
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2000.**
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

Commission file number 0-27275

AKAMAI TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

04-3432319
(I.R.S. Employer
Identification Number)

500 Technology Square
Cambridge, MA 02139
(617) 250-3000
(Address, Including Zip Code, and Telephone Number, Including Area Code,
of Registrant's Principal Executive Offices)

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

The number of shares outstanding of the registrant's Common Stock as of May 1, 2000: 104,287,946 shares.

AKAMAI TECHNOLOGIES, INC.
FORM 10-Q
For the Quarterly Period Ended March 31, 2000
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AKAMAI TECHNOLOGIES, INC.

CONSOLIDATED BALANCE SHEETS

*(in thousands, except share and per share data)
(unaudited)*

	<u>December 31, 1999</u>	<u>March 31, 2000</u>
Assets		
Current assets:		
Cash and cash equivalents	\$269,554	\$ 26,612
Short-term investments	—	198,554
Accounts receivable, net of allowance for doubtful accounts of \$70 and \$205 as of December 31, 1999 and March 31, 2000, respectively	1,588	3,136
Prepaid expenses and other current assets	<u>2,521</u>	<u>8,778</u>
Total current assets	273,663	237,080
Property and equipment, net	23,875	43,475
Intangible assets, net	434	186,874
Other assets	<u>2,843</u>	<u>4,384</u>
Total assets	<u><u>\$300,815</u></u>	<u><u>\$471,813</u></u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 8,987	\$ 17,071
Accrued expenses	2,083	7,026
Accrued payroll and benefits	3,614	3,831
Deferred revenue	698	3,586
Current portion of obligations under capital lease and equipment loan	504	588
Current portion of long-term debt	<u>2,751</u>	<u>64</u>
Total current liabilities	18,637	32,166
Obligations under capital leases and equipment loan, net of current portion ...	<u>733</u>	<u>682</u>
Total liabilities	<u>19,370</u>	<u>32,848</u>
Stockholders' equity:		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized, no shares issued and outstanding at December 31, 1999 and March 31, 2000	—	—
Common stock, \$0.01 par value; 300,000,000 shares authorized; 92,498,525 issued and outstanding at December 31, 1999; 93,800,305 shares issued and outstanding at March 31, 2000	925	938
Additional paid-in capital	374,739	559,051
Notes receivable from officers for stock	(5,907)	(6,220)
Deferred compensation	(29,731)	(27,541)
Accumulated other comprehensive income	—	6,715
Accumulated deficit	<u>(58,581)</u>	<u>(93,978)</u>
Total stockholders' equity	<u>281,445</u>	<u>438,965</u>
Total liabilities and stockholders' equity	<u><u>\$300,815</u></u>	<u><u>\$471,813</u></u>

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

AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)
(unaudited)

	For the three months ended March 31,	
	<u>1999</u>	<u>2000</u>
Revenue	\$ —	\$ 7,222
Operating expenses:		
Cost of service	186	6,636
Engineering and development (excludes \$60 and \$1,108, respectively, of equity related compensation disclosed separately below)	755	6,915
Sales, general and administrative (excludes \$818 and \$1,082, respectively, of equity related compensation disclosed separately below)	1,090	21,504
Amortization of intangible assets	11	9,000
Equity related compensation	<u>878</u>	<u>2,189</u>
Total operating expenses	<u>2,920</u>	<u>46,244</u>
Operating loss	(2,920)	(39,022)
Interest income, net	<u>33</u>	<u>3,625</u>
Net loss	(2,887)	(35,397)
Dividends and accretion to preferred stock redemption value	<u>4</u>	<u>—</u>
Net loss attributable to common stockholders	<u>\$(2,891)</u>	<u>\$(35,397)</u>
Basic and diluted net loss per share	\$ (0.17)	\$ (0.47)
Weighted average common shares outstanding	17,045	75,029

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

AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	For the three months ended March 31,	
	1999	2000
Cash flows from operating activities:		
Net loss	\$(2,887)	\$ (35,397)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	168	12,062
Amortization of deferred compensation	878	2,190
Interest on notes receivable from officers for stock	—	(85)
Changes in operating assets and liabilities, net of effects of acquisition of Network24:		
Accounts receivable	—	(1,240)
Prepaid expenses and other assets	(428)	(7,742)
Accounts payable and accrued expenses	(144)	12,653
Deferred revenue	—	2,889
Net cash used in operating activities	(2,413)	(14,670)
Cash flows from investing activities:		
Purchases of property and equipment	(955)	(22,087)
Cash paid for acquisition of Network24, net of cash received	—	(11,716)
Purchase of investments	(475)	(191,834)
Net cash used in investing activities	(1,430)	(225,637)
Cash flows from financing activities:		
Proceeds from equipment financing loan	1,500	—
Payments on capital leases and equipment financing loan	(69)	(126)
Payment on the senior subordinated notes	—	(2,687)
Proceeds from the exercise of stock options	—	184
Proceeds from the issuance of restricted common stock	293	—
Net cash provided by (used in) financing activities	1,724	(2,629)
Effects of translation on cash and cash equivalents	—	(6)
Net decrease in cash and cash equivalents	(2,119)	(242,942)
Cash and cash equivalents, beginning of the period	6,805	269,554
Cash and cash equivalents, end of the period	\$ 4,686	\$ 26,612

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

AKAMAI TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Nature of Business

Akamai Technologies, Inc. (“Akamai” or the “Company”) provides global delivery services for Internet content, streaming media and applications that improves Web site speed, quality, reliability and scalability and protects against Web site crashes due to demand overloads. Akamai markets its services to large businesses and other businesses with an Internet focus. Akamai’s services deliver Akamai’s customers’ Web content and applications through a worldwide server network by locating the content and applications geographically closer to users.

The Company has a single operating segment, global delivery services for Internet content, streaming media and applications. The Company has no organizational structure dictated by product lines, geography or customer type. Substantially all revenue earned to date has been generated from U.S. based customers.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by the Company and reflect all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary for a fair statement of the results for the interim periods. The consolidated financial statements have been prepared in accordance with the regulations of the Securities and Exchange Commission (“SEC”), but omit certain information and footnote disclosure necessary to present the statements in accordance with generally accepted accounting principles for annual financial statements. Results for the interim periods are not necessarily indicative of results for the entire fiscal year. These statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 1999.

The consolidated financial statements include the accounts of Akamai and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

3. Cash, Cash Equivalents, and Short-Term Investments

Cash and cash equivalents consist of cash held in bank deposit accounts and short-term, highly liquid investments with original maturities of three months or less at the date of purchase. Cash equivalents are carried at cost, which approximates fair market value. Short-term investments consist of high quality corporate and governmental securities with original maturities of more than three months at the date of purchase. The Company considers such securities to be classified as “available-for-sale” in accordance with Statement of Financial Accounting Standards No. 115, “Accounting for Certain Investments in Debt and Equity Securities.” Short-term investments are carried at fair market value with any unrealized gain or loss recorded as a separate element of stockholders’ equity.

