating efficiencies realized in our data centers.

### Operating expenses

#### Research and development

	Years Ended December 31,			2012 to 2013 % Change	2011 to 2012 % Change
	2013	2012	2011		
	(in thousands, except percentage data)				
Research and development	\$ 20,919	\$ 19,925	\$ 16,511	5.0%	20.7%
Percent of revenue	19.5%	23.7%	27.3%		
Components of research and development:					
Personnel related costs	\$ 16,275	\$ 15,974	\$ 12,839	1.9%	24.4%
Third-party outsourcing costs	1,885	1,270	1,302	48.4%	(2.5)%
Hosting, independent contractors and other	2,759	2,681	2,370	2.9%	13.1%
Total research and development	\$ 20,919	\$ 19,925	\$ 16,511	5.0%	20.7%

Research and development expenses increased by \$1.0 million in 2013, primarily driven by higher outsourced development costs intended to improve the ease of use and functionality of our existing solutions and the development of new small business offerings and by \$3.4 million in 2012, 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

	Years Ended December 31,			2012 to 2013 % Change	2011 to 2012 % Change
	2013	2012	2011		
	(in thousands, except percentage data)				
General and administrative	\$ 14,275	\$ 9,928	\$ 6,631	43.8%	49.7%
Percent of revenue	13.3%	11.8%	11.0%		
Components of general and administrative:					
Personnel related costs	\$ 7,413	\$ 4,672	\$ 2,765	58.7%	69.0%
Professional fees	4,365	4,001	3,089	9.1%	29.5%
Sales tax, consulting and other	2,497	1,255	777	99.0%	61.5%
Total general and administrative	\$ 14,275	\$ 9,928	\$ 6,631	43.8%	49.7%

General and administrative expenses increased by \$4.3 million in 2013 and by \$3.3 million in 2012. In each year, we increased the number of general and administrative employees to support our overall growth, resulting in \$2.7 million and \$1.9 million increases in personnel related and recruiting costs in 2013 and 2012, respectively. Also contributing to the increase in 2013 was \$0.5 million related to a sales tax accrual for uncollected sales tax. The increase in 2012 was also driven by a \$0.9 million increase in professional fees, including legal, accounting, and insurance fees.

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### Sales and marketing

	Years Ended December 31,			2012 to 2013 % Change	2011 to 2012 % Change
	2013	2012	2011		
	(in thousands, except percentage data)				
Sales and marketing	\$ 47,349	\$ 42,719	\$ 37,722	10.8%	13.2%
Percent of revenue	44.2%	50.8%	62.3%		
Components of sales and marketing:					
Personnel related costs	\$ 8,961	\$ 6,550	\$ 4,388	36.8%	49.3%
Advertising costs	25,197	24,019	25,078	4.9%	(4.2)%
Costs of credit card transactions and offering free trials	5,538	5,429	4,613	2.0%	17.7%
Outside commissions, agency fees and other	7,653	6,721	3,643	13.9%	84.5%
Total sales and marketing	\$ 47,349	\$ 42,719	\$ 37,722	10.8%	13.2%

Sales and marketing expenses increased by \$4.6 million in 2013 and \$5.0 million in 2012. The increase in 2013 was attributable to an increase of personnel related costs of \$2.4 million associated with increased headcount on our sales team, \$1.2 million in advertising costs aimed at customer acquisition, and \$0.9 million related to the new website design. The increase in 2012 was attributable to an increase of \$2.2 million in personnel related costs, \$3.1 million of marketing expenses comprised of platform and infrastructure expenses, design and productions, and agency fees, as well as an increase in costs related to free trials of \$0.8 million partially offset by a decrease in advertising costs of \$1.1 million.

### Restructuring

	Years Ended December 31,			2012 to 2013 % Change	2011 to 2012 % Change
	2013	2012	2011		
	(in thousands, except percentage data)				
Restructuring	\$ 322	\$ 1,345	\$ —	(76.1)%	100.0%
Percent of revenue	0.3%	1.6%	—		

We recorded restructuring charges of \$0.1 million during 2013 pertaining to the restructuring of our China operations, which are now dormant. The charge primarily related to the termination of our Beijing, China lease and associated legal and accounting fees. We recorded an additional \$0.2 million of restructuring charges in 2013 related to a change in the estimate of our lease exit charge for our former Boston, Massachusetts data center. The increase of \$1.3 million in 2012 was attributable to the March 2012 closure of our Boston, Massachusetts data center and the relocation of the equipment formerly hosted in that facility of \$1.1 million and the December 2012 personnel related restructuring of our operations in China of \$0.2 million. See *Note 13—Restructuring* to our financial statements included elsewhere in this Annual Report on Form 10-K for additional information.

### Liquidity and Capital Resources

As of December 31, 2013, we had cash and cash equivalents of \$50.4 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. We also have access to our \$25 million revolving credit facility, described below.

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### Source of funds

We believe, based on our current operating plan, that our existing cash and cash equivalents, marketable securities, cash provided by operations, 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 solutions, 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.

### 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.

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 provides a summary and description of our net cash inflows (outflow) for 2013, 2012, and 2011.

	Years Ended December 31,		
	2013	2012 (in thousands)	2011
Net cash provided by operating activities	\$14,625	\$ 9,195	\$ 7,572
Net cash used in investing activities	(9,297)	(29,802)	(18,187)
Net cash provided by financing activities	4,728	1,102	56,600

### 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 amortization, and stock-based compensation expense.

In 2013, cash provided by operating activities was \$14.6 million, which was primarily driven by an \$8.8 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 \$17.4 million, including \$12.6 million of

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depreciation and amortization, and \$4.8 million of stock-based compensation. These cash inflows were partially offset by our net loss of \$10.6 million and a \$0.6 million increase in prepaid expenses and other current assets.

In 2012, cash provided by operating activities was \$9.2 million, which was primarily driven by a \$14.4 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 \$16.3 million, including \$10.8 million of depreciation and amortization and \$4.1 million of stock-based compensation. These cash inflows were partially offset by our net loss of \$18.9 million, a decrease in accounts payable and accrued expenses of \$1.8 million, and a \$0.6 million increase in prepaid expenses and other current assets.

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 million 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.

### *Investing activities*

In 2013, cash used in investing activities was \$9.3 million, consisting primarily of capital expenditures of \$9.8 million, for server equipment and other data center infrastructure, partially offset by the release of \$0.5 million of restricted cash as a result of the settlement of a dispute.

In 2012, cash used in investing activities was \$29.8 million, consisting primarily of capital expenditures of \$13.4 million primarily for server equipment and other data center infrastructure, an increase in restricted cash of \$0.5 million, and the use of \$13.4 million, net of cash acquired, in connection with the acquisition of Zmanda, Inc. In addition, purchases and maturities of marketable securities netted to a \$2.5 million use of cash.

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 marketable securities netted to a \$2.7 million use of cash.

### *Financing activities*

Cash provided by financing activities in 2013 was \$4.7 million from the proceeds from the exercise of stock options.

Cash provided by financing activities in 2012 was \$1.1 million from the proceeds from the exercise of stock options.

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 proceeds from the exercise of stock options.

## Debt

### *Revolving Credit Facility*

In the third quarter of 2013, we amended and renewed our \$25 million revolving bank credit facility in order to extend the term of the facility through September 30, 2014. 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 0.25%. We have pledged our accounts receivable, equipment, and shares of our subsidiaries to the lender to collateralize 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

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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 current ratio, a minimum number of total subscribers, and a restriction as to where we may hold the majority of our cash and investments. 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.

### Equity

During 2013, 2012, and 2011, we received approximately \$4.7 million, \$1.1 million and \$1.0 million, respectively, in proceeds from stock issuances related to our stock option plan. Proceeds from the exercise of employee stock options vary from period to period based upon, among other factors, fluctuation in the trading price of our common stock and in the exercise and stock purchase patterns of employees.

Our 2011 Equity Award Plan (the 2011 Plan) provides for the issuance of stock options, restricted stock, and other stock-based awards to our employees, officers, directors, and consultants and those of our subsidiaries. In connection with the approval of the 2011 Plan, we reserved 1,662,000 shares of common stock for issuance thereunder. On January 1<sup>st</sup> 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 a lesser amount determined by our board of directors.

Stock-based compensation expense related to stock equity compensation plans was \$4.8 million in 2013, \$4.1 million in 2012, and \$1.5 million in 2011. Stock-based compensation expense varies from period to period based upon, among other factors: the timing, number and fair value of awards granted during the period, and forfeiture levels related to unvested awards.

### **Off-balance sheet arrangements**

As of December 31, 2013, we did not have any off-balance sheet arrangements.

### **Contractual obligations**

The following table summarizes our contractual obligations at December 31, 2013 and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

	<u>Payment Due by Period</u>			
	<u>Total</u>	<u>Less Than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>
		<u>(in thousands)</u>		
Office lease obligations	\$ 4,359	\$1,582	\$ 2,708	\$ 69
Hosting facility lease obligations	6,434	2,158	3,255	1,021
Other purchase commitments	7,946	5,830	1,854	262
Total	\$18,739	\$9,570	\$ 7,817	\$ 1,352

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

We also lease small amounts of general office space in Sunnyvale, California.

Our Lewiston, Maine support facility lease expires on June 1, 2016. We may terminate this lease at any time. 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.

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The commitment under our hosting facility obligations shown above consists of Somerville, Massachusetts, Wakefield, Massachusetts, Phoenix, Arizona, and Chandler, Arizona data centers.

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

### Recent Accounting Pronouncements

Effective January 1, 2012, we adopted 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 adoption of this guidance did not have an effect on our consolidated financial statements.

Effective January 1, 2012, we adopted ASU No. 2011-05, *Presentation of Comprehensive Income*. Under this guidance, we 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. We elected to present comprehensive income using 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. 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, adoption did not have an effect on our consolidated financial statements.

### 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.

#### *Interest Rate Fluctuation Risk*

Our cash consists of interest bearing bank accounts. We did not have long-term borrowings as of December 31, 2013. 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 equivalents and marketable securities 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 0.25%, we would be exposed to interest rate fluctuations.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Carbonite, Inc.**

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**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. as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, redeemable and convertible preferred stock and stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2013. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles .

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Carbonite Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 5, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts  
March 5, 2014

**Carbonite, Inc.**  
**Consolidated Balance Sheets**

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
	(In thousands, except share and per share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 50,392	\$ 40,341
Marketable securities	14,994	14,990
Trade accounts receivable, less allowances for doubtful accounts \$69	1,876	1,549
Prepaid expenses and other current assets	3,122	2,369
Restricted cash	—	500
Total current assets	70,384	59,749
Property and equipment, net	22,111	24,622
Other assets	1,177	147
Acquired intangible assets, net	3,953	4,871
Goodwill	11,536	11,536
Total assets	\$ 109,161	\$ 100,925
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,810	\$ 6,247
Accrued expenses	8,156	5,068
Current portion of deferred revenue	69,498	60,119
Total current liabilities	81,464	71,434
Deferred revenue, net of current portion	14,502	15,087
Other long-term liabilities	374	473
Total liabilities	96,340	86,994
Commitments and contingencies ( <i>Note 12</i> )		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 6,000,000 shares authorized; no shares issued	—	—
Common stock, \$0.01 par value; 45,000,000 shares authorized at December 31, 2013 and 2012; 26,539,975 and 25,806,123 shares outstanding at December 31, 2013 and 2012, respectively	265	258
Additional paid-in capital	142,557	133,059
Accumulated deficit	(129,978)	(119,373)
Treasury stock, at cost (2,009 shares)	(22)	(22)
Accumulated other comprehensive income	(1)	9
Total stockholders' equity	12,821	13,931
Total liabilities and stockholders' equity	\$ 109,161	\$ 100,925

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

**Carbonite, Inc.**  
**Consolidated Statements of Operations**

	Years Ended December 31,		
	2013	2012	2011
	(In thousands, except share and per share data)		
Revenue	\$ 107,194	\$ 84,043	\$ 60,512
Cost of revenue	34,881	29,060	23,202
Gross profit	72,313	54,983	37,310
Operating expenses:			
Research and development	20,919	19,925	16,511
General and administrative	14,275	9,928	6,631
Sales and marketing	47,349	42,719	37,722
Restructuring charges	322	1,345	—
Total operating expenses	82,865	73,917	60,864
Loss from operations	(10,552)	(18,934)	(23,554)
Interest and other income, net	2	38	41
Loss before income taxes	(10,550)	(18,896)	(23,513)
Provision for income taxes	(55)	(40)	(23)
Net loss	(10,605)	(18,936)	(23,536)
Accretion of redeemable convertible preferred stock	—	—	(128)
Net loss attributable to common stockholders	\$ (10,605)	\$ (18,936)	\$ (23,664)
Basic and diluted net loss per share attributable to common stockholders	\$ (0.41)	\$ (0.74)	\$ (1.84)
Weighted-average number of common shares used in computing basic and diluted net loss per share	26,166,554	25,503,068	12,841,233

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

**Carbonite, Inc.**  
**Consolidated Statements of Comprehensive Loss**

	<u>Years Ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net loss	\$(10,605)	\$(18,936)	\$(23,536)
Other comprehensive income:		(In thousands)	
Net unrealized gain (loss) on marketable securities	(5)	2	(2)
Foreign currency translation adjustments	(5)	4	2
Total other comprehensive income (loss)	(10)	6	—
Total comprehensive loss	<u>\$(10,615)</u>	<u>\$(18,930)</u>	<u>\$(23,536)</u>

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



2012	25,806,123	258	\$ 133,059	\$ (119,373)	\$ (22)	\$ 9	13,931
Issuance of common stock in connection with stock option exercises	724,327	7	4,721				4,728
Issuance of common stock in connection with exercise of warrant	9,525	—	—				—
Stock-based compensation expense			4,777				4,777
Other comprehensive income						(10)	(10)
Net loss				(10,605)			(10,605)
Balance at December 31, 2013	<u>26,539,975</u>	<u>265</u>	<u>\$ 142,557</u>	<u>\$ (129,978)</u>	<u>\$ (22)</u>	<u>\$ (1)</u>	<u>12,821</u>

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

**Carbonite, Inc.**  
**Consolidated Statements of Cash Flows**

	<b>Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	(In thousands)		
<b>Operating activities</b>			
Net loss	\$(10,605)	\$(18,936)	\$(23,536)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	12,590	10,799	7,870
Gain (loss) on disposal of equipment	63	(41)	—
Amortization (accretion) of premium (discount) on marketable securities	(13)	158	40
Stock-based compensation expense	4,777	4,131	1,445
Provision for (reduction of) reserves on accounts receivable	(24)	73	(2)
Non-cash restructuring charges	—	1,145	—
Re-measurement of preferred stock warrant liability	—	—	(8)
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	(303)	(332)	(298)
Prepaid expenses and other current assets	(586)	(575)	(1,186)
Other assets	(947)	42	(112)
Accounts payable	(1,395)	(611)	1,935
Accrued expenses	2,373	(1,151)	833
Other long-term liabilities	(99)	48	203
Deferred revenue	8,794	14,445	20,388
Net cash provided by (used in) operating activities	<u>14,625</u>	<u>9,195</u>	<u>7,572</u>
<b>Investing activities</b>			
Purchases of property and equipment	(9,801)	(13,417)	(13,544)
Proceeds from maturities of marketable securities	10,254	13,704	10,000
Purchases of marketable securities	(10,250)	(16,197)	(12,694)
Net increase in restricted cash	500	(500)	—
Payment for acquisitions, net of cash acquired	0	(13,392)	(1,949)
Net cash used in investing activities	<u>(9,297)</u>	<u>(29,802)</u>	<u>(18,187)</u>
<b>Financing activities</b>			
Proceeds from exercise of stock options	4,728	1,102	990
Proceeds from issuance of common stock in connection with initial public offering, net of offering costs	—	—	55,632
Repurchase of common stock	—	—	(22)
Net cash provided by financing activities	<u>4,728</u>	<u>1,102</u>	<u>56,600</u>
Effect of currency exchange rate changes on cash	(5)	4	2
Net increase (decrease) in cash and cash equivalents	10,051	(19,501)	45,987
Cash and cash equivalents, beginning of period	40,341	59,842	13,855
Cash and cash equivalents, end of period	<u>\$ 50,392</u>	<u>\$ 40,341</u>	<u>\$ 59,842</u>
<b>Non cash investing and financing activities</b>			
Accretion of redeemable convertible preferred stock	\$ —	\$ —	\$ 128
Acquisition of property and equipment included in accounts payable and accrued expenses	\$ 1,755	\$ 2,082	\$ 2,658
Conversion of redeemable and convertible preferred stock to common stock	\$ —	\$ —	\$ 68,858
Conversion of preferred stock warrant to common stock warrant	\$ —	\$ —	\$ 74

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



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### 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 computer backup service that enable users to backup, access, and restore data files online.

The Company views its operations and manages its business in one operating segment.

#### 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.

The Company previously consolidated a variable interest entity (VIE), Pan Sheng An Xin Internet Technology Co., Ltd., as required by Financial Accounting Standards Codification (ASC) 810-10, *Consolidation*. The VIE had limited activity for the year ended December 31, 2013. As of June 30, 2013, the Company was no longer the primary beneficiary of the operationally dormant VIE through Carbonite China, and therefore, no longer consolidates the operations as of July 1, 2013. All intercompany accounts and transactions between the Company and its subsidiaries have been eliminated in consolidation.

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 (GAAP).

##### Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP 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 subsidiaries is the local currency in which they operate. The financial statements of the Company's foreign subsidiaries are translated into U.S. dollars. The Company translates assets and liabilities at the exchange rates in effect at period-end and revenues and expenses at the average exchange rates in effect during the period. Gains and losses from foreign currency translation are recorded as a component of other comprehensive income (loss).

##### Concentration of Credit Risk

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

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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. The Company regularly reviews its accounts receivable related to customers billed on traditional credit terms and provides an allowance for expected credit losses. 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. At December 31, 2013, no customer represented 10% or more of the Company's accounts receivable balance and no customer represented 10% or more of the Company's revenue for all periods presented.

### 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 services 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 Marketable Securities

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.

Marketable securities consist of time deposits and U.S. treasury securities with maturities of more than 90 days. Investments are classified as available-for-sale and are recorded on the balance sheet at fair value with unrealized gains and losses (excluding other-than-temporary impairments) reported as a separate component of accumulated other comprehensive income (loss). Realized gains and losses and declines in value judged to be other-than-temporary are included in income based on the specific identification method. Fair value is determined based on quoted market prices. As of December 31, 2013, the total cost basis of our marketable securities was \$15.0 million.

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, 2013.

### 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

### 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

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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, 2013, 2012, and 2011.

### Business Combinations

In accordance with ASC 805, *Business Combinations*, the Company allocates the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. Determining these fair values requires management to make significant estimates and assumptions, especially with respect to intangible assets.

The fair value of identifiable intangible assets is based on detailed valuations that use information and assumptions provided by management, which consider management's best estimates of inputs and assumptions that a market participant would use. The Company's identifiable intangible assets acquired consist of developed technology, customer relationships, tradenames, and non-compete agreements. Developed technology consists of products that have reached technological feasibility and tradenames represent acquired company and product names. Customer relationships represent the underlying relationships and agreements with customers of the acquired company's installed base. Non-compete agreements represent the protection against the loss of business and resultant cash flows from direct competition. The Company estimates the useful lives of its intangible assets based upon the expected period over which the Company anticipates generating economic benefits from the related intangible asset.

### 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. The Company's estimate of fair value are based upon assumptions believed to be reasonable at that time, but that are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events or circumstances may occur, which may affect the accuracy or validity of such assumptions, estimates or actual results. 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 assessment for impairment of goodwill on an annual basis and it has determined that there is a single reporting unit for the purpose of conducting this annual goodwill impairment assessment. For purposes of assessing potential impairment, the Company estimates the fair value of the reporting unit (based on the Company's market capitalization) and compares this amount to the carrying value of the reporting unit (as reflected by the Company's total stockholders' equity). If the Company determines that the carrying value of the reporting unit exceeds its fair value, an impairment charge would be required. The Company's annual goodwill impairment test is at November 30 of each year. To date, the Company has not identified any impairment to goodwill.

Intangible assets acquired in a business combination are recorded at their estimated fair values at the date of acquisition. The Company amortizes acquired intangible assets over their estimated useful lives based on the pattern of consumption of the economic benefits or, if that pattern cannot be readily determined, on a straight-line basis, however, amounts are not less than straight-line. The Company reviews its intangible assets with definite lives for impairment when events or changes in circumstances indicate that the carrying amount of any of these assets may not be recoverable. To date, the Company has not identified any impairment of our long-lived assets.

### Software and Website Development Costs

Research and development costs are expensed as incurred and primarily include salaries, fees to consultants, and other related 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

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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, 2013, 2012, and 2011, the Company incurred approximately \$25.2 million, \$24.1 million, and \$25.1 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. The Company also maintains an allowance for sales returns and credits to customers for which the Company has the ability to estimate based upon historical experience. The allowance is recorded as a reduction in revenue.

### 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.

### 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 for awards expected to vest over the requisite service period of those awards. 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, risk-free interest rate, and expected dividend yield. The grant date fair value of restricted stock units granted is based on the fair value of the underlying common stock on the date of grant.

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### Costs Associated with Exit Activities

The Company accounts for employee termination benefits that represent a one-time benefit in accordance with ASC Topic 420, *Exit or Disposal Cost Obligations*. Other costs associated with exit activities may include contract termination costs, including costs related to leased facilities to be abandoned or subleased, and impairments of long-lived assets, and are expensed in accordance with ASC Topic 420 and ASC Topic 360, *Property, Plant, and Equipment*.

### Recently Issued and Adopted Accounting Standards

Effective January 1, 2012, the Company adopted 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 adoption of this guidance did not have an effect on the Company’s consolidated financial statements.

Effective January 1, 2012, the Company adopted ASU No. 2011-05, *Presentation of Comprehensive Income*. Under this guidance, the Company 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. The Company elected to present comprehensive income using 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. 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, adoption did not have an effect on the Company’s consolidated financial statements.

### 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’s redeemable and convertible preferred stock outstanding for 2011 are participating securities as defined by ASC 260-10, *Earnings Per Share*, but are excluded from the earnings per share calculation as they did 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):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net loss	\$(10,605)	\$(18,936)	\$(23,536)
Accretion of redeemable convertible preferred stock	—	—	(128)
Net loss attributable to common stockholders	<u>\$(10,605)</u>	<u>\$(18,936)</u>	<u>\$(23,664)</u>
Weighted-average number of shares of common stock, basic and diluted	<u>26,167</u>	<u>25,503</u>	<u>12,841</u>
Net loss per share attributable to common stockholders, basic and diluted	<u>\$ (0.41)</u>	<u>\$ (0.74)</u>	<u>\$ (1.84)</u>

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The following potentially dilutive common stock equivalents have been excluded from the computation of diluted weighted-average shares outstanding as of December 31, 2013, 2012, and 2011 as they would be anti-dilutive due to the Company's net losses (in thousands):

	Years Ended December 31,		
	2013	2012	2011
Redeemable and convertible preferred stock	—	—	—
Options to purchase common stock	3,322	3,294	2,867
Warrant	—	11	11
Restricted stock	—	—	9
Total	<u>3,322</u>	<u>3,305</u>	<u>2,887</u>

## 4. Fair Value of Financial Instruments

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, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash equivalents—money market funds	\$15,644	\$ —	\$ —	\$15,644	\$15,644	\$ —	\$ —	\$15,644
Marketable securities—U.S. treasury securities and time deposits	—	14,994	—	14,944	—	14,990	—	14,990
Total	<u>\$15,644</u>	<u>\$14,994</u>	<u>\$ —</u>	<u>\$30,638</u>	<u>\$15,644</u>	<u>\$14,990</u>	<u>\$ —</u>	<u>\$30,634</u>

The Company's investments in money market funds are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. Our marketable securities are classified as Level 2 within the fair value hierarchy as they are valued using professional pricing sources for identical or comparable instruments, rather than direct observations of quoted prices in active markets.

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### 5. Acquisitions

#### *Phanfare, Inc.*

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 has maintained the former service and employees 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.

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. The transaction was structured as an asset acquisition, and therefore the goodwill is expected to be deductible for tax purposes. The identified intangible assets will be amortized on a straight-line basis over their estimated useful lives. The following table presents the estimated fair values and useful lives of the identifiable intangible assets acquired:

	<u>Amount</u> <u>(in thousands)</u>	<u>Weighted Average Useful</u> <u>Life</u> <u>(in years)</u>
Developed technology	\$ 880	5
Customer relationships	180	3
Non-compete agreements	150	5
Total identifiable intangible assets	\$ 1,210	4.7

#### *Zmanda, Inc.*

In October 2012, the Company completed the acquisition of all of the outstanding capital stock of Zmanda, Inc. for \$13.4 million, net of cash acquired, which includes a deferred payment of \$0.4 million to certain employees contingent on the continued employment of such employees. The deferred payment has been recorded as compensation expense over the requisite employment period. The total purchase price of the acquisition was allocated to the tangible and identifiable intangible assets acquired and the net liabilities assumed based on their respective fair values on the acquisition date. The acquisition has enhanced its small business offering with the ability to backup databases and file systems to the cloud, and will enable small businesses to obtain all of the backup solutions that they need from one vendor. Zmanda's offerings provide IT resellers with affordable, secure, and easy to use solutions for data protection and recovery for their clients.

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.



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The aggregate purchase price was \$14.4 million, including \$1.0 million of cash acquired. The Company allocated the purchase price as follows (in thousands):

Cash acquired	\$ 958
Accounts receivable	346
Prepaid and other	33
Property and equipment	19
Intangible assets	4,130
Goodwill	10,022
Total assets acquired	15,508
Less fair value of liabilities assumed	1,158
Net assets acquired	<u>\$14,350</u>

Goodwill of \$10.0 million was recognized for the excess purchase price over the fair value of the net assets acquired. The goodwill recorded in connection with this transaction is primarily related to the expected synergies to be achieved related to the Company's small business product offerings and the ability to leverage existing sales and marketing capacity and customer base with respect to the acquired Zmanda service. Goodwill from the acquisition of Zmanda is included within the Company's one reporting unit and is included in the annual review for impairment. It is not amortized for tax purposes as this acquisition was a stock purchase.

Identifiable intangible assets of \$4.1 million are amortized based upon the pattern in which economic benefits related to such assets are realized, however, amounts are not less than straight-line. Developed technology consists of products that have reached technological feasibility and tradenames represent acquired company and product names. The developed technology and tradename intangibles were valued using the relief from royalty method, which considers both the market approach and the income approach. Customer relationships represent the underlying relationships and agreements with customers of the acquired company's installed based. To value the customer relationships, the Company utilized the income approach, specifically a variation of the discounted cash-flow method known as the multiperiod excess earnings method. Non-compete agreements represent the protection against the loss of business and resultant cash flows from direct competition. The comparative business valuation method was used to value the non-compete agreements. The following table presents the estimated fair values and useful lives of the identifiable intangible assets acquired:

	<u>Amount</u> (in thousands)	<u>Weighted Average Useful</u> <u>Life</u> (in years)
Developed technology	\$ 2,100	8
Customer relationships	1,400	7
Tradenames	400	8
Non-compete agreements	230	3
Total identifiable intangible assets	<u>\$ 4,130</u>	<u>7.4</u>

## 6. Goodwill and Acquired Intangible Assets

As of December 31, 2013, the carrying amount of goodwill is \$11.5 million. The following is a rollforward of our goodwill balance (in thousands):

Balance as of December 31, 2011	\$ 1,514
Goodwill related to the acquisition of Zmanda, Inc.	10,022
Balance as of December 31, 2012	<u>\$11,536</u>
Balance as of December 31, 2013	<u>\$11,536</u>

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Goodwill is not amortized. The Company reviews goodwill for impairment at least annually in the fourth quarter, or on an interim basis if an event or circumstance occurs indicating the potential for impairment. The Company completed the annual impairment review as of November 30, 2013 by 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). The Company determined that goodwill was not impaired. To date, the Company has had no impairments to goodwill.

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

	Weighted-Average Estimated Useful Life  (in years)	December 31, 2013			December 31, 2012		
		Gross Carrying	Accumulated	Net Carrying	Gross Carrying	Accumulated	Net Carrying
		Value	Amortization	Value	Value	Amortization	Value
Developed technology	7.1	\$ 2,980	\$ 761	\$ 2,219	\$ 2,980	\$ 314	\$ 2,666
Customer relationships	6.5	1,580	401	1,179	1,580	95	1,485
Tradename	8.0	400	58	342	400	6	394
Non-compete agreements	3.8	380	167	213	380	54	326
		<u>\$ 5,340</u>	<u>\$ 1,387</u>	<u>\$ 3,953</u>	<u>\$ 5,340</u>	<u>\$ 469</u>	<u>\$ 4,871</u>

The Company recorded amortization expense of \$0.9 million, \$0.3 million and \$0.2 million for the years ended December 31, 2013, 2012 and 2011, respectively. Amortization relating to developed technology is recorded within cost of revenue, amortization of customer relationships is recorded within sales and marketing expenses, and amortization of tradenames and non-compete agreements is recorded within general and administrative expenses. Future estimated amortization expense of acquired intangibles is as follows (in thousands):

2014	\$ 890
2015	830
2016	608
2017	483
2018	463
Thereafter	679
	<u>\$3,953</u>

## 7. Property and Equipment

Property and equipment consists of the following (in thousands):

	December 31,	
	2013	2012
Computer equipment	\$ 54,994	\$ 46,475
Software	1,911	1,609
Furniture and fixtures	668	571
Leasehold improvements	1,276	1,114
Total property and equipment	58,849	49,769
Less accumulated depreciation and amortization	(36,738)	(25,147)
Property and equipment, net	<u>\$ 22,111</u>	<u>\$ 24,622</u>

Depreciation and amortization expenses were \$11.7 million, \$10.5 million, and \$7.7 million for the years ended December 31, 2013, 2012, and 2011, respectively.

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### 8. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31,	
	2013	2012
Accrued media spend	\$2,989	\$1,910
Accrued other expenses	3,966	1,736
Accrued restructuring	—	1,022
Accrued compensation	1,201	400
Total accrued expenses	<u>\$8,156</u>	<u>\$5,068</u>

### 9. 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.

#### Redeemable and Convertible Preferred Stock

Prior to the Company's IPO, at which time all shares of Preferred Stock, consisting of 502,874 shares of Series A-2 redeemable convertible preferred stock (Series A-2) and 3,991,617 of convertible preferred stock, were converted into shares of common stock, the following 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 Company's Board of Directors, 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

Holders 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.