4. Net Loss per Share

Basic net loss per share is computed using the weighted average number of common shares outstanding during the period. Dilutive net loss per share is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of potential common stock. Potential common stock consists of convertible preferred stock, unvested restricted common stock, stock options and warrants. All potential common stock have been excluded from the calculation of diluted loss per share since its inclusion would be anti-dilutive.

AKAMAI TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(*unaudited*)

The following table sets forth potential common stock excluded from the calculation of earnings per share since its inclusion would be antidilutive:

	Quarter ended March 31,	
	1999	2000
Stock options	7,217,400	14,062,343
Unvested restricted common stock	22,879,524	16,110,879
Convertible preferred stock	19,800,000	—
Warrants	—	2,033,621

4. Comprehensive Loss

The following table presents the calculation of comprehensive loss and its components for the three months ended March 31, 1999 and 2000 (in thousands):

	March 31,	
	1999	2000
Net loss	\$(2,887)	\$(35,397)
Other comprehensive income (loss):		
Cumulative foreign currency translation adjustment	—	(5)
Unrealized gain on investment	—	<u>6,720</u>
Comprehensive loss	<u><u>\$(2,887)</u></u>	<u><u>\$(28,682)</u></u>

5. Acquisitions

Network24 Communications, Inc.

In February 2000, the Company acquired all of the outstanding common and preferred stock of Network24 Communications Inc. (“Network24”) in exchange for 599,152 shares of Akamai common stock and \$12.5 million in cash. Akamai also issued options and warrants exercisable for 195,862 shares of Akamai’s common stock in exchange for all outstanding options and warrants exercisable for Network24 common stock. The value of the acquisition was approximately \$198.2 million based on the fair value of the consideration paid plus direct acquisition costs. The acquisition has been accounted for using the purchase method. Accordingly, the results of operations of Network24 subsequent to February 10, 2000 have been included in Akamai’s statement of operations for the three months ended March 31, 2000. Pro forma financial information combining the results of operations of Akamai and Network24 as if the acquisition had occurred at the beginning of the quarter ended March 31, 1999 and 2000 would not be significantly different than the reported actual amounts.

INTERVU Inc.

In April 2000, the Company acquired all of the outstanding common and preferred stock of INTERVU Inc. (“INTERVU”) in exchange for 9.9 million shares of Akamai common stock. Akamai also assumed options and warrants exercisable for 2.1 million shares of Akamai’s common stock. The value of the acquisition is estimated to be approximately \$2.8 billion based on the fair value of the consideration paid plus direct acquisition costs. The acquisition will be accounted for using the purchase method.

AKAMAI TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(unaudited)

6. Recent Accounting Pronouncements

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (“SAB”) No. 101, “Revenue Recognition in Financial Statements,” as amended by SAB No. 101A, which is effective no later than the quarter ending June 30, 2000. SAB No. 101 clarifies the Securities and Exchange Commission’s views regarding the recognition of revenue. Akamai will adopt SAB No. 101 in the second quarter of 2000. Akamai does not expect the application of SAB No. 101 to have a material impact on their financial position or results of operations.

In March 2000, the Financial Accounting Standard Board issued FASB Interpretation (“FIN”) No. 44, “Accounting for Certain Transactions Involving Stock Compensation — an Interpretation of APB Opinion No. 25.” FIN No. 44 primarily clarifies (a) the definition of an employee for purposes of applying APB Opinion No. 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of previously fixed stock options or awards, and (d) the accounting for an exchange of stock compensation awards in a business combination. FIN No. 44 is effective July 1, 2000, but certain conclusions in FIN No. 44 cover specific events that occurred after either December 15, 1998 or January 12, 2000. Akamai does not expect the application of FIN No. 44 to have a material impact on its financial position or results of operations.

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

This Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. For this purpose, statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects" and similar expressions are intended to identify forward-looking statements. These forward-looking statements involve risks and uncertainties and are not guarantees of future performance. Actual results may differ materially from those indicated in such forward-looking statements as a result of certain factors including, but not limited to, those set forth under the heading "Factors Affecting Future Operating Results."

Overview

Akamai provides global delivery services for Internet content, streaming media and applications that improve Web site speed, quality, reliability and scalability and protect against Web site crashes due to demand overloads. Akamai markets its services to large businesses and other businesses with an Internet focus. Akamai's services deliver Akamai's customers' Web content and applications through a worldwide server network by locating the content and applications geographically closer to users.

Since Akamai's inception, Akamai has incurred significant losses, and as of March 31, 2000, Akamai had an accumulated deficit of \$94.0 million. Akamai has not achieved profitability on a quarterly or an annual basis, and anticipates that it will continue to incur net losses. Akamai expects to incur significant engineering and development and sales, general and administrative expenses and, as a result, Akamai will need to generate significant revenue for it to achieve and maintain profitability.

In the first quarter, Akamai entered into agreements to acquire all the outstanding common and preferred stock of Network24 Communications, Inc. ("Network24") and INTERVU Inc. ("INTERVU"). Both of these companies were acquired to accelerate market leadership in streaming media. The Network24 acquisition was consummated on February 10, 2000 in exchange for 599,152 shares of Akamai common stock and \$12.5 million in cash. The INTERVU acquisition was consummated on April 20, 2000 in exchange of 9.9 million shares of Akamai common stock. The results of operations of Network24 subsequent to February 10, 2000 have been included in Akamai's statement of operations for the three months ended March 31, 2000. The INTERVU acquisition is not reflected in the consolidated financial statements for the quarter ended March 31, 2000. Both acquisitions are accounted for using the purchase method of accounting.

Akamai derives its revenue from the sale of its FreeFlow and FreeFlow Streaming services and other services under contracts with terms typically ranging from 12 to 36 months. Akamai recognizes revenue based on fees for the amount of Internet content delivered through its services. These contracts also provide for minimum monthly fees. Customers are typically billed monthly in advance for minimums and monthly in arrears for usage above the minimums. Akamai also derives revenue for implementation, installation, usage and other fees that would be recognized over the period of the related contracts.

To date, substantially all of Akamai's revenue has been derived from customers based in the United States. Akamai expects that revenue from customers based outside the United States will increase in future periods. To date, substantially all of Akamai's revenue has been derived from direct sales and Akamai expects that revenue through indirect distribution channels will increase in future periods. For the three months ended March 31, 2000, Apple Computer accounted for 21% of Akamai's revenue. No other customers account for more than 5% of revenue for the quarter ended March 31, 2000.

Cost of services consists of depreciation of network equipment used in providing Akamai's services, monthly fees paid to network providers for bandwidth and colocation of Akamai's servers. Akamai enters into contracts with third-party network providers with terms typically ranging from six months to three years. These contracts may commit Akamai to minimum monthly fees plus additional fees for bandwidth usage above Akamai's contracted level.

Engineering and development expenses consist primarily of salaries and related personnel costs and costs related to the design, development, testing, deployment and enhancement of Akamai's services and Akamai's

network. Akamai has to date expensed its engineering and development costs as incurred. Akamai believes that research and development is critical to its strategic product development objectives and intends to continue to enhance its technology to meet the changing requirements of the market demand. As a result, Akamai expects its engineering and development expenses to increase in the future.

Sales, general and administrative expenses consist primarily of salaries and related costs of sales and marketing, operations and finance personnel and recruiting expenses, professional fees and legal and accounting services. Akamai expects that sales, general and administrative expenses will increase in the future as Akamai hires additional personnel, expands its operations, initiates additional marketing programs, establishes sales offices in new locations and incurs additional costs related to the growth of its business and its operations as a public company.

Results of Operations

Revenue. Akamai recorded no revenue for the three months ended March 31, 1999. Revenue for the three months ended March 31, 2000 was \$7.2 million. The increase in revenue was due to sales of services, which were commercially introduced in April 1999. The revenue attributable to the acquisition of Network24 was not significant for the quarter ended March 31, 2000.

Cost of Service. Cost of service expense was \$186,000 for the three months ended March 31, 1999 and represented 6.4% of total operating expenses. Cost of service expense was \$6.6 million for the three months ended March 31, 2000 and represented 14.4% of total operating expenses for the three months ended March 31, 2000. The increase in cost of service expense was due to the commencement of testing of Akamai's FreeFlow service in early 1999 and commercial introduction of services in April 1999. Gross margins, defined as revenue less cost of service, were negative for the three months ended March 31, 1999 largely due to the fixed cost of building a global network of servers. Gross margins were positive for the quarter ended March 31, 2000 due to an increase in the number of customers and volume of revenue relative to the growth in network infrastructure. The average selling price of Akamai's services as measured in dollars per Mega bits per second, or Mbps, exceeds Akamai's average cost of bandwidth as measured in dollars per Mbps. While gross margins are expected to increase over time, fluctuations are possible as fixed costs increase due to the rapid expansion of the Company's global network of servers.

Engineering and Development. Engineering and development expenses were \$755,000 for the three months ended March 31, 1999 and represented 25.9% of total operating expenses in the three months ended March 31, 1999. Engineering and development expenses were \$6.9 million for the three months ended March 31, 2000 and represented 15.0% of total operating expenses for the three months ended March 31, 2000. The increase was attributable to personnel and payroll related expenses resulting from an increase in headcount. Akamai's West Coast office had 49 research and development employees as of March 31, 2000.

Sales, General and Administrative. Sales, general and administrative expenses were \$1.1 million for the three months ended March 31, 1999 and represented 37.3% of total operating expenses in the three months ended March 31, 1999. Sales, general and administrative expenses for the three months ended March 31, 2000 were \$21.5 million and represented 46.5% of total operating expenses for the three months ended March 31, 2000. Approximately \$8.2 million of the increase was due to sales, general and administrative personnel and payroll related expenses resulting from an increase in headcount. Approximately \$3.5 million of the increase was attributable to advertising campaigns initiated during the period.

Amortization of Intangible Assets. Amortization of intangible assets for the three months ended March 31, 2000 was \$9.0 million and represented 19.5% of total operating expenses for the three months ended March 31, 2000. The expense primarily relates to the acquisition of Network24 and the associated amortization of intangible assets acquired as part of the acquisition. These intangible assets are being amortized on a straight-line basis over three years. The Company expects amortization of intangible assets to increase by approximately \$125.0 million per quarter as a result of the acquisition of INTERVU.

Equity Related Compensation. Equity related compensation expense consist of the amortization of deferred compensation resulting from the grant of stock options or shares of restricted stock at exercise or sale prices deemed to be less than the fair value of the common stock on the grant date. At March 31, 2000, deferred compensation, which is a component of stockholders' equity, was \$27.5 million. This amount is being

amortized ratably over the vesting periods of the applicable stock options and restricted shares, typically four years, with 25% vesting on the first anniversary of the grant date and the balance vesting 6.25% quarterly thereafter. Akamai expects to incur equity related compensation expenses of at least \$8.7 million in 2000, \$8.7 million in 2001, \$8.7 million in 2002 and \$3.6 million in 2003.

Interest Income, Net. Interest income, net was \$33,000 and \$3.6 million for the three months ended March 31, 1999 and 2000, respectively. Interest income, net consists of interest earned on Akamai's cash, cash equivalent and short-term investment balances, net of interest expense. Interest income increased in 2000 due to interest on proceeds from the sale of preferred stock in several private placements and the sale of common stock in Akamai's initial public offering during 1999.

Liquidity and Capital Resources

Initially, Akamai financed its operations primarily through private sales of its capital stock and issuance of senior subordinated notes. In November 1999, Akamai sold shares of common stock through an initial public offering. The net proceeds to Akamai from the offering were \$217.6 million after deducting an aggregate of \$16.4 million in underwriting discounts and commissions to the underwriters. Akamai has also financed its operations through borrowings under long-term debt agreements for the purchase of capital equipment in the amount of \$1.5 million. At March 31, 2000, cash, cash equivalents and short-term investments totaled \$225.2 million.

Cash used in operating activities was \$2.4 million for the three months ended March 31, 1999 and \$14.7 million for the three months ended March 31, 2000. Net cash flows used in operating activities for the three months ended March 31, 2000 reflects increasing net losses partially offset by increases in accounts payable, depreciation and amortization and accrued expenses.

Cash used in investing activities was \$1.4 million for the three months ended March 31, 1999 and \$225.6 million for the three months ended March 31, 2000. Net cash used for investing activities in the current period reflects purchases of short-term investments. Purchases of property and equipment, consisting primarily of servers for deployment and expansion of Akamai's network, information systems used to operate the business, and facilities improvements of \$22.1 million. Also during the current quarter Akamai made a net cash payment of \$11.7 million for the acquisition of Network24. Akamai also invested \$5.0 million in the preferred stock of an Internet company which was converted to common stock upon the completion of the company's initial public offering.

Cash provided by financing activities was \$1.7 million for the three months ended March 31, 1999 and cash used in financing activities was \$2.6 million for the three months ended March 31, 2000. Cash provided by financing activities for the three months ended March 31, 1999 was derived primarily from an equipment line of credit of \$1.5 million, collateralized by the property and equipment, which bears interest at the greater of 7.0% per year or the current 36 month treasury yield plus 275 basis points. At March 31, 2000, approximately \$1.0 million was outstanding under this line of credit. In December 1999, Akamai exercised its right to pay off outstanding 15% subordinated demand notes of which \$12.2 million was paid in December 1999. During the quarter ended March 31, 2000 \$2.7 million was paid. As of March 31, 2000, \$64,000 remained outstanding and is expected to be paid off in the second quarter of fiscal 2000.