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### 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 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. The Warrant was exercisable at any time through expiration in October 2013 and, upon expiration, was automatically exercised on a cashless basis for 9,525 shares of common stock.

## 10. 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 Company's Board of Directors voted that no further stock options or other equity-based awards would be granted under the 2005 Plan.

The Company's 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 1<sup>st</sup> 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, 2013, 565,090 shares of common stock were available for future grant under the 2011 Plan.

### 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 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.

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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.

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, 2013, 2012, and 2011:

	Years Ended December 31,		
	2013	2012	2011
Weighted-average fair value of stock options	\$ 10.95	\$ 9.03	\$ 12.20
Risk-free interest rate	0.95% to 1.71%	0.83% to 1.33%	2.12% to 2.4%
Expected dividend yield	— %	— %	— %
Expected volatility	54%	55% to 57%	53% to 62%
Expected term (in years)	5.8 to 6.1	5.5 to 6.1	5.8 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 public 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, 2013, 2012, and 2011 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.

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### 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.

The following table summarizes stock option activity under stock incentive plans:

	Number of Shares	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands) (1)
Outstanding at December 31, 2012	3,294,020	\$ 8.54		\$ 6,193
Granted	1,844,000	10.95		
Exercised	(724,327)	6.53		
Cancelled	(1,091,909)	9.62		
Outstanding at December 31, 2013	<u>3,321,784</u>	<u>\$ 9.97</u>	<u>8.05</u>	<u>\$ 7,738</u>
Exercisable as of December 31, 2013	<u>1,254,862</u>	<u>\$ 8.50</u>	<u>6.75</u>	<u>\$ 4,498</u>
Vested and expected to vest as of December 31, 2013 (1)	<u>2,857,423</u>	<u>\$ 9.79</u>	<u>7.89</u>	<u>\$ 7,057</u>

- (1) Represents the number of vested stock options as of December 31, 2013, plus the number of unvested stock options expected to vest as of December 31, 2013, based on the unvested stock options outstanding at December 31, 2013, 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 market value of the Company's common stock on December 31, 2011, December 31, 2012, and December 31, 2013.

The weighted-average grant date fair value of options granted to employees during the years ended December 31, 2013, 2012, and 2011 was \$5.58, \$4.73, and \$6.47, per share, respectively. The total intrinsic value of options exercised during the years ended December 31, 2013, 2012, and 2011 was approximately \$4.4 million, \$4.9 million, and \$8.0 million, respectively.

As of December 31, 2013, 2012, and 2011, there was approximately \$8.1 million, \$9.4 million, and \$9.4 million, respectively, of unrecognized stock-based compensation cost, net of estimated forfeitures, related to unvested stock options that is expected to be recognized over a weighted-average period of 2.68, 2.38, and 2.96 years, respectively. The total unrecognized stock-based compensation cost will be adjusted for future changes in estimated forfeitures.

Stock-based compensation is reflected in the consolidated statement of operations as follows for the years ended December 31, 2013, 2012, and 2011 (in thousands):

	Years Ended December 31,		
	2013	2012	2011
Cost of revenues	\$ 508	\$ 440	\$ 207
Research and development	955	1,199	511
General and administrative	2,250	1,579	346
Sales and marketing	1,064	913	381
	<u>\$4,777</u>	<u>\$4,131</u>	<u>\$1,445</u>

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### 11. Income Taxes

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

	Years Ended December 31,		
	2013	2012	2011
Domestic	\$(10,703)	\$(17,990)	\$(22,562)
Foreign	153	(906)	(951)
Total	<u>\$(10,550)</u>	<u>\$(18,896)</u>	<u>\$(23,513)</u>

The components of the provision (benefit) for income taxes are as follows (in thousands):

	Years Ended December 31,		
	2013	2012	2011
Current:			
Federal	\$ —	\$ —	\$ —
State	14	—	—
Foreign	1	—	—
	<u>15</u>	<u>—</u>	<u>—</u>
Deferred:			
Federal	\$ 40	\$ 40	\$ 23
State	—	—	—
Foreign	—	—	—
	<u>40</u>	<u>40</u>	<u>23</u>
Provision (benefit) for income taxes	<u>\$ 55</u>	<u>\$ 40</u>	<u>\$ 23</u>

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

	Year Ended December 31,		
	2013	2012	2011
Expected income tax benefit using U.S. federal statutory rate	34.0%	34.0%	34.0%
Change in the valuation allowance	(28.6)	(29.6)	(32.4)
Nondeductible stock-based compensation	(5.1)	(2.9)	(1.6)
Other	(0.8)	(1.7)	(0.1)
	<u>(0.5)%</u>	<u>(0.2)%</u>	<u>(0.1)%</u>

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

	<u>2013</u>	<u>2012</u>
<b>Deferred tax assets:</b>		
Net operating loss carryforwards	\$ 45,361	\$ 44,198
Research and development tax credit carryforwards	5,278	3,421
Deferred revenue	5,763	6,433
Other	—	2,169
Total deferred tax assets	56,402	56,221
Valuation allowance for deferred tax assets	(55,328)	(51,290)
Total deferred tax assets, net of valuation allowance	1,074	4,931
<b>Deferred tax liabilities:</b>		
Depreciation	(591)	(2,635)
Other	(587)	(2,359)
Total deferred tax liabilities	(1,178)	(4,994)
<b>Net deferred tax liabilities</b>	<u>\$ (104)</u>	<u>\$ (63)</u>

For both the years ended December 31, 2013 and December 31, 2012, the Company recorded a deferred federal tax provision of \$40 thousand, related to tax amortization of goodwill. As of December 31, 2013, the Company had U.S. federal, state, and foreign net operating loss carryforwards of \$123.6 million, \$99.7 million and \$1.8 million, respectively. As of December 31, 2012, the Company had U.S. federal, state, and foreign net operating loss carryforwards of \$116.9 million, \$107.0 million and \$2.0 million, respectively. Included in the federal net operating loss carryforward is \$6.3 million that relates to excess tax deductions from stock-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. The Federal net operating loss carryforwards will expire at various dates beginning in 2026 through 2034. State net operating loss carryforwards will expire at various dates beginning in 2014 through 2034. At December 31, 2013 and 2012, the Company had approximately \$6.1 million and \$4.1 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 2034.

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, 2013 and 2012. The valuation allowance increased approximately \$4.0 million and \$11.1 million during the years ended December 31, 2013 and 2012, 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. Based upon the Company's analysis as of December 31, 2013, there was no ownership change experienced during 2013.

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 realized following resolution of any potential contingencies present related to the tax benefit. As of December 31, 2013 and 2012, the Company had no unrecognized tax benefits.



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The Company will recognize interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2013, 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, 2010, 2011, 2012 and 2013, although carryforward attributes that were generated prior to tax year 2010 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.

The Company is subject to U.S. Federal income tax and various state and local taxes in both domestic and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities within these jurisdictions. The Company's U.S. Federal income tax return for the fiscal year ended December 31, 2011 is currently under audit by the U.S. Internal Revenue Service.

## 12. Commitments and Contingencies

### Operating Leases

The Company leases various facilities under leases that expire at varying dates through 2018. 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, and Sunnyvale, California. The Company has lease agreements to rent data center space in Wakefield, Massachusetts, Phoenix, Arizona, and Chandler, Arizona. The Company also maintains a hosting service agreement with a third-party data center vendor in Somerville, Massachusetts, that is subject to annual renewal and a 120 day cancellation right. 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, 2013 and 2012, \$0.5 million and \$0.4 million is included in accrued expenses and other long-term liabilities related to the deferred rent, respectively.

Future non-cancellable minimum lease payments under all operating leases as of December 31, 2013, are as follows (in thousands):

<u>Years Ended December 31,</u>	<u>Office Leases</u>	<u>Data Center Leases</u>	<u>Total</u>
2014	\$1,582	\$2,158	\$ 3,740
2015	1,368	2,399	3,767
2016	1,408	855	2,263
2017	—	816	816
	<u>\$4,358</u>	<u>\$6,228</u>	<u>\$10,586</u>

### Other Non-cancellable Commitments

As of December 31, 2013, the Company had non-cancelable commitments of \$5.8 million payable in 2014, and \$1.0 million payable in 2015, primarily consisting of advertising, marketing and broadband services contracts.

### Litigation

In August 2010, Oasis Research, LLC, or Oasis Research, filed a lawsuit against the Company and several of its competitors and other online technology companies in the U.S. District Court for the Eastern District of

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Texas, alleging that the Company's cloud backup storage services, and the other companies' products or services, infringe certain of Oasis Research's patents. Oasis Research sought an award for damages in an unspecified amount. Oasis Research does not currently seek an injunction. A trial was held in March 2013 and a jury verdict was returned against Oasis Research that found all of the asserted patents invalid. The court has not yet entered a judgment against Oasis Research and the parties are awaiting decision on certain post-trial motions. The Company is not able to assess with certainty the outcome of this lawsuit or the amount or range of potential damages or future payments associated with this lawsuit at this time.

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 other 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.

### 13. Restructuring

In March 2012, the Company closed its Boston, Massachusetts data center and transitioned the computer equipment and operations located at that facility to its other Massachusetts data centers. The transition was designed to take advantage of cost-reducing and operating efficiency opportunities. Activities related to the closure were initiated in the first quarter of 2012 and were complete by the end of 2013. In May 2012, Markley Boston, LLC (Markley) filed a lawsuit against the Company in Massachusetts Superior Court seeking \$1.6 million in damages related to the Company's termination of a data center license in connection with the closure. On July 17, 2013, the Company entered into a confidential agreement with Markley, pursuant to which the complaint was dismissed by Markley with prejudice on October 4, 2013. The execution of the closure resulted in total charges of \$1.4 million, of which \$0.2 million was for expenses to relocate the Company's computer equipment, and required cash outlays of \$1.4 million. These expenses have been recorded through the restructuring line within the Company's consolidated statements of operations.

In November 2012, the Company adopted a plan to restructure its workforce in China as part of its commitment to reduce costs and enhance long-term profitability. Activities related to this effort were initiated in the third quarter of 2012 and are expected to be substantially complete by the second quarter of 2014. The Company estimates that the restructuring of the workforce will result in total charges of \$0.4 million, and that \$0.4 million of the charges will result in future cash outlays, of which \$0.3 million in payments have been made to date. Charges of \$0.3 million have been recorded since the beginning of this restructuring, of which \$0.2 million were attributable to termination benefits and \$0.1 million to consulting fees. These expenses have been recorded through the restructuring line within the Company's consolidated statements of operations.

As of December 31, 2013 and 2012, the Company had no amounts accrued related to restructuring and \$1.0 million, respectively.

### 14. 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 year ended December 31, 2011. Effective January 1, 2012, the Company elected to make a matching contribution of up to 4% of each employee's wages. Total expense for the Company's matching contributions to the plan was \$0.7 million in 2013 and \$0.6 million in 2012.

### 15. Related Party Transactions

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.

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### 16. Revolving Credit Facility

In the third quarter of 2013, the Company amended and renewed its \$25 million revolving bank credit facility in order to extend the term of the facility through September 30, 2014. 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 0.25%. The Company has pledged its accounts receivable, equipment, and shares of its subsidiaries to the lender to collateralize its obligations under the credit facility. The Company 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 its 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 current ratio, a minimum number of total subscribers, and a restriction as to where the Company may hold the majority of its cash and investments. To date, the Company has not drawn down on its revolving credit facility.

### 17. Quarterly Information (Unaudited)

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

	For the three months ended:							
	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012	March 31, 2012
<b>Statements of Operations Data:</b>								
Revenue	\$28,787	\$27,683	\$26,216	\$ 24,508	\$23,676	\$21,573	\$20,247	\$ 18,547
Gross profit	\$20,098	\$18,784	\$17,761	\$ 15,670	\$15,600	\$14,368	\$13,253	\$ 11,762
Income (loss) from operations	\$ 341	\$(1,177)	\$(2,305)	\$(7,411)	\$(2,249)	\$(3,359)	\$(4,223)	\$(9,103)
Net income (loss)	\$ 318	\$(1,187)	\$(2,317)	\$(7,419)	\$(2,219)	\$(3,370)	\$(4,231)	\$(9,116)
Basic and diluted net gain/loss per share	\$ 0.01	\$ (0.05)	\$ (0.09)	\$ (0.29)	\$ (0.09)	\$ (0.13)	\$ (0.17)	\$ (0.36)

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### 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, 2013. 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, 2013, 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.

#### Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of our principal executive and principal financial officers and effected by our board of directors, management, and other personnel 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 and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and board of directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. Management based its assessment on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) (COSO).

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Based on management's assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2013. The certifications of our Chief Executive Officer and Chief Financial Officer attached as Exhibits 31.1 and 31.2 to this Annual Report on Form 10-K include, in paragraph 4 of such certifications, information concerning our disclosure controls and procedures and internal controls over financial reporting.

Ernst & Young LLP, an independent registered public accounting firm, has issued a report on our internal control over financial reporting, which is included below.

### **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.

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of  
Carbonite, Inc.

We have audited Carbonite, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Carbonite, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Carbonite, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Carbonite, Inc. (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, redeemable and convertible preferred stock and shareholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2013 of Carbonite, Inc. and our report dated March 5, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts  
March 5, 2014

#### 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 2014 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, 2013, 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.

**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 44 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.

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### (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.



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### 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 5, 2014

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 Anthony Folger, 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 5, 2014
<u>/s/ Anthony Folger</u> Anthony Folger	Chief Financial Officer (Principal Financial and Accounting Officer)	March 5, 2014
<u>/s/ Jeffrey Flowers</u> Jeffrey Flowers	Director	March 5, 2014
<u>/s/ Charles Kane</u> Charles Kane	Director	March 5, 2014
<u>/s/ Todd Krasnow</u> Todd Krasnow	Director	March 5, 2014
<u>/s/ Timothy Clifford</u> Timothy Clifford	Director	March 5, 2014
<u>/s/ Pravin Vazirani</u> Pravin Vazirani	Director	March 5, 2014
<u>/s/ Stephen Munford</u> Stephen Munford	Director	March 5, 2014

**EXHIBIT INDEX**

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
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)#	Offer Letter with Swami Kumaresan, dated as of September 7, 2007.
10.5.A(4)#	Amendment to Offer Letter with Swami Kumaresan, dated as of April 18, 2011.
10.6(4)	Office Lease with Trustees of Church Realty, dated as of June 25, 2009.
10.7(4)	Office Lease with Church Realty Trust, dated as of May 20, 2010.
10.8(4)	Master Services Agreement with Internap Network Services, Corp., executed on or about December 3, 2008.
10.9(4)	Loan and Security Agreement with Comerica Bank, dated as of May 11, 2011.
10.10(6)	Commercial Lease with Lewiston Properties, LLC, dated as of May 13, 2011.
10.11(7)	Turn Key Datacenter Lease with GIP Wakefield, LLC, dated as of June 3, 2011.
10.12(8)	Turn Key Datacenter Lease with Digital Phoenix Van Buren, LLC, dated as of November 29, 2011.
10.13(9)	First Amendment to the Datacenter Lease with GIP Wakefield, LLC, dated as of September 15, 2011.
10.14(10)	Second Amendment to the Datacenter Lease with GIP Wakefield, LLC, dated as of March 31, 2012.
10.15(11)#	Amendment to Offer Letter with Swami Kumaresan, dated as of April 26, 2012.
10.16(12)	First Amendment to the Loan and Security Agreement with Comerica Bank, dated as of August 30, 2012.
10.17(13)	Third Amendment to the Datacenter Lease with GIP Wakefield LLC, dated as of June 11, 2012.
10.18(14)#	Offer Letter with Anthony Folger, dated as of November 21, 2012.
10.19†	Fourth Amendment to the Datacenter Lease with GIP Wakefield, LLC, dated as of February 14, 2013.
10.20(15)#	Offer Letter with Peter Lamson, dated December 8, 2010.

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<u>Exhibit No.</u>	<u>Description</u>
10.21(16)#	Amendment to Offer Letter with Peter Lamson, dated April 18, 2011.
10.22(17)#	Amendment to Offer Letter with Peter Lamson, dated April 18, 2011.
10.23(18)	Third Amendment to Loan and Security Agreement with Comerica Bank, dated as of September 30, 2013.
10.24†	Turnkey Datacenter Lease with Digital 2121 South Price, LLC, dated as of December 31, 2013.
10.25†	Fifth Amendment to the Datacenter Lease with GIP Wakefield, LLC, dated as of February 6, 2014.
10.26#	Amended and Restated Offer Letter with Danielle Sheer, dated June 20, 2012.
10.27#	Form of Restricted Stock Unit Agreement under the 2011 Equity Award Plan.
10.28	Second Amendment to Loan and Security Agreement with Comerica Bank, dated as of August 30, 2013.
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.
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 to Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on June 15, 2011, and incorporated herein by reference.

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- (6) Filed as Exhibit 10.13 to Amendment No. 1 to Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on June 15, 2011, and incorporated herein by reference.
  - (7) Filed as Exhibit 10.14 to Amendment No. 1 to Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on June 15, 2011, and incorporated herein by reference.
  - (8) Filed as Exhibit 10.17 to Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 7, 2012, and incorporated herein by reference.
  - (9) Filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 3, 2012, and incorporated herein by reference.
  - (10) Filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 3, 2012, and incorporated herein by reference.
  - (11) Filed as Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 3, 2012, and incorporated herein by reference.
  - (12) Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 19, 2012, and incorporated herein by reference.
  - (13) Filed as Exhibit 10.24 to Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 6, 2013, and incorporated herein by reference.
  - (14) Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 2, 2013, and incorporated herein by reference.
  - (15) Filed as Exhibit 99.2A to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 11, 2013, and incorporated herein by reference.
  - (16) Filed as Exhibit 99.2B to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 11, 2013, and incorporated herein by reference.
  - (17) Filed as Exhibit 99.2C to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 11, 2013, and incorporated herein by reference.
  - (18) Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 16, 2013, 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.

200 QUANNAPOWITT PARKWAY  
WAKEFIELD, MASSACHUSETTS  
(the “Building”)

FOURTH AMENDMENT TO DATACENTER LEASE (“Fourth Amendment”)

Execution Date: February 14, 2013

LANDLORD: GIP Wakefield, LLC, a Delaware limited liability company

TENANT: Carbonite, Inc., a Delaware corporation

EXISTING PREMISES:

Original Premises: Approximately 3,100 square feet of area on the [\*\*\*] floor of the Building (Suite [\*\*\*]), caged as shown on Exhibit “A” attached to the Lease. The Original Premises are used for datacenter purposes and were leased pursuant to the Data Center Lease.

Additional Premises: Approximately 1,094 square feet of area on the [\*\*\*] ([\*\*\*)] floor of the Building (Suite [\*\*\*]), as shown on Exhibit “A”, Second Amendment, dated March 31, 2012. The Additional Premises are used for datacenter purposes and were leased pursuant to the Second Amendment. The Original Premises and the Additional Premises are sometimes referred to collectively herein as the “Existing Data Center Premises”.

Original OS Tenant Space: Approximately 420 rentable square feet in Suite [\*\*\*], as depicted on the diagram of the OS Tenant Space contained on Exhibit “A”, attached to the Office Space Rider. The Original OS Tenant Space is used for office purposes and was leased pursuant to the Office Rider.

Additional OS Tenant Space: Approximately 490 square feet of area on the [\*\*\*] ([\*\*\*)] floor of the Building, as shown on Exhibit “A”, Third Amendment, dated June 11, 2012. The Additional OS Tenant Space is used for office purposes and was leased pursuant to the Third Amendment.

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

POP Tenant Space: POP Premises : One (1) one-quarter rack in the POP Room, as set forth on Exhibit "A" attached to the POP Room Rider (see, however, Section 11 below)

POP Pathway : As shown on Exhibit C to the Data Center Lease

Storage Space: Approximately 950 square feet of area on the [\*\*\*] ([\*\*\*)] floor of the Building, as shown on Exhibit "A", Third Amendment, dated June 11, 2012. The Storage Space is used for storage purposes and was leased pursuant to the Third Amendment

DATE OF LEASE: June 3, 2011

COMMENCEMENT DATE OF LEASE: August 1, 2011

PREVIOUS LEASE AMENDMENTS: First Amendment to Datacenter Lease dated as of September 15, 2011  
Second Amendment to Datacenter Lease dated March 31, 2013  
Third Amendment to Datacenter Lease dated June 11, 2012

TERMINATION DATE: September 30, 2015 (co-terminus with the term of the Lease with respect to the Existing Premises)

FOURTH AMENDMENT PREMISES: Approximately 855 square feet of area on the [\*\*\*] ([\*\*\*)] floor of the Building, known as Suite [\*\*\*], as shown on Exhibit A, Fourth Amendment, a copy of which is attached hereto and incorporated by reference herein. The Fourth Amendment Premises are to be used for data center purposes.

WHEREAS, Tenant desires that Landlord demise to Tenant additional space (i.e., the Fourth Amendment Premises ") to be used for data center purposes which would provide Tenant with an additional 142.5 kW of electrical capacity;

WHEREAS, Landlord is willing to lease the Fourth Amendment Premises upon the terms and conditions hereinafter set forth;

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

NOW THEREFORE, the parties hereby agree that the above-referenced lease, as previously amended (the "Lease"), is hereby further amended as follows (capitalized terms, as used herein, shall have the same meaning as set forth in the Lease, except to the extent otherwise set forth in this Fourth Amendment):

1. DEMISE OF THE FOURTH AMENDMENT PREMISES

Landlord hereby demises and leases to Tenant, and Tenant hereby leases from Landlord, the Fourth Amendment Premises for a Term commencing on the Execution Date, and terminating on September 30, 2015 (i.e., co-terminus with the term of the Lease with respect to the Existing Premises and Additional Premises). Said demise of the Fourth Amendment Premises shall be upon all of the terms and conditions of the Lease applicable to the Existing Data Center Premises (including, without limitation, Tenant's Extension Options, as set forth in Section 2.3 of the Lease), except to the extent inconsistent with the provisions of this Fourth Amendment. As of the Fourth Amendment Premises Commencement Date, the term "Premises", whenever it is used in the Lease, as hereby amended, shall be deemed to refer to both the Existing Premises, the Additional Premises, and including this Fourth Amendment Premises.

2. BASE RENT WITH RESPECT TO FOURTH AMENDMENT PREMISES

A. Tenant shall have no obligation to pay Base Rent with respect to the Fourth Amendment Premises prior to April 1, 2013 ("Fourth Amendment Premises Rent Commencement Date"). Tenant shall not be entitled to a Rent Credit, as defined in the Lease, with respect to the Fourth Amendment Premises.

B. Base Rent with respect to the Fourth Amendment Premises shall be as follows:

<u>Time Period</u>	<u>Monthly Base Rent</u>
4/1/13-7/31/13:	\$[***]
8/1/13-7/31/14:	\$[***]
8/1/14-7/31/15:	\$[***]
8/1/15-9/30/15:	\$[***]

First Extension Term

<u>Time Period</u>	<u>Monthly Base Rent</u>
10/1/15-7/31/16:	\$[***]
8/1/16-7/31/17:	\$[***]
8/1/17-7/31/18:	\$[***]
8/1/18-9/30/18:	\$[***]

[\*\*\*] 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 Extension Term

	Monthly
Time Period	Base Rent
10/1/18-7/31/19:	\$[***]
8/1/19-7/31/20:	\$[***]
8/1/20-7/31/21:	\$[***]
8/1/21-9/30/21:	\$[***]

Third Extension Term :

See Section 2.3.3 of the Lease

Fourth Extension Term :

See Section 2.3.3 of the Lease

One Year Extension Term :

See Section 2.3.3 of the Lease

**3. PREPARATION OF THE FOURTH AMENDMENT PREMISES FOR TENANT’S USE**

Landlord shall, at Landlord’s cost and expense, install a Building standard cage in the Fourth Amendment Premises (“Landlord’s Work”). Landlord shall substantially complete Landlord’s Work on or before January 31, 2013.

**4. ADDITIONAL RENT**

A. The Tax Base Year with respect to the Fourth Amendment Premises shall mean and refer to fiscal tax year 2013 (i.e. July 1, 2012-June 30, 2013).

B. Tenant’s Proportionate Share with respect to the Fourth Amendment Premises shall be .41%.

**5. PARKING**

Tenant shall not be entitled to any additional parking with respect to the Fourth Amendment Premises.

**6. SIGNAGE**

Tenant shall not be entitled to any additional signage with respect to the Fourth Amendment Premises.

**7. EXHIBIT “F” – SERVICE LEVEL**

Exhibit “F” to the Lease shall apply to the Fourth Amendment Premises, except that, commencing as of the Fourth Amendment Premises Commencement Date, the Electricity Consumption Threshold for the entirety of the Premises shall be 665kW.

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



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8. TENANT'S EXPANSION RIGHT

The parties hereby acknowledge that, as the result of Tenant's demise of: (i) the Additional Premises pursuant to the Second Amendment, and (ii) the Fourth Amendment Premises pursuant to this Fourth Amendment, there remains only 335 kW of electrical capacity available in Suite 140. Therefore, the parties hereby agree that the provisions of Section 1.7 of the Lease shall remain in force and effect so that Tenant may have an additional opportunity to lease additional premises in the Building, subject to, and in accordance with, the provisions of said Section 1.7, however, the first sentence of said Section 1.7 is deleted in its entirety, and the following is substituted in its place:

"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 Data Center space in the Building ("Data Center Expansion Area") which would provide Tenant with approximately an additional 335 kW of capacity."

9. DEFINITION OF POP PREMISES

Notwithstanding anything to the contrary in the Lease contained, the parties confirm and agree that the POP Premises consist of the areas shown on Exhibit B, Fourth Amendment, a copy of which is attached hereto. Exhibit A to the Pop Room Rider is hereby deleted and Exhibit B, Fourth Amendment is substituted in its place.

10. BROKER

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 Fourth Amendment other than Jones Lang LaSalle New England, LLC ("Broker"), who represented Landlord and for whose fees Landlord shall be solely responsible, pursuant to a separate agreement between the Broker and Landlord.

11. CONFLICT

In the event that any of the provisions of the Lease are inconsistent with this Fourth Amendment or the state of facts contemplated hereby, the provisions of this Fourth Amendment shall control.

12. RATIFICATION

As hereby amended, the Lease is ratified, approved and confirmed in all respects.

EXECUTED under seal as of the Execution Date.

LANDLORD:

GIP WAKEFIELD, LLC,  
a Delaware limited liability company

By: GIP Wakefield Holding Company,  
LLC, a Delaware limited liability  
company, its Member

By: Digital Realty Trust, L.P., a Maryland limited  
partnership, its Member

By: Digital Realty Trust, Inc. a Maryland  
corporation, its General Partner

By: /s/ Robert Holmes

Name: Robert Holmes

Title: Vice President

TENANT:

CARBONITE, INC.,  
a Delaware corporation

By: /s/ Anthony Folger

Print Name: Anthony Folger

Title: CFO

**EXHIBIT A, FOURTH AMENDMENT**  
**FOURTH AMENDMENT PREMISES**

\*\*\*] 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, FOURTH AMENDMENT**

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

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**2121 SOUTH PRICE ROAD**  
**CHANDLER, ARIZONA**

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**TURN KEY DATACENTER LEASE**

Between

**DIGITAL 2121 SOUTH PRICE, LLC**  
a Delaware limited liability company  
as Landlord

and

**CARBONITE, INC .**, a Delaware corporation  
as Tenant

Dated

December 31, 2013

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**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 each Colocation Customer and 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 and 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 performed the Commissioning of the Premises, which condition shall be deemed to have been satisfied upon Landlord’s receipt of the Commissioning Complete Letter;

(b) Landlord has completed Landlord’s Initial Installations; and

(c) Landlord has delivered the Tenant Space to Tenant by virtue of having provided the Commencement Date Notice to Tenant.

“ **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 19 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://info.digitalrealtytrust.com/Leases.html>

“ **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) [\*\*\*] ([\*\*\*)] 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.

“ **Early Access** ” shall mean and refer to Tenant’s ability, subject to the terms of Section 2.2.3, to enter the Premises, prior to the Commencement Date, for the purposes of inspecting same and for performing Tenant Work.

“ **Early Access Date** ” shall mean and refer to February 1, 2014.

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

“ **Early Access Period** ” shall mean and refer to the period between the Early Access Date and the Commencement Date.

“ **ECT Default Notice** ” shall mean and refer to written notice from Landlord.

“ **ECT Overage** ” 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.

“ **Extension Option Exercise Notice** ” shall mean and refer to written notice from Tenant to Landlord specifying that Tenant is irrevocably exercising an Extension Option so as to extend the Term of this Lease by the applicable Extension Term on the terms set forth in Section 2.3 of the Standard Lease Provisions.

“ **Extension Term** ” shall mean and refer to the duration of each duly exercised Extension Option, as set forth in Item 6 of the Basic Lease Information.

“ **Extension Term Base Rent** ” shall mean and refer to the monthly Base Rent payable with respect to the Tenant Space during an Extension Term.

“ **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.

“ **Installation Fee** ” shall mean and refer to the Installation Fee set forth in Item 9 of the Basic Lease Information, subject to the terms of Section 3.2 of the Standard Lease Provisions.

“ **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 below the raised floor of 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 below the raised floor of 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, collectively, Landlord’s Initial Installations and Landlord’s Additional Installations, 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.

“**Maximum Structural Load**” shall mean and refer to the Maximum Structural Load set forth in Item 19 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.

“**OS Rider**” shall mean and refer to the Office Space Rider described in Item 18 of the Basic Lease Information.

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

“ **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.

“ **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**s ” 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://info.digitalrealtytrust.com/Leases.html>

“ **POP Room** ” shall mean and refer to the POP Room described in Item 16 of the Basic Lease Information.

“ **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.

“ **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”,

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



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 2014.

“ **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.