Akamai believes that the net proceeds from the initial public offering, together with its current cash, cash equivalents and short-term investments, will be sufficient to meet its anticipated cash needs for working capital and capital expenditures for at least the next 12 months. If cash generated from operations is insufficient to satisfy Akamai's liquidity requirements, it may seek to sell additional equity or debt securities. If additional funds are raised through the issuance of debt securities, these securities could have rights, preferences and privileges senior to those accruing to holders of common stock, and the term of this debt could impose restrictions on Akamai's operations. The sale of additional equity or convertible debt securities could result in additional dilution to Akamai's stockholders, and Akamai cannot be certain that additional financing will be available in amounts or on terms acceptable to Akamai, if at all. If Akamai is unable to obtain this additional

financing, it may be required to reduce the scope of its planned technology, services or product development and sales and marketing efforts, which could harm its business, financial condition and operating results.

Akamai has designed its services for use in the year 2000 and beyond and believes it is year 2000 ready. While Akamai has not experienced any year 2000 issues to date, Akamai has developed a contingency plan to address situations that may result if it experiences significant year 2000 problems. As part of Akamai's contingency plan, it maintains a fully operational back-up site and conducts network monitoring 24 hours per day. Akamai's back-up site is located at one of its server sites and is equipped with power generation and communication alternatives.

Akamai's services are used in conjunction with larger networks involving sophisticated hardware and software products supplied by other vendors. Each of Akamai's customers' networks involves different combinations of third-party products. Akamai cannot evaluate whether all of these products are year 2000 ready. Akamai may face claims based on year 2000 problems in other companies' products or based on issues arising from the integration of multiple products within the overall network. Although no claims of this kind have been made, Akamai may in the future be required to defend its services in legal proceedings which could be expensive regardless of the merits of these claims.

Recent Accounting Pronouncements

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," as amended by SAB No. 101A, which is effective no later than the quarter ending June 30, 2000. SAB No. 101 clarifies the Securities and Exchange Commission's views regarding the recognition of revenue. Akamai will adopt SAB No. 101 in the second quarter of 2000. Akamai does not expect the application of SAB No. 101 to have a material impact on their financial position or results of operations.

In March 2000, the Financial Accounting Standard Board issued FASB Interpretation ("FIN") No. 44, "Accounting for Certain Transactions Involving Stock Compensation — an Interpretation of APB Opinion No. 25." FIN No. 44 primarily clarifies (a) the definition of an employee for purposes of applying APB Opinion No. 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of previously fixed stock options or awards, (d) and the accounting for an exchange of stock compensation awards in a business combination. FIN No. 44 is effective July 1, 2000, but certain conclusions in FIN No. 44 cover specific events that occurred after either December 15, 1998 or January 12, 2000. Akamai does not expect the application of FIN No. 44 to have a material impact on their financial position or results of operations.

Factors Affecting Future Operating Results

The following important factors, among other things, could cause Akamai's actual operating results to differ materially from those indicated or suggested by forward-looking statements made in this Form 10-Q or presented elsewhere by management from time to time.

Akamai's business is difficult to evaluate because it has a limited operating history.

Akamai was founded in August 1998 and began offering its services commercially in April 1999. Akamai has limited meaningful historical financial data upon which to base planned operating expenses and upon which investors may evaluate it and its prospects. In addition, Akamai's operating expenses are largely based on anticipated revenue trends and a high percentage of its expenses are and will continue to be fixed in the short-term. Risks and difficulties are frequently encountered by companies like Akamai in a new and rapidly evolving market. Akamai's ability to sell its services and the level of success it achieves depends, among other things, on the level of demand for delivery services for graphics, streaming media, applications and other Internet content, which is a new and rapidly evolving market. Akamai's business strategy may be unsuccessful, and it may not successfully address the risks it faces.

Akamai is entirely dependent on its Internet content delivery services and its future revenue depends on the commercial success of its services.

Currently, Akamai's future growth depends on the commercial success of its Internet content delivery services and other services and products it may develop and/or offer. While Akamai has been selling its services commercially since April 1999, sales may not continue in the future. Akamai's other services and products under development may not achieve widespread market acceptance. The future revenue growth of FreeFlow Streaming will also depend, in part, on customer acceptance of a combined or integrated Akamai/INTERVU service offering. Failure of Akamai's current and planned services to operate as expected could hinder or prevent their adoption. If Akamai's target customers do not adopt, purchase and successfully deploy Akamai's current and planned services, Akamai's revenue will not grow significantly and its business, results of operations and financial condition will be seriously harmed. In addition, to the extent Akamai promotes any portion of its technology as an industry standard by making it readily available to users for little or no charge, Akamai may not receive revenue that it might otherwise have received.

The Internet content delivery market is new and Akamai's business will suffer if it does not develop as Akamai expects.

The market for Internet content delivery services is new. Akamai cannot be certain that a broad-based market for its service will emerge or be sustainable. If this market does not develop, or develops more slowly than Akamai expects, its business, results of operations and financial condition will be seriously harmed.

Any failure of Akamai's network infrastructure could lead to significant costs and disruptions which could reduce Akamai's revenue and harm its business, financial results and reputation.

Akamai's business is dependent on providing its customers with fast, efficient and reliable Internet content delivery services. To meet these customer requirements Akamai must protect its network infrastructure against damage from:

- sabotage and vandalism;
- human error;
- physical or electronic intrusion and security breaches;
- fire, earthquake, flood and other natural disasters;
- power loss; and
- similar events.

Despite the efforts of Akamai, its network infrastructure may come under attack by sabotage or vandalism. In addition, the occurrence of a natural disaster or other unanticipated problems at one or more of Akamai's servers could result in service interruptions or significant damage to equipment. Akamai currently provides a FreeFlow service guarantee that its networks will deliver Internet content 24 hours a day, seven days a week, 365 days a year. If Akamai does not provide this service, the customer does not pay for its services on that day. Any widespread loss or interruption of services would reduce its revenue, and could harm its business, financial results and reputation.

Because Akamai's Internet content delivery services are complex and are deployed in complex environments, they may have errors or defects that could seriously harm its business.

Akamai's Internet content delivery services are highly complex and are designed to be deployed in and across numerous large and complex networks. As of March 31, 2000, Akamai's network consisted of over 2,800 servers. Akamai and its customers have also from time to time discovered errors and defects in Akamai's software. In the future, there may be additional errors and defects in Akamai's software that may adversely

affect its services. If Akamai is unable to efficiently fix errors or other problems that may be identified, Akamai could experience:

- loss of or delay in revenues and loss of market share;
- loss of customers;
- failure to attract new customers or achieve market acceptance;
- diversion of development and engineering resources;
- loss of credibility or damage to business reputation;
- increased service costs; and
- legal actions by Akamai's customers.