“ **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 Delay** ” shall mean and refer to a delay in Landlord’s completion of the Commencement Date Conditions, which is attributable to or caused by Tenant’s Early Access or by any change order by Tenant. There shall be no Tenant Delay to the extent of any concurrent delay not directly resulting from a delay caused by Tenant. In all instances where Landlord claims a Tenant Delay, Landlord must give Tenant written notice of such alleged Tenant Delay within three (3) days of its alleged first occurrence or else such alleged Tenant Delay shall be deemed to have been waived by Landlord.

“ **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, Colocation 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 Work** ” shall mean and refer to all Tenant installations in the Premises, other than the completion of the Commencement Date Conditions, including the installation of Tenant’s Personal Property.

“ **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 (a) the Tenant’s Initial Uplift Factor Utility Payment (as defined in Section 3.5.2.1), during the period commencing on the Commencement Date and expiring at the end of the 9<sup>th</sup> full calendar month of the Term; and (b) the Tenant’s Utility Payment (Default) (subject to the terms of Sections 3.5.2.3 and 3.5.2.4 of the Standard Lease Provisions), during the Utility Default Period.

“ **Tenant’s Utility Payment (Default)** ” 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.

“ **Utility Default Period** ” shall mean and refer to the Term of the Lease.

**2121 SOUTH PRICE ROAD  
CHANDLER, 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 POP 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 2121 South Price, 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, 26<sup>th</sup> 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: afolger@carbonite.com

4. Effective Date/ Commencement Date :
- (a) Effective Date : December 31, 2013 \*(being the latest of the parties' respective dates of execution of this Lease, as set forth on the signature page of this Lease, the "**Effective Date** ").
- (b) Target Commencement Date : April 1, 2014.
- (c) Early Delivery Date : Not applicable.
- (d) Outside Liquidated Damages Date : May 1, 2014.
- (e) Outside Completion Date : May 31, 2014.
- (f) Commencement Date : The "**Commencement Date** " shall mean the earlier of:
- (x) the date upon which Landlord has completed the Commencement Date Conditions; or
- (y) the date Tenant commences to use the Premises for the Permitted Use.
5. Term: The "**Initial Term** " shall mean and refer to approximately forty eight (48) full calendar months (i.e., commencing on the Commencement Date and expiring on the last day of the forty eighth (48<sup>th</sup>) 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 :
- (a) Premises : The Premises contains approximately 1,892 square feet of caged area, as set forth on **Exhibit "A"** and located within the Datacenter ([\*\*\*]).
- (b) Pathway : As described in **Exhibit "C"** .
8. Base Rent : Initial Term :
- \$[\*\*\*] per month for the period commencing on the Commencement Date and expiring on the last day of the third (3<sup>rd</sup>) full calendar month of the Term of the Lease.
- \$[\*\*\*] per month for months 4-6 of the Term.
- \$[\*\*\*] per month for months 7-9 of the Term.
- \$[\*\*\*] per month for months 10-12 of the Term.
- \$[\*\*\*] per month for months 13-24 of the Term.

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

[\$\*\*\*] 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 :

Per Section 3.2 of the Standard Lease Provisions, below.

10. Prepaid Rent :

None.

11. Landlord's Address for Notices :

Digital 2121 South Price, LLC  
c/o Digital Realty Trust, L.P.  
2121 S. Price Road  
Chandler, AZ 85286  
Attention: Datacenter Manager  
Facsimile No. (888) 242-8857  
E-mail: [leaseadministration@digitalrealty.com](mailto:leaseadministration@digitalrealty.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:

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

12. Landlord's Address for Payment of Rent :

Automated Clearing House (ACH) :

Bank:	Bank of America NT&SA 1850 Gateway Blvd. Concord, CA 94520-3282
Routing Number:	121000358
Account Number:	1499712658
Account Name:	Digital 2121 South Price, LLC
Regarding/Reference:	Tenant Account No., Invoice No.

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

**Wire Transfer:**

Bank: Bank of America NT&SA  
100 West 33<sup>rd</sup> Street  
New York, NY 10001

Routing Number: 026009593  
SWIFT: BOFAUS3N  
Account Number: 1499712658  
Account Name: Digital 2121 South Price, LLC  
Regarding/Reference: Tenant Account No., Invoice No.

**Check Payments:**

Payee: Digital 2121 South Price, LLC

**Mailing Address:**

Digital 2121 South Price, LLC  
File 748051  
Los Angeles, CA 90074-8051

**Overnight Address:**

Bank of America Lockbox Services  
File 748051  
Ground Level  
1000 West Temple St.  
Los Angeles, CA 90012

**Contact Information:**

Director of Cash Management  
Digital Realty Trust  
Four Embarcadero Center, Suite 3200  
San Francisco, CA 94111  
P: (415) 738-6509  
F: (415) 848-9363

13. **Brokers :**

**Landlord's Broker :** Jones Lang LaSalle.

**Tenant's Broker :** None.

14. **Land/Property :**

The land located at 2121 South Price Road, Chandler, Arizona.

15. **Building :**

The building located at 2121 South Price Road, Chandler, Arizona. A two (2)-story building consisting of approximately **519,479** rentable square feet.

16. **Tenant's Proportionate Share :**

**.58% .**

17. **POP Room :**

Suite [\*\*\*] in the Building.

18. **Maximum Structural Load :**

125 pounds of live load per square foot.

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

19. Datacenter : Suite J204 located on the [\*\*\*] ([\*\*\*)] floor of the Building approximately as depicted on **Exhibit “A”** (the “ **Datacenter** ”).
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.
21. OS Rider : That certain Office Space Rider dated of even date herewith, by and between Landlord and Tenant, related to approximately **124 rentable square feet** of space (as more particularly described in the OS Rider, the “ **OS Tenant Space** ”) in *Suite [\*\*\*]* of the Building.

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 “ **I** ”, 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.

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



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## 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 on the Commencement Date. 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 POP Rooms.

**1.3.2 Datacenter Connection Area** . Tenant acknowledges that the Datacenter connection area (in a location as is hereafter designated by Landlord, 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.

**1.3.3 EVB Cross-Connections** . Tenant shall have the right to contract for three 10Gig cross connect waves between 2121 S Price Rd. Chandler, AZ 85286 ("**A**") and 120 E Van Buren Phoenix, AZ 85004 ("**Z**"). The waves will be routed on the optimal path between location "A" and "Z" with a diverse active secondary path available. The cost of the service to the Tenant will be at Landlord's contract cost with provider. The term of this service will be coterminous with the lease and will require a minimum of 45 days to be ready for service (RFS).

#### **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 300 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 greater Chandler, Arizona 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 (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 (3<sup>rd</sup>) Disinterested Expert (the “3<sup>rd</sup> Expert”) within ten (10) days after the second (2<sup>nd</sup>) of the two (2) Initial Expert Determinations has been rendered and delivered to the other party. The 3<sup>rd</sup> 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 3<sup>rd</sup> Expert shall be deemed to be the Prevailing Base Rent for the Datacenter Expansion Area. The 3<sup>rd</sup> 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 3<sup>rd</sup> 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.

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

**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.

## 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.

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 five (5) 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.

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

## 2.2.2 Completion of Landlord's Additional Installations .

2.2.2.1 Landlord agrees to use commercially reasonable efforts to cause Landlord's installation of the ladder racking system and the StarLine Busway System (each, as described on **Exhibit "E"**) to be completed after the Commencement Date. The foregoing notwithstanding, Landlord and Tenant acknowledge and agree that Landlord's completion of Landlord's installation of the ladder racking system and the StarLine Busway System is not a condition precedent to any obligation of Tenant to pay Rent, nor is such completion a condition precedent to the occurrence of the Commencement Date. Additionally, provided that Landlord is working diligently using commercially reasonable efforts after the Commencement Date to complete the installation of the ladder racking system and the StarLine Busway System, Landlord shall not be in default of its obligation to complete same.

2.2.2.2 Landlord agrees to use commercially reasonable efforts to cause Landlord's installation of the hot-aisle containment system (as described on **Exhibit "E"**) to be completed after Landlord and Tenant have reasonably agreed on the layout of such system. The foregoing notwithstanding, Landlord and Tenant acknowledge and agree that Landlord's completion of Landlord's installation of the hot-aisle containment system is not a condition precedent to any obligation of Tenant to pay Rent, nor is such completion a condition precedent to the occurrence of the Commencement Date. Additionally, provided that Landlord is working diligently using commercially reasonable efforts after the parties have reasonably agreed on the layout of such system to complete the installation of the hot-aisle containment system, Landlord shall not be in default of its obligation to complete same.

2.2.3 **Early Access** . Sections 2.2 & 2.2.1, above, notwithstanding, Landlord agrees, subject to the terms and conditions of this Section 2.2.3, to permit Tenant and the other Tenant Parties to have Early Access in the Premises, on and after the Early Access Date. Any such permission shall constitute a license only, conditioned upon Tenant and Tenant's contractors' obtaining Landlord's prior written consent (not to be unreasonably withheld) with regard to each item of Tenant Work that any of such parties desire to undertake during the Early Access Period.

2.2.3.1 Notwithstanding anything in this Lease to the contrary, the Early Access Period may be reduced by Landlord to the extent such Early Access materially interferes with Landlord's ability to complete the Commencement Date Conditions on or before the Target Commencement Date. Tenant's Early Access shall be subject to (and, during such period, Tenant must comply with) all of the terms and provisions of this Lease, excepting only the payment of Base Rent. Additionally, Tenant agrees that (a) Landlord's obligations to provide services to the Tenant Space and/or the equipment serving the Tenant Space shall commence on the Commencement Date and shall not apply during the Early Access Period, and (b) while Tenant shall not be required to pay Base Rent during the Early Access Period, Tenant shall be required to pay any and all electricity charges that accrue to the Premises during the Early Access Period.

## 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 49-84)  
Second Extension Term: Three (3) years (months 85-120)

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 Exercise 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, or an initial Extension Option Exercise Notice, as the case may be, 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** . In consideration of the costs incurred by Landlord in connection with Landlord's installation of Landlord's Systems Installations (as defined on **Exhibit "E"**) Landlord and Tenant shall be responsible for the fees as set forth on **Exhibit "E"** .

**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; Tenant's Utility Payment .**

3.5.1 Tenant hereby agrees to use best practices related to hot-aisle containment (including the use of blanking plates) with regard to the entirety of the Premises at all times during the Term.

3.5.2 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. In that regard, 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. The monthly amount of Tenant's Utility Payment shall be, as follows (subject to Section 3.5.3, below):

**3.5.2.1 Intentionally Deleted.**

3.5.2.2 During the Utility Default Period, Tenant's Utility Payment shall be equal to Tenant's Utility Payment (Default). For the avoidance of doubt, Tenant acknowledges that, during the Utility Default Period, Tenant shall pay Tenant's Utility Payment (Default), subject to the terms and conditions of the following Sections 3.5.2.3 and 3.5.4.

3.5.2.3 Commencing on the Commencement Date and expiring at the end of the 9<sup>th</sup> full calendar month of the Term (the "**No Condition PUE Period**"), Tenant's Utility Payment (Default) obligation for such billing cycle shall not exceed a sum equal to (a) Tenant's actual metered utility costs for the billing cycle in question, based on the Metering Equipment – Tenant Space, plus (b) [\*\*\*] percent ([\*\*\*]) of Tenant's actual metered utility costs for such billing cycle to account for those portions of such utility costs that are not metered directly to the Premises (i.e., a total of [\*\*\*] percent ([\*\*\*]) of Tenant's actual metered utility costs; during this period, [\*\*\*] is referred to herein as the "**PUE Cost Recovery Factor**"). During that portion of the Term commencing on the first day of the tenth (10<sup>th</sup>) full calendar month of the Term, Tenant's Utility Payment (Default) obligation for each billing cycle shall not exceed a sum equal to (a) Tenant's actual metered utility costs for the billing cycle in question, based on the Metering Equipment – Tenant Space, plus (b) [\*\*\*] percent ([\*\*\*]) of Tenant's actual metered utility costs for such billing cycle to account for those portions of such utility costs that are not metered directly to the Premises (i.e., a total of [\*\*\*] percent ([\*\*\*]) of Tenant's actual metered utility costs; during this period, [\*\*\*] is referred to herein as the "**PUE Cost Recovery Factor**"). During the No Condition PUE Period, each month (including any prorated Partial Month) is referred to herein as a "PUE Capped Month"; and, after the No Condition PUE Period, each month during a particular year of the Term shall also be referred to herein as a "**PUE Capped Month**".

3.5.3 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 the aggregate of Tenant's Utility Payments (Default) for all PUE Capped Months throughout such calendar year, as compared to the aggregate of Tenant's Utility Payments (Default) that would have been collected by Landlord from Tenant during such months without

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

taking the PUE Cost Recovery Factor calculation into consideration. If the aggregate of Tenant's Utility Payments (Default), as affected by the PUE Cost Recovery Factor for the PUE Capped Months is less than the aggregate of Tenant's Utility Payments (Default) that would have been collected by Landlord from Tenant during such months without taking the PUE Cost Recovery Factor calculation into consideration, Landlord shall pay to Tenant, within thirty (30) days following Tenant's receipt of such statement, the amount of the difference. The foregoing adjustment provisions shall survive the expiration or termination of the Term of this Lease.

**3.5.4 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 3.5.2 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).

**3.5.5 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 3.5.5 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.

**3.5.6 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 POP 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.**

6.4.1 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 1.7, 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.

6.4.2 **Sub-ECT** . Tenant acknowledges that the Electricity Consumption Threshold to the Premises is being provided via (a) one (1) pair of dedicated PDUs – PDU-A5 and PDU B-5 (“**PDU-A**”), and (b) one (1) shared pair of PDUs – PDU-A4 and PDU B-4 (“**PDU-B**”). In addition to the aggregate power draw restrictions in Section 6.4.1, above, Tenant hereby agrees that Tenant's actual electricity consumption which is being drawn from PDU-B shall not at any time exceed as it relates to PDU-B, 130 kW (the “**Sub-ECT**”). In the event that the electricity consumption which is being drawn from PDU-B exceeds the Sub-ECT, then such occurrence shall also be deemed to be an ECT Overage (a “**Sub-ECT Overage**”), and Tenant agrees to take immediate action to cause PDU-B power consumption to be at or below the Sub-ECT. Notwithstanding Section 15.1.2.1 of this Lease, below, it shall be deemed to be an Event of Default by Tenant under this Lease if Tenant fails to remedy a Sub-ECT Overage within one hundred twenty (120) hours after its receipt of an ECT Default Notice for such ECT Overage.

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; REMOTE HANDS 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 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 2.8 dated December 30, 2011 (“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 Landlord’s 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.

### **7.5 Remote Hands Services.**

**7.5.1 Remote Hands Services** . Landlord, or an affiliate of Landlord, or an independent contractor on behalf of Landlord or such affiliate, offers certain limited maintenance services with regard to Tenant’s Personal Property (as the same may be offered from time to time, “**Remote Hands**”) at an additional cost (the party providing the Remote Hands services – whether it is Landlord, an affiliate of Landlord or an independent contractor, is referred to herein as “**RH Provider**”). For the avoidance of doubt, however, Remote Hands services shall not be available from RH Provider beyond the point at which a login prompt appears on Tenant’s Personal Property and the provision of Remote Hands services shall be subject to the terms of this Lease. The current list of available Remote Hands services (the “**Current Remote Hands Services**”), as of the Effective Date of this Lease, is attached hereto as **Exhibit “I”** (the “**Remote Hands Addendum**”). However, Landlord (on RH Provider’s behalf) reserves the right to modify the list of available Tier 2 (as described on the Remote Hands Addendum) Remote Hands services and/or the period(s) of time during which such services are available, from time to time, by written notice to Tenant. Notwithstanding anything to the contrary contained herein, in no event shall RH Provider be liable or responsible, in connection with the Remote Hands services, for the repair, configuration, tuning or installation of Tenant’s Personal Property or the Premises or any damage or loss caused by Remote Hands services, except to the extent that Landlord would have been liable under the terms of this Lease for such activities if the same had been performed by Landlord.

**7.5.2 Process for Ordering Remote Hands Services** . Tenant must request and utilize RH Provider’s Remote Hands services by virtue of placing an order for such service sending an e-mail request to [customerservice@digitalrealty.com](mailto:customerservice@digitalrealty.com) (or to such other person or to such other place as Landlord, or the RH Provider may from time to time designate in writing to Tenant). Once received, RH Provider will generate a work order (which will describe the requested Remote Hands services and will describe the price for same, if any). Upon RH Provider’s receipt of a signed work order from Tenant, RH Provider will schedule the work.

## **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 (100<sup>th</sup>) 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 Premises 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.

**12.3.1** Landlord represents to Tenant that, as of the Effective 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.

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## 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 Colocation Party;

(c) the payment (or non-payment) of Taxes – Equipment;

(d) the malfunctioning of 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 alterations 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 do 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 bodily injury 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 bodily injury 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, if any, 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 Receiving 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.

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### **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 2121 SOUTH PRICE, LLC,**  
a Delaware limited liability company

By: Digital Realty Trust, L.P.,  
its manager

By: Digital Realty Trust, Inc.,  
its general partner

By: /s/ Richard J. Berk  
Name: Richard J. Berk  
Title: Vice President Portfolio Management, West Region

Date: December 31, 2013

**TENANT :**

**CARBONITE, INC.,**  
a Delaware corporation

By: /s/ Anthony Folger  
Name: Anthony Folger  
Title: CFO

Date: December 31, 2013

- SIGNATURE PAGE -

**EXHIBIT "A"**

**DEPICTION OF DATACENTER AND PREMISES**

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

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**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.

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**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.

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**EXHIBIT "C"**

**DESCRIPTION OF PATHWAY**

- Two (2) one and one inch (1") innerducts within an existing Landlord conduit from the Premises to the POP Room, along pathway as hereafter designated by Landlord (the "**Innerducts**").

From and after the Commencement Date, until the expiration of the Term of the Lease, the "**Pathway**" shall mean and refer to the Innerducts.

Tenant, at Tenant's sole cost and expense, shall install the fiber running from the Premises through the Innerducts to the POP 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 (y) the aggregate projected market rental value (including other charges) for the Tenant Space for such period.

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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 the Tenant Space, including the final and unappealable legal right to relet 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.

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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**

A. Landlord shall at its sole cost and expense cause (collectively, “ **Landlord’s Initial Installations** ”):

- The installation of Metering Equipment – Tenant Space at the output breaker of the PDUs that serve the Premises related to electrical power.
- The installation of cage walls substantially in the lay out set forth on **Exhibit “A”** .
- The installation of the Innerducts described on **Exhibit “C”** .

B. Landlord shall cause (collectively, “ **Landlord’s Additional Installations** ”):

- The installation of hot-aisle containment system, per a layout that is reasonably agreed on by Landlord and Tenant, at Landlord’s sole cost and expense; provided, however, that Tenant acknowledges that once the layout is determined, any changes shall be at Tenant’s sole cost and expense.
- The installation of a ladder racking system.\*
- The installation of a StarLine Busway system (or alternative system to be determined and approved by Landlord and Tenant) (the “ **StarLine Busway System** ”).\*

\* Landlord and Tenant hereby agree that Tenant shall approve of the vendor, project spec and costs associated with Landlord’s installation of the ladder racking system and the StarLine Busway System (collectively, the “ **Landlord’s Systems Installations** ”). Landlord hereby agrees that Landlord’s Systems Installations shall be at Landlord’s cost, up to \$[\*\*\*], and Tenant hereby agrees to reimburse Landlord for any such Installation Fee that exceeds \$[\*\*\*], up to but not to exceed \$[\*\*\*], within thirty (30) days following Tenant’s receipt of an invoice therefor.

***C. Landlord’s Warranty:***

A. As it relates to Landlord’s performance of Landlord’s Installations:

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 shall provide a twelve (12) month warranty with regard to defects in Landlord’s installation of the (collectively, the “ **Landlord’s Warranty Installations** ”) hot-aisle containment system and the Landlord’s System Installations (“ **Landlord’s Warranty** ”).

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. Claims Under 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.

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

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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 Data 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 Chandler evidencing that the Datacenter (including the Tenant Space and the Meet-Me Room) may be lawfully used for datacenter purposes.

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**EXHIBIT “E-1”**

**COMMISSIONING CRITERIA**

Commissioning consists of five general levels of activities summarized as follows:

**Level 1 – Factory Testing**

Manufacturers’ standard test reports will be reviewed prior to shipment of equipment to the site.

**Level 2 – Component Verification**

Individual system components are verified at the site upon delivery for compliance with the design specifications, drawings, and approved submittals or shop drawings.

**Level 3 – System Construction Verification**

As the components are assembled into individual systems, the construction or installation of the overall system is verified. This includes an evaluation of interconnection between components, physical arrangement, support and anchoring, and access and clearance.

**Level 4 – Individual System and Major Equipment Operation Verification**

Subsequent to the completion of construction and assembly of each individual system or major equipment element, it is started-up and tested for proper functional operation and performance.

**Level 5 – Integrated Systems Operation Verification**

The test procedures that comprise Level 5 commissioning are designed to simulate the operation of the Premises’ infrastructure during a full range of operational situations, including loss of utility services, single and multiple equipment failure, normal sequential changes to the equipment operation, and planned maintenance operations.

This effort is dependent upon the successful completion of all prior levels of commissioning. The assembly of appropriate documentation and certifications for the completion of Level Four commissioning will be a prerequisite.

Level 5 commissioning will typically be completed in four basic steps:

- Initial planning
- Preparation of test procedures
- Implementation of tests

Issuance by Commissioning Agent of the Commissioning Complete Letter.

**EXHIBIT "F"**

**SERVICE LEVEL**

**Table A.**

Landlord shall provide the following:

1. <u>Electricity Consumption Threshold:</u>	400 total kW.
2. <u>Target Battery Capacity:</u>	Six (6) minutes.
3. <u>Back-Up Power Specifications :</u>	One (1) dedicated (2.0) MW Building generator and one (1) shared redundant (2.0) MW Building generator supply back-up power for the Datacenter. Back-up power is included in all AC amperage usage.
4. <u>HVAC Specifications .</u>	
(a) <u>Target Temperature Range :</u>	Average temperature of the Premises, measured below the raised floor of the Premises, between 59 degrees Fahrenheit and 90 degrees Fahrenheit.
(b) <u>Target Humidity Range :</u>	Average relative humidity of the Premises, measured below the raised floor of the Premises, between 20% and 80% relative humidity and 62.6 degrees Fahrenheit dew-point.

**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 below the raised floor of 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)**

<b>Interruption Duration:</b>	<b>Tenant’s Remedy:</b>
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)**

<b>Interruption Occurrence:</b>	<b>Level-1 Outage Credit:</b>
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 the 8<sup>th</sup> section, starting on page 40 and ending on page 46 of the Version 2.8 of the Handbook, dated December 30, 2011), 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.

**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 results in a qualified opinion (a “**Qualified Opinion**”) by the service auditor (e.g., as a result of an examination, the service auditor determined that management’s description does not fairly present the system, the controls of the system were not suitably designed to meet the criteria, or the controls were not operating effectively), and either: (i) Tenant is unable to use the Tenant Space for the purposes permitted under the Lease by reason of such Qualified Opinion 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 Qualified Opinion, or (ii) if, despite such Qualified Opinion, 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 Qualified Opinion, 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 has reasonably resolved any issues related to such Qualified Opinion and has given Tenant notice of same.

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



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#### **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.

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**EXHIBIT "G"**

**INTENTIONALLY OMITTED**

**EXHIBIT "H"**

**COMMENCEMENT DATE NOTICE**

\_\_\_\_\_, 201 \_\_\_\_

VIA [FAX/E-MAIL]: [# OR E-MAIL ADDRESS]  
AND FEDERAL EXPRESS

CARBONITE, INC.  
\_\_\_\_\_  
\_\_\_\_\_

Re: That certain TURNKEY DATACENTER LEASE with an effective date of \_\_\_\_\_, 2013 (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 2121 SOUTH PRICE ROAD, CHANDLER, 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. In that connection, please find the Commissioning Complete Letter, attached hereto as Attachment "1". Accordingly, Landlord confirms the following:

1. The Commencement Date of the Lease is \_\_\_\_\_, 20 \_\_\_\_.
2. Tenant's Base Rent schedule is as follows:
  - \$ \_\_\_\_\_ for the period \_\_\_\_\_, 20 \_\_\_\_ through \_\_\_\_\_, 20 \_\_\_\_  
(the Partial Month) [DELETE IF COMMENCEMENT DATE IS THE 1<sup>ST</sup>]
  - \$ \_\_\_\_\_ 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 2121 SOUTH PRICE, LLC,  
a Delaware limited liability company

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By: Digital Realty Trust, L.P., a Maryland limited partnership, its 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**

ATTACHMENT "1"

COMMISSIONING COMPLETE LETTER

*[USE COMMISSIONING AGENT'S LETTERHEAD]*

COMMISSIONING COMPLETE LETTER

\_\_\_\_\_, 2013

VIA [INSERT METHOD]

[LANDLORD]  
c/o Digital Realty Trust, L.P.  
[LANDLORD'S ADDRESS]

Re: Commissioning of Suite \_\_\_\_\_(the " **Datacenter** "), located in that certain building located at 2121 South Price Road, Chandler, Arizona.

Ladies and Gentlemen:

We are pleased to advise you that, as of \_\_:\_\_ [AM/PM] on [MONTH] [DATE], 20\_\_ , Level 4 and Level 5 Commissioning of the above-referenced Datacenter are complete. We have concluded that the mechanical and electrical systems supporting the Datacenter are operating in accordance with the design intent. Please note that we will be accumulating the testing data and will forward our final report to you no later than [MONTH] [DATE], 20\_\_.

We understand that third parties (e.g. tenants or potential tenants of the Datacenter and your lenders or potential lenders) may rely on the statements made in this letter (this " **Commissioning Complete Letter** "), and we authorize you to share this Commissioning Complete Letter with third parties as you see fit.

Should you have any questions, please contact [COMMISSIONING REPRESENTATIVE] at [PHONE #], who will be glad to assist you.

Sincerely,

[COMMISSIONING AGENT]

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## EXHIBIT "T"

### Remote Hands Addendum

#### Current List of Available Remote Hands Services (2011-12-05)

Remote Hands services are offered in two broad categories (Tier 1 and Tier 2), which include non-technical and technical skill sets.

Standard Tier 1 Remote Hands services will be provided by RH Provider without additional charge to Tenant for the first hour per service ticket.

Tier 2 services are billed at .25-hour incremental blocks with a minimum of 1 hour.

The then-current list of the prices (including hourly rates) for Tier 2 Remote Hands services is available from RH Provider, upon request from Tenant. As of the Effective Date, the price (hourly rate) for Tier 2 Remote Hands services is equal to \$120.00/hour

#### **Tier 1 Services (Provided Services)**

##### **24X7X365 SUPPORT**

Qualified onsite technicians are available by phone, email or in person 24x7x365

##### **SECURE KEY STORAGE**

Keys are securely stored in the Customer Service Center (CSC) allowing for access to cages and cabinets 24x7x365

##### **BACKUP TAPE SWAPS**

Tapes for backup systems are changed on request

##### **POWER CYCLING OF EQUIPMENT**

Technicians perform hard-reboots (pressing the power button) or soft-reboots (entering the restart command)

##### **PATCH CORD INSTALLATION**

Technicians can install patch cables based on customer direction

##### **ENERGIZING OF PDUs**

Provider staff can arrange to plug power cables into receptacles under the raised floor

##### **EQUIPMENT ASSISTANCE**

Technicians are available to assist with transport of large pieces of equipment within the Datacenter

##### **KVM AVAILABILITY**

Technicians provide screen outputs before and after reboots

#### **Tier 2 Services (Services Billed hourly)**

##### **TIER 1 SERVICES EXCEEDING ONE HOUR**

Tier 1 Services that exceed more than one hour will be billed at an hourly rate.

##### **INFRASTRUCTURE DATA CABLING**

Technicians can perform intra-premises backbone cabling

##### **CROSS CONNECT INFRASTRUCTURE**

Technicians are available to assist with telecommunication provider issues by installing temporary loopbacks to verify physical media continuity from the Datacenter or Meet-Me Room demarcation panel to the Premises handoff

##### **EQUIPMENT INVENTORY**

Detailed rack elevation drawings can be provided

##### **HARDWARE REPLACEMENT**

On-site staff can replace hard drives, memory, processors etc. with customer-provided replacements

##### **EQUIPMENT INSTALLATION**

Staff is available to un-box, rack and inventory equipment based on customer specifications. Staff can also install data and power cables and provide as-built documents

##### **CIRCUIT TESTING**

Technicians can provide circuit performance testing

##### **ONE TIME PRE-SCHEDULED EVENT**

Technicians are available to participate in pre-scheduled events such as maintenance windows

##### **ROUTINE SCHEDULED EVENTS**

Customers can avoid opening individual tickets by scheduling routine events such as daily/weekly/monthly tape swaps

##### **PREVENTATIVE MAINTENANCE**

Maintenance services not requiring a password are available based on customer needs

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**Material Supply Depot**

For the convenience of its customers, RH Provider stocks commonly requested items. These items are available through the Customer Service Center 24/7. Supplies are not provided as part of the Tier 1 or 2 services and will be invoiced at cost to the customer. On-site supplies include:

- Cat5E Patch Cables (Assorted Lengths)
- Cat6 Patch Cables (Assorted Lengths)
- Fiber Patch Cables (Single-Mode and Multi-Mode)
- Rack Shelves (Half and Full)
- Rack Screws and Rack Nuts

Items such as custom length/color patch cords, patch panels and cable managers can also be quoted and ordered.

200 QUANNAPOWITT PARKWAY  
WAKEFIELD, MASSACHUSETTS  
(the “Building”)

FIFTH AMENDMENT TO DATACENTER LEASE (“FIFTH AMENDMENT”)

Execution Date: February 6, 2014

LANDLORD:	GIP Wakefield, LLC, a Delaware limited liability company	
TENANT:	Carbonite, Inc., a Delaware corporation	
EXISTING PREMISES:	Original Premises:	Approximately 3,100 square feet of area on the [***] floor of the Building (Suite [***]), caged as shown on Exhibit “A” attached to the Lease. The Original Premises are used for datacenter purposes and were leased pursuant to the Data Center Lease.
	Additional Premises:	Approximately 1,094 square feet of area on the [***] ([***)] floor of the Building (Suite [***]), as shown on Exhibit “A”, Second Amendment, dated March 31, 2012. The Additional Premises are used for datacenter purposes and were leased pursuant to the Second Amendment. The Original Premises and the Additional Premises are sometimes referred to collectively herein as the “Existing Data Center Premises”.
	Original OS Tenant Space:	Approximately 420 rentable square feet in Suite [***], as depicted on the diagram of the OS Tenant Space contained on Exhibit “A”, attached to the Office Space Rider. The Original OS Tenant Space is used for office purposes and was leased pursuant to the Office Rider.