Any failure of Akamai's telecommunications and network providers to provide required transmission capacity to Akamai could result in interruptions in Akamai's service.

Akamai's operations are dependent in part upon transmission capacity provided by third-party telecommunications network providers. Any failure of such network providers to provide the capacity Akamai requires may result in a reduction in, or interruption of, service to Akamai's customers. This failure may be a result of the telecommunications providers or Internet service providers experiencing interruptions or other failures, failing to comply with or terminating their existing agreements with Akamai, or otherwise denying or interrupting service or not entering into relationships with Akamai at all or on terms commercially acceptable to Akamai. If Akamai does not have access to third-party transmission capacity, Akamai could lose customers. If Akamai is unable to obtain such capacity on terms commercially acceptable to Akamai, Akamai's business and financial results, could suffer.

The markets in which Akamai operates are highly competitive and Akamai may be unable to compete successfully against new entrants and established companies with greater resources.

Akamai competes in markets that are new, intensely competitive, highly fragmented and rapidly changing. Akamai has experienced and expects to continue to experience increased competition. Many of Akamai's current competitors, as well as a number of Akamai's potential competitors, have longer operating histories, greater name recognition and substantially greater financial, technical and marketing resources than Akamai does. Some of Akamai's current or potential competitors have the financial resources to withstand substantial price competition. Moreover, many of Akamai's competitors have more extensive brand recognition, customer bases, broader customer relationships and broader industry alliances that they could use to their advantage in competitive situations, including relationships with many of Akamai's current and potential customers. Akamai's competitors may be able to respond more quickly than Akamai can to new or emerging technologies and changes in customer requirements. Some of Akamai's current or potential competitors may bundle their services with other services, software or hardware in a manner that may discourage Web site owners from purchasing any service Akamai offers or Internet service providers from installing Akamai's servers.

As competition in the Internet content delivery market continues to intensify, new solutions will come to market. Akamai is aware of other companies that are focusing or may in the future focus significant resources on developing and marketing products and services that will compete with Akamai. Akamai also believes that it may face competition from other providers of competing Internet content delivery services, including networking hardware and software manufacturers, content distribution providers, traditional hardware manufacturers, telecommunications providers, software database companies, and large diversified software and technology companies. Increased competition could result in:

- price and revenue reductions and lower profit margins;
- increased cost of service from telecommunications providers;

- loss of customers; and
- loss of market share.

Any one of these could materially and adversely affect Akamai's business, financial condition and results of operations.

As part of Akamai's business strategy, Akamai has and may enter into or seek to enter into business combinations and acquisitions which may be difficult to integrate, disrupt Akamai's business, dilute stockholder value or divert management attention.

Akamai acquired Network24 in February 2000 and INTERVU in April 2000. As a part of Akamai's business strategy, Akamai may enter into additional business combinations and acquisitions. Acquisitions are typically accompanied by a number of risks, including:

- the difficulty of integrating the operations and personnel of the acquired companies;
- the maintenance of acceptable standards, controls, procedures and policies;
- the potential disruption of Akamai's ongoing business and distraction of management;
- the impairment of relationships with employees and customers as a result of any integration of new management personnel;
- the difficulty of incorporation of acquired technology and rights into Akamai's products and services;
- expenses related to the acquisition;
- potential unknown liabilities associated with acquired businesses; and
- unanticipated expenses related to acquired technology and its integration into existing technology.

If Akamai is not successful in completing acquisitions that it may pursue in the future, Akamai would be required to reevaluate its growth strategy and may have incurred substantial expenses and spent significant management time and resources in seeking to complete the acquisition. In addition, with future acquisitions, Akamai could use substantial portions of its available cash as all or a portion of the purchase price. Akamai could also issue additional securities as consideration for these acquisitions, which could cause its stockholders to suffer significant dilution. Akamai's acquisition of Network24, and of INTERVU and any future acquisitions, may not generate any additional revenue and may pose risks to Akamai.

A significant decline in sales to Apple Computer could reduce Akamai's revenue and cause its business and financial results to suffer.

Akamai entered into a strategic alliance with Apple Computer, Inc. effective as of April 1, 1999. Sales of its service to Apple Computer represented approximately 21% of Akamai's revenue for the three months ended March 31, 2000. Akamai expects that sales to Apple Computer as a percentage of total sales will decrease, but that during calendar 2000 sales to Apple Computer will continue to represent a significant portion of its revenue. Apple Computer has the right to terminate the agreement on short notice if Akamai materially breaches the agreement. A significant decline in sales to Apple Computer could reduce Akamai's revenue and cause Akamai's business and financial results to suffer.

If any of Akamai's strategic alliances terminates, then Akamai's business could be adversely affected.

Akamai entered into strategic alliances with Apple Computer effective as of April 1, 1999, with Cisco Systems, Inc. in August 1999 and with Microsoft Corporation in September 1999. Under each of these agreements, Akamai is seeking to jointly develop technology, services and/or products with its strategic alliance partners and Akamai may not be successful. The strategic alliance with Cisco may be terminated by Cisco or Akamai on short notice for any reason. The strategic alliance with Apple Computer may be terminated by Apple Computer or Akamai if the other party materially breaches the agreement, and the strategic alliance with Microsoft may be terminated by Microsoft or Akamai if the other party materially

breaches the agreement. A termination of, or significant adverse change in, Akamai's relationship with Apple Computer, Cisco or Microsoft could have a material adverse effect on Akamai's business.

Akamai's business will suffer if it is unable to scale its network as demand increases.

Akamai's network may not be scalable to expected customer levels while maintaining superior performance. Akamai cannot be certain that its network can connect and manage a substantially larger number of customers at high transmission speeds. In addition, as customers' usage of bandwidth increases, Akamai will need to make additional investments in its infrastructure to maintain adequate data transmission speeds. Akamai cannot ensure that it will be able to make these investments successfully or at an acceptable or commercially reasonable cost.

Upgrading Akamai's infrastructure may cause delays or failures in its network. As a result, in the future Akamai's network may be unable to achieve or maintain a sufficiently high transmission capacity. Akamai's failure to achieve or maintain high capacity data transmission could significantly reduce demand for Akamai service, reducing Akamai's revenue and causing its business and financial results to suffer.

Akamai's business will suffer if it does not respond rapidly to technological changes.

The market for Internet content delivery services is likely to continue to be characterized by rapid technological change, frequent new product and service introductions and changes in customer requirements. Akamai may be unable to respond quickly or effectively to these developments. If competitors introduce products, services or technologies that are better than Akamai's or that gain greater market acceptance, or if new industry standards emerge, Akamai's service may become obsolete, which would materially and adversely affect its business, results of operations and financial condition.

In developing its services, Akamai has made, and will continue to make, assumptions about the standards that its customers and competitors may adopt. If the standards adopted are different from those which Akamai may now or in the future promote or support, market acceptance of Akamai's service may be significantly reduced or delayed and its business will be seriously harmed. In addition, the introduction of services or products incorporating new technologies and the emergence of new industry standards could render Akamai's existing service obsolete.

If Akamai's license agreement with MIT terminates, then its business could be adversely affected.

Akamai has licensed from MIT technology covered by various patent applications and copyrights relating to Internet content delivery technology. Some of Akamai's technology is based in part on the technology covered by these patent applications and copyrights. MIT may terminate the license agreement if Akamai ceases its business due to insolvency or if Akamai materially breaches the terms of the license agreement. A termination of Akamai's license agreement with MIT could have a material adverse effect on Akamai's business.

Akamai's business will be adversely affected if it is unable to protect its intellectual property rights from third-party challenges.

Akamai relies on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect its intellectual property rights. These legal protections afford only limited protection; competitors may gain access to Akamai's intellectual property which may result in the loss of Akamai's customers.

Although Akamai has licensed technology covered by patent applications filed with the United States Patent and Trademark Office with respect to Internet content delivery services, Akamai has no patents issued with respect to its FreeFlow content delivery services. Accordingly, neither Akamai's technology nor technology licensed by Akamai is covered by patents that would preclude or inhibit competitors from entering Akamai's market for its FreeFlow services. Akamai's future patents, if any, and patents licensed by Akamai for its FreeFlow services, may be successfully challenged or may not provide Akamai with any competitive

advantages. Moreover, although Akamai has filed international patent applications, none of Akamai's technology is patented abroad. Akamai cannot be certain that any pending or future patent applications will be granted, that any future patent will not be challenged, invalidated or circumvented, or that rights granted under any patent that may be issued will provide competitive advantages to Akamai. Monitoring unauthorized use of Akamai's service is difficult and Akamai cannot be certain that the steps it has taken will prevent unauthorized use of its technology, particularly in foreign countries where the laws may not protect Akamai's proprietary rights as fully as in the United States.

As a result of its recent INTERVU acquisition, Akamai acquired several United States patents covering data delivery services. Such patents, however, may not provide Akamai with any competitive advantage or restrict or limit any third party competitor's ability to make, use or sell their data delivery services in competition with Akamai.

Akamai's failure to increase its revenue would prevent it from achieving and maintaining profitability.

Akamai has never been profitable. Akamai has incurred significant losses since inception and expects to continue to incur losses in the future. As of March 31, 2000, Akamai had an accumulated deficit of \$94.0 million. Akamai cannot be certain that its revenue will continue to grow or that it will achieve sufficient revenue to achieve profitability. Akamai's failure to significantly increase its revenue would seriously harm its business and operating results. Akamai has large fixed expenses, and it expects to continue to incur significant and increasing sales and marketing, product development, administrative and other expenses, including fees to obtain access to bandwidth for the transport of data over its network. As a result, Akamai will need to generate significantly higher revenues to achieve and maintain profitability. If Akamai's revenue grows more slowly than Akamai anticipates or if its operating expenses increase more than Akamai expects or cannot be reduced in the event of lower revenue, Akamai's business will be materially and adversely affected.

The variable sales cycles for Akamai's services may cause revenue and operating results to vary significantly from quarter to quarter which could adversely affect Akamai's stock price.

At times, a customer's decision to purchase Akamai's Internet content delivery service involves a lengthy evaluation process. Throughout the sales cycle, Akamai spends considerable time and expense educating and providing information to prospective customers about the use and benefits of its services. Because of Akamai's limited operating history and the nature of Akamai business, Akamai cannot predict these sales and deployment cycles. Long sales cycles may cause Akamai's revenue and results of operations to vary significantly and unexpectedly from quarter to quarter. If Akamai's operating results fall below the expectations of securities analysts or investors in some future quarter or quarters, the market price of its common stock could be adversely affected.

The rates Akamai charges for its service may decline over time which would reduce its revenue and could cause its business and financial results to suffer.

Akamai expects that its cost to obtain bandwidth capacity for the transport of data over its network will decline over time as a result of, among other things, the large amount of capital currently being invested to build infrastructure providing additional bandwidth and volume discounts available to Akamai as its network usage increases. Akamai expects the prices it charges for its services may also decline over time as a result of, among other things, existing and new competition in the markets Akamai addresses. As a result, Akamai's historical revenue rates may not be indicative of future revenue based on comparable traffic volumes. If Akamai fails to accurately predict the decline in costs of bandwidth or, in any event, if Akamai is unable to sell its service at acceptable prices relative to its bandwidth costs, or if it fails to offer additional services from which it can derive additional revenue, Akamai's revenue will decrease and its business and financial results will suffer.

Akamai's business and prospects depend on demand for and market acceptance of the Internet and its infrastructure development.

The increased use of the Internet for retrieving, sharing and transferring information among businesses, consumers, suppliers and partners has only begun to develop in recent years, and Akamai's success will depend in large part on continued growth in the use of the Internet. Critical issues concerning the commercial use of the Internet, including security, reliability, speed, cost, ease of access, quality of service, regulatory initiatives and necessary increases in bandwidth availability, remain unresolved and are likely to affect the development of the market for Akamai's services. The adoption of the Internet for information retrieval and exchange, commerce and communications generally will require the acceptance of a new medium of conducting business and exchanging information. Demand for and market acceptance of the Internet are subject to a high level of uncertainty and are dependent on a number of factors, including:

- the growth in consumer access to and acceptance of new interactive technologies;
- the development of technologies that facilitate interactive communication between organizations; and
- increases in user bandwidth.

If the Internet as a commercial or business medium fails to develop or develops more slowly than expected, Akamai's business and prospects will suffer.

Akamai's business will suffer if it does not anticipate and meet specific customer requirements.

Akamai's current and prospective customers may require features and capabilities that its current service offerings do not have. To achieve market acceptance for Akamai's service, Akamai must effectively and timely anticipate and adapt to customer requirements and offer services that meet customer demands. Akamai's failure to offer services that satisfy customer requirements would seriously harm its business, results of operations and financial condition.

Akamai intends to continue to invest heavily in technology development. The development of new or enhanced services and applications such as EdgeAdvantage, is a complex and uncertain process that requires the accurate anticipation of technological and market trends. Akamai may experience design, integration, manufacturing, marketing and other difficulties that could delay or prevent the development, introduction or marketing of new services as well as enhancements. The introduction of new or enhanced services and applications also requires that Akamai manage the transition from older services in order to ensure that Akamai can deliver services to meet anticipated customer demand. Akamai's inability to effectively manage this transition would materially adversely affect its business, results of operations and financial condition.