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



Additional OS Tenant Space: Approximately 490 square feet of area on the [\*\*\*] ([\*\*\*)] floor of the Building, as shown on Exhibit "A", Third Amendment, dated June 11, 2012. The Additional OS Tenant Space is used for office purposes and was leased pursuant to the Third Amendment.

POP Tenant Space: POP Premises : One (1) one-quarter rack in the POP Room, as set forth on Exhibit "A" attached to the POP Room Rider (see, however, Section 11 below)

POP Pathway : As shown on Exhibit C to the Data Center Lease

Storage Space: Approximately 950 square feet of area on the [\*\*\*] ([\*\*\*)] floor of the Building, as shown on Exhibit "A", Third Amendment, dated June 11, 2012. The Storage Space is used for storage purposes and was leased pursuant to the Third Amendment

LEASE DATA	DATE OF DATACENTER LEASE:	June 3, 2011
	DATE OF OFFICE SPACE RIDER:	June 3, 2011
	DATE OF POP ROOM RIDER:	June 3, 2011
	COMMENCEMENT DATE OF LEASE:	August 1, 2011
	PREVIOUS LEASE AMENDMENTS:	<ul style="list-style-type: none"><li>• First Amendment to Datacenter Lease dated as of September 15, 2011</li><li>• Second Amendment to Datacenter Lease dated March 31, 2012</li><li>• Third Amendment to Datacenter Lease dated June 11, 2012</li><li>• Fourth Amendment to Datacenter Lease dated February 14, 2013</li></ul>

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

TERMINATION DATE: September 30, 2015

RELOCATION ADDITIONAL OS TENANT SPACE: An area on the [\*\*\*] ([\*\*\*)] floor of the Building, known as Suite [\*\*\*], containing 1,075 square feet of area, as shown on Exhibit A, Fifth Amendment, a copy of which is attached hereto

WHEREAS, Landlord desires to relocate Tenant from the Additional OS Tenant Space to the Relocation Additional OS Tenant Space, upon the terms and conditions hereinafter set forth;

NOW, THEREFORE, the parties hereby agree that the above-referenced lease, as previously amended (the "Lease"), is hereby further amended as follows:

1. DEMISE OF THE RELOCATION ADDITIONAL OS TENANT SPACE

Landlord hereby demises and leases to Tenant, and Tenant hereby hires and takes from Landlord, the Relocation Additional OS Tenant Space for a Term commencing on the Execution Date of this Fifth Amendment ("Relocation Additional OS Tenant Space Commencement Date"), and terminating on September 30, 2015 (i.e., co-terminus with the term of the Lease). Said demise of the Relocation Additional OS Tenant Space shall be upon all of the same terms and conditions of the Lease applicable to the Additional OS Tenant Space (including, without limitation, Tenant's Extension Options, as set forth in Section 2.3 of the Datacenter Lease and Tenant's obligation to pay the OS Power Payment for electricity in accordance with the terms of the Office Space Rider), except to the extent inconsistent with the provisions of this Fifth Amendment. As of the Relocation Additional OS Tenant Space Commencement Date, the term "OS Tenant Space", whenever it is used in the Office Space Rider, as hereby amended, shall be deemed to refer to both the OS Tenant Space and the Relocation Additional OS Tenant Space

2. BASE RENT WITH RESPECT TO RELOCATION ADDITIONAL OS TENANT SPACE

A. Tenant shall have no obligation to pay Base Rent with respect to the Relocation Additional OS Tenant Space until February 1, 2014.

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

B. Base Rent with respect to the Relocation Additional OS Tenant Space shall be as follows:

Monthly	
<u>Time Period</u>	<u>Base Rent</u>
2/1/14-7/31/14:	\$[***]
8/1/14-7/31/15:	\$[***]
8/1/15-9/30/15:	\$[***]

C. First Extension Term

Monthly	
<u>Time Period</u>	<u>Base Rent</u>
10/1/15-7/31/16:	\$[***]
8/1/16-7/31/17:	\$[***]
8/1/17-7/31/18:	\$[***]
8/1/18-9/30/18:	\$[***]

D. Second Extension Term

Monthly	
<u>Time Period</u>	<u>Base Rent</u>
10/1/18-7/31/19:	\$[***]
8/1/19-7/31/20:	\$[***]
8/1/20-7/31/21:	\$[***]
8/1/21-9/30/21:	\$[***]

Third Extension Term

See Section 2.3.3 of the Lease

Fourth Extension Term

See Section 2.3.3 of the Lease

One Year Extension Term

See Section 2.3.3 of the Lease

Section 3 of the Third Amendment shall not apply to the Relocation Additional OS Tenant Space.

3. OPERATING EXPENSES AND TAXES

A. Tenant shall pay Operating Expenses and Taxes in accordance with the terms set forth in Section 3.2 of the Office Space Rider.

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

B. Tenant's Proportionate Share with respect to the Relocation Additional OS Tenant Space shall be [\*\*\*]. Tenant shall pay Tenant's Proportionate OS Share of Operating Expenses (Actual) and Tenant's Proportionate OS Share of Taxes (Actual) with respect to the Relocation Additional OS Tenant Space in accordance with the terms of the Office Space Rider.

**4. CONDITION OF RELOCATION ADDITIONAL OS TENANT SPACE**

Tenant shall lease the Relocation Additional OS Tenant Space "as-is", in the condition in which the Relocation Additional OS Tenant Space are in as of the Relocation Additional OS Tenant Space Commencement Date, without any obligation on the part of Landlord to prepare or construct the Relocation Additional OS Tenant Space for Tenant's occupancy and without any warranty or representation by Landlord as to the condition of the Relocation Additional OS Tenant Space, except that Landlord shall, at Landlord's cost, provide a proximity card reader in the Relocation Additional OS Tenant Space ("Landlords' Relocation Additional OS Tenant Space Work"). Landlord's Relocation Additional OS Tenant Space Work shall be performed by Landlord on or before the Relocation Additional OS Tenant Space Commencement Date, provided however, that Landlord's failure to complete Landlord's Relocation Additional OS Tenant Space Work on or before the Relocation Additional OS Tenant Space Commencement Date shall not affect the Relocation Additional OS Tenant Space Commencement Date, nor shall Tenant have any claims for abatement of rent or damages on account of the completion of Landlord's Relocation Additional OS Tenant Space Work after the Relocation Additional OS Tenant Space Commencement Date.

**5. PARKING**

Tenant shall be entitled to four (4) common parking spaces with respect to the Relocation Additional OS Tenant Space.

**6. TERMINATION OF LEASE IN RESPECT OF ADDITIONAL OS TENANT SPACE**

The parties hereby agree that the Term of the Lease in respect of the Additional OS Tenant Space shall terminate effective as of the day immediately preceding the Relocation Additional OS Tenant Space Commencement Date ("Effective Termination Date"). On or before the Effective Termination Date, Tenant shall vacate the Additional OS Tenant Space and deliver the Additional OS Tenant Space to Landlord in the condition in which Tenant is required pursuant to the Lease (including, without limitation, Section 5.3.2 of the Office Space Rider and Section 13 of the Datacenter Lease) to deliver the Additional OS Tenant Space at the expiration or earlier termination of the Term of the Lease. Monthly Base Rent and other charges due under the Lease with respect to the Additional OS Tenant Space shall be apportioned as of the Effective Termination Date. From and after the Relocation Additional OS Tenant Space Commencement Date, Tenant shall have no further rights to the Additional OS Tenant Space.

**7. DELETED LEASE PROVISIONS**

Section 1.8 of the Data Center Lease (Tenant's Right of First Offer to Lease Additional Office Area) is hereby deleted and is of no further force or effect.

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

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8. BROKER

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 Fifth Amendment other than Transwestern RBJ (“Broker”), who represented Landlord and for whose fees Landlord shall be solely responsible, pursuant to a separate agreement between the Broker and Landlord.

9. CONFLICT

In the event that any of the provisions of the Lease are inconsistent with this Fifth Amendment or the state of facts contemplated hereby, the provisions of this Fifth Amendment shall control.

10. RATIFICATION

As hereby amended, the Lease is ratified, approved and confirmed in all respects.

[Remainder of Page Intentionally Left Blank]

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EXECUTED UNDER SEAL as of the date first above written.

LANDLORD:

GIP Wakefield, LLC,  
a Delaware limited liability company

By: GIP Wakefield Holding Company, LLC,  
its manager

By: Digital Realty Trust, L.P.,  
its manager

By: Digital Realty Trust, Inc.,  
its general partner

By: /s/ Jeff Talpey

Name: Jeff Talpey

Title: Vice President

TENANT:

CARBONITE, INC.,  
a Delaware corporation

By: /s/ Anthony Folger

Name: Anthony Folger

Title: CFO

EXHIBIT A, FIFTH AMENDMENT

RELOCATION ADDITIONAL OS TENANT SPACE

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

# CARBONITE ™

## THE BETTER BACKUP PLAN

Dear Danielle:

This letter serves to confirm the terms of our offer of employment:

**Position:** Vice President & General Counsel

**Status:** Full-time, Regular, Exempt

**Reporting to:** Chief Executive Officer

**Compensation:** Base salary of **\$10,416.67** semi-monthly, which is the equivalent of **\$250,000** annually, paid in accordance with the Company's normal payroll procedures. You should note that Carbonite may modify salaries and benefits from time to time as it deems necessary.

All forms of compensation which are referred to in this offer letter are subject to reduction to reflect applicable withholding, payroll and other required taxes and deductions.

**Bonus:** You will be eligible for an incentive bonus of 20% of your base salary. The timing and amount of any bonus is subject to the discretion and approval of the Compensation Committee of the Board of Directors.

**Stock Options:** Options on 50,000 shares of Carbonite's common stock vesting over four years. The option exercise price will be equal to the fair market value of Carbonite's common stock as of the date of grant, as determined by our Board of Directors. All option grants described in this Section are subject to approval by Carbonite's Board of Directors and the specific terms of the options will be governed by Carbonite's stock incentive plan and separate option agreement to be entered into by you and Carbonite.



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Acceleration of Options:

If during the first twelve months after a Change of Control (as defined in the 2011 Equity Award Plan) you are terminated without cause or if you voluntarily resign from the company due to "Constructive Termination" (as defined in your existing option agreements), then all your then- unvested options shall vest immediately prior to the termination date.

Severance:

If you are terminated without Cause (as defined below) or are Constructively Terminated (as defined in your existing option agreements), you will be entitled to receive a payment amount equal to (and payable pro rata over such 3 month period following termination) (i) three times your then current monthly base salary and (ii) three times the monthly amount that the Company paid for your participation in the Company's health insurance plan during the month immediately preceding your termination date, subject to any and all additional conditions and qualifications contained in this offer letter.

In addition to the provision of three months' severance benefits, your severance benefits shall be increased so that if you are terminated without Cause or are Constructively Terminated, in each case within one year after the consummation of a Change of Control of the Company (as defined in the 2011 Equity Award Plan), you will be entitled to receive an additional payment amount equal to (and payable pro rata over the 6 month period following termination) (i) three times your then current monthly base salary and (ii) three times the monthly amount that the Company paid for your participation in the Company's health insurance plan during the month immediately preceding your termination date, subject to any and all additional conditions and qualifications contained in this offer letter.

"Cause" shall mean (1) willful misconduct in connection with your employment or willful failure to perform your responsibilities in the best interests of the Company, as determined by the Company; (2) conviction of, or plea of nolo contendere or guilty to, a felony under the laws of the United States or any State; (3) any act of fraud, theft, embezzlement or other material dishonesty by you which harmed the Company; (4) intentional violation of a federal or state law or regulation applicable to the Company's business which violation was or is reasonably likely to be injurious to the Company, or (5) repeated failure to perform your duties and obligations of your position with the Company which failure is not cured within 30 days after notice of such failure from the Company to you.

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The foregoing amounts shall be made in accordance with the Company's normal payroll practices; provided, however, that the Company shall not make any severance payments unless and until (x) you execute and deliver to the Company a general release in substantially the form of Exhibit A attached hereto (the "Release"), (y) such Release is executed and delivered to the Company within twenty-one (21) days after your termination date and (z) all time periods for revoking the Release have lapsed. If you are terminated during the month of December of any calendar year and are owed severance hereunder, no severance payments shall be made prior to January 1st of the next calendar year and any amount that would have otherwise been payable to you in December of the preceding calendar year will be paid to you on the first date in January on which you would otherwise be entitled to any payment.

Following your termination date, all benefits offered by the Company, including health insurance benefits, shall cease. From and after such date, you may elect to continue your participation in the Company's health insurance benefits at your expense pursuant to COBRA by notifying the Company in the time specified in the COBRA notice you will be provided and paying the monthly premium yourself. Notwithstanding the above, if you are a "specified employee" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), then any amounts payable to you during the first six months and one day following the date of your termination that constitute nonqualified deferred compensation within the meaning of Section 409A of the Code (as determined by the Company in its sole discretion) shall not be paid to you until the date that is six months and one day following such termination to the extent necessary to avoid adverse tax consequences under Section 409A of the Code.

To indicate your acceptance of this offer, please sign and date the attached Acceptance and Acknowledgement and return it to me. This letter, along with the Carbonite Confidentiality, Invention Assignment and Non-Competition Agreement, set forth the terms of your employment with Carbonite and supersede any prior representations or agreements, whether written or oral. This letter may not be modified or amended except by a written agreement, signed by the Chief Executive Officer or Chief Financial Officer of Carbonite and by you.

Sincerely,

/s/ David Friend

\_\_\_\_\_  
**CARBONITE, INC.**

David Friend, CEO

Enclosures

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**ACCEPTANCE AND ACKNOWLEDGMENT**

I accept the offer of employment from Carbonite as set forth in the offer letter dated June 20<sup>th</sup>, 2012. I understand and acknowledge that my employment with Carbonite is for no particular term or duration and at all times is at-will, meaning that I, or Carbonite, may terminate the employment relationship at any time, with or without cause and with or without prior notice.

I understand and agree that the terms and conditions set forth in the offer letter represent the entire agreement between Carbonite and me superseding all prior negotiations and agreements, whether written or oral. I understand that the terms and conditions described in the offer letter, along with the Carbonite Confidentiality, Invention Assignment and Non-Competition Agreement are the terms and conditions of my employment. No one other than Carbonite's Chief Executive Officer or Chief Financial Officer is authorized to sign any employment or other agreement which modifies the terms of the offer letter and Carbonite's Confidentiality, Invention Assignment and Non-Competition Agreement, and any such modification must be in writing and signed by either such executive. In addition, I understand that any promotion, increase in compensation and/or offer regarding other positions must be in writing and signed by my manager and the appropriate individual in the Human Resources Department. I understand that Carbonite may, in its sole discretion, modify salary and benefits as well as other plans and programs from time to time as it deems necessary.

Signature: /s/ Danielle Sheer

Printed Name: Danielle Sheer

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**EXHIBIT A**

**RELEASE**

## CARBONITE, INC.

## RESTRICTED STOCK UNIT AGREEMENT

1. Grant of Restricted Stock Units. Carbonite, Inc., a Delaware corporation (the “Company”), hereby grants to [ ] (the “Recipient”), pursuant to the Company’s 2011 Equity Award Plan (the “Plan”), [ ] restricted stock units (each, a “Restricted Stock Unit” and collectively, the “Restricted Stock Units”), subject to the terms and conditions of this agreement (the “Agreement”) and the Plan. Except where the context otherwise requires, the term “Company” shall include the parent and all subsidiaries of the Company as defined in Sections 424(e) and 424(f) of the Internal Revenue Code of 1986, as amended (the “Code”). Capitalized terms used but not otherwise defined herein shall have the meaning ascribed to such terms in the Plan. To the extent that any term of this Agreement conflicts or is otherwise inconsistent with any term of the Plan, as amended from time to time, the terms of the Plan shall take precedence and supersede any such conflicting or inconsistent term contained herein.

2. Vesting and Provisions for Termination.

(a) Vesting Schedule. Subject to the provisions of this Section 2 and Section 6, the Restricted Stock Units vest and become “Vested Units” as to [ ]% of the Restricted Stock Units on [ ] (the “First Vest Date”). Thereafter, Restricted Stock Units shall vest and become Vested Units as to an additional [ ]% of the Restricted Stock Units on each three month anniversary of the First Vest Date for the next [ ] three-month periods (together with the First Vest Date, each a “Vest Date”). Except as otherwise specifically provided herein, there shall be no proportionate or partial vesting in the periods prior to each Vest Date, and all vesting shall occur only on the applicable Vest Date.

(b) Continuous Employment Required. Except as otherwise provided in this Section 2, no Restricted Stock Units shall become Vested Units unless the Recipient is, and has been at all times since the date of grant of the Restricted Stock Units, an [employee/officer/director] of the Company. If the Recipient ceases to be an [employee/officer/director] for any reason, then any Restricted Stock Units that are not Vested Units, and that do not become Vested Units pursuant to Section 6 as a result of such termination, shall be forfeited immediately upon such cessation and revert back to the Company without any payment to the holder thereof. To the extent applicable for all purposes of this Agreement, “employment” shall be defined in accordance with the provisions of Section 1.421-7(h) of the regulations promulgated under the Code or any successor regulations.

(c) Settlement of Restricted Stock Units. The Recipient shall receive one share of the Company’s common stock, par value \$0.01 per share (the “Common Stock”), for each Restricted Stock Unit awarded hereunder that becomes a Vested Unit, free and clear of the restrictions set forth in this Agreement, except for any restrictions necessary to comply with federal and state securities laws. The Company shall reflect the Recipient’s ownership of such shares on its stock records as of the date on which Restricted Stock Units become Vested Units.

3. Non-transferability of Restricted Stock Units; No Equity Securities. The Restricted Stock Units may not be transferred, assigned, pledged, or hypothecated in any manner (whether by operation of law or otherwise). Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of any Restricted Stock Units, or upon the level of any attachment or similar process upon the Restricted Stock Units, the Restricted Stock Units and the associated rights contemplated by this Agreement shall, at the election of the Company, become null, void, and of no further force or effect. The Restricted Stock Units awarded hereunder do not represent equity securities of the Company and do not carry any voting or dividend rights.

4. No Special Engagement Rights. Nothing contained in the Plan or this Agreement shall be construed or deemed by any Person under any circumstances to bind the Company to continue the engagement of the Recipient for the period within which the Restricted Stock Units may become Vested Units.

5. Adjustments.

(a) General. If: (i) the Company shall at any time be involved in a merger or other transaction in which shares of Common Stock are changed or exchanged, (ii) the Company shall subdivide or combine shares of Common Stock or the Company shall declare a dividend payable in shares of Common Stock, other securities or other property, (iii) the Company shall effect a cash dividend the amount of which, on a per share of Common Stock basis, exceeds 10% of the Fair Market Value of a share of Common Stock at the time the dividend is declared, or the Company shall effect any other dividend or other distribution on shares of Common Stock in the form of cash, or a repurchase of shares of Common Stock, that the Board determines by resolution is special or extraordinary in nature or that is in connection with a transaction that the Company characterizes publicly as a recapitalization or reorganization involving shares of Common Stock, or (iv) any other event shall occur, which in the judgment of the Board or Committee necessitates an adjustment to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, proportionately adjust the number of Restricted Stock Units covered by this Agreement and the terms of the restrictions on such Restricted Stock Units.

(b) Committee Authority to Make Adjustments. Adjustments under this Section 5 will be made by the Committee, whose determination as to what adjustments, if any, will be made and the extent thereof will be final and binding.

6. Change of Control.

(a) General. In the event of a Change of Control, the Recipient shall, with respect to any Restricted Stock Units that are not Vested Units, be entitled to the rights and benefits, and be subject to the limitations, set forth in Section 15 of the Plan.

(b) Acceleration. In the event of a Change of Control, the vesting schedule set forth in Section 2(a) of this Agreement shall be accelerated such that:

[all Restricted Stock Units that are not Vested Units subject to this Agreement shall immediately vest and become Vested Units as of the date of the Change of Control.]

[(i) if the Recipient is not offered engagement or continued engagement by the Successor Entity upon consummation of such Change of Control or (ii) if prior to the first anniversary of such Change of Control, the Recipient is (A) discharged by the Successor Entity other than for Cause or (B) resigns from his or her engagement with the Successor Entity as a result of a Constructive Termination (as defined below), the Vesting Schedule set forth in Section 2(a) of this Agreement shall be accelerated such that all Restricted Stock Units that are not Vested Units subject to this Agreement shall, immediately prior to the consummation of such Change of Control (with regard to the provisions of subsection (i) above) or the cessation of the Recipient's engagement with the Successor Entity (with regard to the provisions of subsections (ii)(A) and (ii)(B) above), vest and become Vested Units.

For the purposes of this Section 6(b), a "Constructive Termination" shall occur if the Recipient resigns from his or her engagement with the Successor Entity within thirty days of (i) a material reduction in the

Recipient's annual base salary or job responsibility or (ii) the relocation of the Recipient's principal office location to a facility or location located more than fifty miles from the Recipient's principal office location on the date of the Change of Control.]

9. Withholding Taxes. The Recipient acknowledges and agrees that the Recipient (and not the Company) shall be responsible for the Recipient's federal, state, local or foreign tax liability and any of the other tax consequences that may arise as a result of the transactions contemplated by this Agreement. To the extent that the receipt or settlement of the Restricted Stock Units results in income to the Recipient for federal, state, or local income tax purposes, except as provided below, the Recipient shall deliver to the Company at the time that the Company is obligated to withhold taxes in connection with such receipt, vesting, or settlement, as the case may be, such amount as the Company requires to meet its withholding obligation under applicable tax laws or regulations. If the Recipient fails to do so, the Company has the right and authority to deduct or withhold from other compensation payable to the Recipient an amount sufficient to satisfy its withholding obligations. The Recipient may satisfy the withholding requirement in connection with the settlement of the Restricted Stock Units, in whole or in part, by electing to have the Company withhold for its own account that number of shares of Common Stock otherwise deliverable to the Recipient upon settlement having an aggregate Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax that the Company must withhold in connection with the settlement of such Restricted Stock Units. The Recipient's election must be irrevocable, in writing, and submitted to the Secretary of the Company before the applicable Vest Date. The Fair Market Value of any fractional share of Common Stock not used to satisfy the withholding obligation (as determined on the date the tax is determined) will be paid to the Recipient in cash. The Company's obligation to deliver Vested Units to the Recipient is subject to the Recipient's satisfaction of the foregoing requirements.

10. Miscellaneous.

(a) Except as provided herein, this Agreement may not be amended or otherwise modified unless evidenced in writing and signed by the Company and the Recipient.

(b) All notices under this Agreement shall be mailed, delivered by hand, or delivered by electronic means to the parties pursuant to the contact information for the applicable party set forth in the records of E\*Trade Corporate Financial Services, Inc. or any successor third-party equity plan administrator designated by the Company from time to time (the "Administrative Service"), or at such other address as may be designated in writing by either of the parties to the other party.

(c) This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

(d) The Recipient hereby accepts, by signature or electronic means delivered to the Administrative Service, this Agreement and agrees to the terms and conditions of this Agreement and the Company's 2011 Equity Award Plan. The Recipient hereby acknowledges receipt of a copy of the Company's 2011 Equity Award Plan.

Date of Grant: [                      ]

CARBONITE, INC.

By: \_\_\_\_\_  
Name:  
Title:

SECOND AMENDMENT  
TO LOAN AND SECURITY AGREEMENT

This Second Amendment to Loan and Security Agreement (this "Amendment") is entered into as of August 30, 2013, by and between COMERICA BANK ("Bank") and CARBONITE, INC., a Delaware corporation ("Borrower").

RECITALS

Borrower and Bank are parties to that certain Loan and Security Agreement dated as of May 11, 2011, as amended, modified, supplemented, extended or restated from time to time, including by that certain First Amendment to Loan and Security Agreement dated as of August 30, 2012 (collectively, the "Agreement"). The parties desire to amend the Agreement in accordance with the terms of this Amendment.

NOW, THEREFORE, for good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

1. Exhibit A to the Agreement is hereby amended by amending and restating the following defined term to read as follows:

"Revolving Maturity Date" means September 30, 2013.

2. No course of dealing on the part of Bank or its officers, nor any failure or delay in the exercise of any right by Bank, shall operate as a waiver thereof, and any single or partial exercise of any such right shall not preclude any later exercise of any such right. Bank's failure at any time to require strict performance by Borrower of any provision shall not affect any right of Bank thereafter to demand strict compliance and performance. Any suspension or waiver of a right must be in writing signed by an officer of Bank.

3. Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement (as amended by this Amendment). The Agreement, as amended hereby, shall be and remain in full force and effect in accordance with its terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Bank under the Agreement, as in effect prior to the date hereof. Borrower ratifies and reaffirms the continuing effectiveness of all promissory notes, guaranties, security agreements, mortgages, deeds of trust, environmental agreements, and all other instruments, documents and agreements entered into in connection with the Agreement. Borrower hereby further affirms its absolute and unconditional promise to pay to Bank the Advances, all other Credit Extensions and all other amounts due under the Letters of Credit and the other Loan Documents (including, without limitation, the Obligations), at the times and in the amounts provided for therein. Borrower confirms and agrees that the obligations of Borrower to Bank under the Agreement as supplemented hereby are secured by and entitled to the benefits of the Loan Documents. The parties agree that this Amendment shall be deemed to be one of the Loan Documents under the Agreement. Nothing in this Amendment shall constitute a satisfaction of any of Borrower's Obligations.

4. In order to induce Bank to enter into this Amendment, Borrower hereby represents and warrants to Bank as follows:

4.1 The representations and warranties contained in the Agreement and the other Loan Documents were true and correct in all material respects when made and continue to be true and correct in all material respects as of the date of this Amendment.

4.2 Both before and immediately after giving effect to this Amendment and the other transactions contemplated hereby, no Event of Default, or other event or circumstance that with the giving of notice or the passage of time could become an Event of Default, has occurred and is continuing.



4.3 The execution, delivery, and performance by Borrower of this Amendment and the other documents, instruments and agreements to which Borrower is a party delivered or to be delivered to Bank in connection herewith (i) are within the corporate powers of Borrower and have been duly authorized by all necessary corporate action on the part of Borrower, (ii) do not require any governmental or third party consents, except those which have been duly obtained and are in full force and effect, (iii) do not and will not conflict with any requirement of law, Borrower's or any Guarantor's articles or certificate of incorporation, bylaws, operating agreement, partnership agreement, minutes or resolutions, (iv) after giving effect to this Amendment, do not result in any breach of or constitute a default under any agreement or instrument to which Borrower, any Guarantor or any of their respective Subsidiaries is a party or by which they or any of their respective properties are bound, and (v) do not result in or require the creation or imposition of any mortgage, deed of trust, pledge, lien, security interest or other charge or encumbrance of any nature upon any of the assets or properties of Borrower or any Guarantor, other than those in favor of Bank.

4.4 This Amendment and the other instruments and agreements delivered or to be delivered to Bank in connection herewith have been duly executed and delivered by Borrower and constitutes the legal, valid, and binding obligation of Borrower, enforceable against Borrower in accordance with their respective terms, except to the extent that (i) enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws of general application affecting the rights and remedies of creditors, (ii) enforcement may be subject to general principles of equity, and (iii) the availability of the remedies of specific performance and injunctive relief may be subject to the discretion of the court before which any proceedings for such remedies may be brought.

4.5 Borrower does not have any right of offset, defense, counterclaim, dispute or disagreement of any kind or nature whatsoever with respect to any of its liabilities, obligations or indebtedness arising under or in connection with any Loan Document.

5. As a condition to the effectiveness of this Amendment, Bank shall have received, in form and substance satisfactory to Bank, the following:

(a) this Amendment, duly executed by Borrower;

(b) an Affirmation and Amendment of Guaranties and Security Agreement, duly executed by each Guarantor;

(c) corporate resolutions and incumbency certifications, duly executed by Borrower and each Guarantor;

(d) an amount equal to all Bank Expenses incurred through the date of this Amendment, which amounts may be debited from any of Borrower's accounts with Bank; and

(e) such other documents, instruments and certificates and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

6. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

*[Remainder of Page Left Blank]*

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IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the first date above written.

CARBONITE, INC.

By: /s/ Danielle Sheer

Title: VP & General Counsel

COMERICA BANK

By: /s/ Jason Pan

Title: Vice President

*[Signature Page to Second Amendment to Loan and Security Agreement]*

**Subsidiaries of Carbonite, Inc.**

**Subsidiary**

6745385 CANADA INC.  
Carbonite China Holdings, LLC  
Carbonite India Holdings, LLC  
Carbonite Securities Corporation  
Carbonite Holdings, Inc.  
Carbonite International Holdings, B.V.

**Jurisdiction**

Canada  
United States (Delaware)  
United States (Delaware)  
United States (Massachusetts)  
United States (Delaware)  
Netherlands (Amsterdam)

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-192400) and Form S-8 (Nos. 333-187089, 333-176373 and 333-179988) of Carbonite, Inc. and in the related Prospectus of our reports dated March 5, 2014, with respect to the consolidated financial statements of Carbonite, Inc., and the effectiveness of internal control over financial reporting of Carbonite, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2013.

/s/ Ernst & Young LLP

Boston, Massachusetts  
March 5, 2014

## 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 5, 2014

/s/ David Friend

David Friend  
Chief Executive Officer

## CERTIFICATIONS

I, Anthony Folger, 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 5, 2014

/s/ Anthony Folger

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Anthony Folger  
Chief Financial Officer

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

In connection with the Annual Report of Carbonite, Inc. (the Company) on Form 10-K for the period ending December 31, 2013 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

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David Friend  
President, Chairman of the Board and  
Chief Executive Officer

March 5, 2014

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, 2013 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Anthony Folger, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Anthony Folger

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Anthony Folger  
Chief Financial Officer

March 5, 2014

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.