Akamai has limited sales and marketing experience; Akamai's business will suffer if it does not expand Akamai's direct and indirect sales organizations and its customer service and support operations.

Akamai currently has limited sales and marketing experience. Akamai's limited experience may restrict its success gaining broad market acceptance of its services or in commercializing its future services. Akamai's services require a sophisticated sales effort targeted at a limited number of key people within a prospective customer's organization. This sales effort requires the efforts of trained sales personnel. Akamai needs to continue to expand its marketing and sales organization in order to increase market awareness of its service to a greater number of organizations and generate increased revenue. Competition for these individuals is intense, and Akamai might not be able to hire the kind and number of sales personnel it needs. In addition, Akamai believes that its future success is dependent upon its ability to establish successful relationships with a variety of distribution partners. If Akamai is unable to expand its direct and indirect sales operations, it may not be able to increase market awareness or sales of its service, which may prevent Akamai from achieving and maintaining profitability.

Hiring personnel is very competitive in Akamai's industry because there is a limited number of people available with the necessary technical skills and understanding of Akamai's market. Once Akamai hires them, they require extensive training in Akamai's Internet content delivery service. If Akamai is unable to expand its

customer service and support organization and train them as rapidly as necessary, Akamai may not be able to increase sales of its service, which would seriously harm its business.

Akamai's business will suffer if it fails to manage its growth properly.

Akamai has expanded its operations rapidly since its inception. Akamai continues to increase the scope of its operations and has grown its headcount substantially. Akamai's total number of employees grew from 464 on February 11, 2000 to 861 on April 28, 2000. Akamai plans to continue to hire a significant number of employees this year. This growth has placed, and Akamai's anticipated growth in future operations will continue to place, a significant strain on its management systems and resources. Akamai's ability to successfully offer its services and implement its business plan in a rapidly evolving market requires an effective planning and management process. Akamai expects that it will need to continue to improve its financial and managerial controls, reporting systems and procedures, and will need to continue to expand, train and manage its workforce worldwide. Competition for highly skilled personnel is intense, especially in New England and central and southern California. Akamai may fail to attract, assimilate or retain qualified personnel to fulfill its current or future needs. Akamai's planned rapid growth places a significant demand on management and financial and operational resources. In order to grow and achieve future success, Akamai must:

- retain existing personnel;
- successfully integrate Network24 and INTERVU personnel;
- hire, train, manage and retain additional qualified personnel; and
- effectively manage multiple relationships with its customers, suppliers and other third parties.

Failure to do so would have a materially adverse effect on its business, results of operations and financial condition.

Akamai depends on its key personnel to manage its business effectively in a rapidly changing market and if Akamai is unable to retain its key employees, Akamai's ability to compete could be harmed.

Akamai's future success depends upon the continued services of its executive officers and other key technology, sales, marketing and support personnel, who have critical industry experience and relationships that they rely on in implementing Akamai's business plan. None of Akamai's officers or key employees is bound by an employment agreement for any specific term. Akamai has "key person" life insurance policies covering only the lives of F. Thomson Leighton and Daniel M. Lewin. The loss of the services of any of Akamai's key employees could delay the development and introduction of and negatively impact its ability to sell its service. Akamai faces intense competition for qualified personnel, including research and development, service and support and sales and marketing personnel.

Akamai faces risks associated with international operations that could harm its business.

Akamai has expanded its international operations to Munich, Germany, London, England and Paris, France. A key aspect of its business strategy is to continue to expand its sales and support organizations internationally. Therefore, Akamai expects to commit significant resources to expand its international sales and marketing activities. However, Akamai may not be able to maintain or increase market demand for its services which may harm its business. Akamai is increasingly subject to a number of risks associated with international business activities which may increase its costs, lengthen its sales cycle and require significant management attention. These risks include:

- market acceptance of Akamai's products and services by countries outside the United States;
- increased expenses associated with marketing services in foreign countries;
- general economic conditions in international markets;
- currency exchange rate fluctuations;

- unexpected changes in regulatory requirements resulting in unanticipated costs and delays;
- tariffs, export controls and other trade barriers;
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable; and
- potentially adverse tax consequences, including restrictions on the repatriation of earnings.

Akamai faces a number of unknown risks associated with Year 2000 problems.

Akamai has attempted to assess and must continue to monitor year 2000 issues. While Akamai has not experienced any year 2000 issues to date, there can be no assurance that Akamai has identified and remediated all material year 2000 related issues. If Akamai's systems do not operate properly with respect to date calculations involving the year 2000 and subsequent dates, it could experience a system failure or miscalculations causing disruptions of operations, including among other things, a temporary inability to process transactions, send invoices or engage in similar normal business activities.

Akamai has designed its service for use in the year 2000 and beyond and believes it is year 2000 ready. However, Akamai's service is used in conjunction with larger networks involving sophisticated hardware and software products supplied by other vendors. Each of Akamai's customers' networks involves different combinations of third-party products. Akamai cannot evaluate whether all of its products are year 2000 ready. Akamai may face claims based on year 2000 problems in other companies' products or based on issues arising from the integration of multiple products within the overall network. Although no claims of this kind have been made, Akamai may in the future be required to defend its service in legal proceedings which could be expensive regardless of the merits of these claims.

Akamai could incur substantial costs defending its intellectual property from infringement or a claim of infringement.

Other companies or individuals, including Akamai's competitors, may obtain patents or other proprietary rights that would prevent, limit or interfere with Akamai's ability to make, use or sell its services. As a result, Akamai may be found to infringe on the proprietary rights of others. In the event of a successful claim of infringement against Akamai and its failure or inability to license the infringed technology, its business and operating results would be significantly harmed. Companies in the Internet market are increasingly bringing suits alleging infringement of their proprietary rights, particularly patent rights. Any litigation or claims, whether or not valid, could result in substantial costs and diversion of resources. Intellectual property litigation or claims could force Akamai to do one or more of the following:

- cease selling, incorporating or using products or services that incorporate the challenged intellectual property;
- obtain a license from the holder of the infringed intellectual property right, which license may not be available on reasonable terms; and
- redesign products or services.

If Akamai is forced to take any of these actions, its business may be seriously harmed. Although Akamai carries insurance, its insurance may not cover potential claims of this type or may not be adequate to indemnify Akamai for all liability that may be imposed.

Internet-related laws could adversely affect Akamai's business.

Laws and regulations which apply to communications and commerce over the Internet are becoming more prevalent. A recent session of the United States Congress resulted in Internet laws regarding children's privacy, copyrights, taxation and the transmission of sexually explicit material. The European Union recently enacted its own privacy regulations, and is currently considering copyright legislation that may extend the right of reproduction held by copyright holders to include the right to make temporary copies for any reason. The law of the Internet, however, remains largely unsettled, even in areas where there has been some legislative action. It may take years to determine whether and how existing laws such as those governing intellectual

property, privacy, libel and taxation apply to the Internet. In addition, the growth and development of the market for online commerce may prompt calls for more stringent consumer protection laws, both in the United States and abroad, that may impose additional burdens on companies conducting business online. The adoption or modification of laws or regulations relating to the Internet, or interpretations of existing law, could adversely affect Akamai's business.

Akamai may be subject to regulation, taxation, enforcement or other liabilities in unexpected jurisdictions.

Akamai provides services to customers located throughout the United States and in several foreign countries. As a result, Akamai may be required to qualify to do business, or be subject to tax or other laws and regulations, in these jurisdictions even if it does not have a physical presence, employees or property in these jurisdictions. The application of these multiple sets of laws and regulations is uncertain, but Akamai could find that it is subject to regulation, taxation, enforcement or other liabilities in unexpected ways, which could materially adversely affect its business, financial condition and results of operations.

Akamai's stock price has been and may continue to be volatile, which could result in litigation against Akamai.

The market price of Akamai's common stock has been extremely volatile and has fluctuated significantly in the past. The following factors could cause the market price of common stock to continue to fluctuate significantly:

- the addition or departure of key Akamai personnel;
- variations in Akamai's quarterly operating results;
- announcements by Akamai or its competitors of significant contracts, new or enhanced products or service offerings, acquisitions, distribution partnerships, joint ventures or capital commitments;
- changes in financial estimates by securities analysts;
- Akamai's sales of common stock or other securities in the future;
- changes in market valuations of networking, Internet and telecommunications companies;
- fluctuations in stock market prices and volumes; and
- changes in general economic conditions, including interest rate levels.

In the past, class action litigation has often been brought against companies following periods of volatility in the market price of those companies' common stock. Akamai may become involved in this type of litigation in the future. Litigation is often expensive and diverts management's attention and resources which could materially adversely affect its business and results of operations.

Insiders have substantial control over Akamai which could limit others' ability to influence the outcome of key transactions, including changes of control.

The executive officers and directors, in the aggregate, beneficially own approximately 54% of Akamai's outstanding common stock. These stockholders, if acting together, are able to influence significantly all matters requiring approval by Akamai's stockholders, including the election of directors and the approval of mergers or other business combination transactions.

Provisions of Akamai's charter documents may have anti-takeover effects that could prevent a change in control even if the change in control would be beneficial to Akamai's stockholders.

Provisions of Akamai's amended and restated certificate of incorporation, by-laws, and Delaware law could make it more difficult for a third party to acquire Akamai, even if doing so would be beneficial to Akamai's stockholders.

The unpredictability of Akamai's quarterly results may adversely affect the trading price of its common stock.

Akamai's revenue and operating results will vary significantly from quarter to quarter due to a number of factors, many of which are outside of its control and any of which may cause its stock price to fluctuate. The primary factors that may affect Akamai include the following:

- demand for Internet content delivery services and streaming services;
- the timing and size of sales of Akamai's services;
- the timing of recognizing revenue and deferred revenue;
- new product and service introductions and enhancements by Akamai's competitors and itself;
- changes in Akamai's pricing policies or the pricing policies of Akamai's competitors;
- Akamai's ability to develop, introduce and deliver new products, services and enhancements that meet customer requirements in a timely manner;
- the length of the sales cycle for Akamai's services;
- increases in the prices of, and availability of, the products, services, components or raw materials Akamai purchases, including bandwidth;
- Akamai's ability to attain and maintain quality levels for its services;
- expenses related to testing of Akamai's services;
- costs related to acquisitions of technology or businesses; and
- general economic conditions as well as those specific to the Internet and related industries.

Akamai plans to increase significantly its operating expenses to fund greater levels of engineering and development, expand its sales and marketing operations, broaden its customer support capabilities, continue to develop new distribution channels and continue to expand internationally. Akamai also plans to expand its general and administrative functions to address the increased reporting and other administrative demands and the increasing size of Akamai's business.

Akamai's operating expenses are largely based on anticipated revenue trends and a high percentage of its expenses are, and will continue to be, fixed in the short term. As a result, a delay in generating or recognizing revenue for the reasons set forth above, or for any other reason, could cause significant variations in Akamai's operating results from quarter to quarter and could result in substantial operating losses.

Due to the above factors, Akamai believes that quarter-to-quarter comparisons of its operating results are not a good indication of its future performance. It is likely that in some future quarters, Akamai's operating results may be below the expectations of public market analysts and investors. In this event, the price of Akamai's common stock will probably fall.

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

Akamai does not use derivative financial instruments. Akamai generally places its marketable securities investments in high quality credit investments, primarily United States Government obligations and corporate obligations with contractual maturities of less than three months. Akamai does not expect any material loss from its marketable securities investments and believes that its potential interest rate exposure is not material.

PART II. OTHER INFORMATION

Item 2. *Changes in Securities and Use of Proceeds*

(c) Recent Sales of Unregistered Securities

In February 2000, Akamai issued approximately 599,152 shares of common stock as partial consideration for the acquisition of Network24, a provider of Internet broadcast applications services.

In connection with the acquisition of Network24, Akamai also assumed stock options to purchase 136,903 shares of Akamai common stock.

(d) Use of Proceeds from Sales of Registered Securities

On November 3, 1999, Akamai sold 9,000,000 shares of its common stock in an initial public offering at a price of \$26.00 per share pursuant to a Registration Statement on Form S-1 (the "Registration Statement") (Registration No. 333-85679) that was declared effective by the Securities and Exchange Commission on October 28, 1999. Morgan Stanley Dean Witter, Donaldson Lufkin & Jenrette, Salomon Smith Barney and Thomas Weisel Partners LLC were the managing underwriters of the offering. The aggregate proceeds to Akamai from the offering were \$217.6 million after deducting an aggregate of \$16.4 million in underwriting discounts and commission to the underwriters. None of the proceeds of the offering was paid by Akamai, directly or indirectly, to any director, officer or general partner of Akamai or any of their associates, or to any persons owning ten percent or more of the outstanding stock of Akamai. In addition to underwriting discounts and commissions, the expenses incurred in connection with the offering were approximately \$2.2 million, including \$850,000 for Directors and Officers Insurance, \$400,000 of legal costs, \$460,000 of accounting costs, \$50,000 of printing costs, \$188,000 of registration, filing and listing costs, and other costs of approximately \$300,000. During the period from the offering to March 31, 2000, Akamai has used the proceeds as follows: approximately \$21.5 million for network equipment and computer equipment and hardware, \$14.9 million for the repayment of senior subordinated notes, \$18.6 million for payroll and benefits, \$5.8 million for advertising expenses and \$4.9 million for bandwidth costs.

Item 6. *Exhibits and Reports on Form 8-K*

(a) Exhibits

- *4.1 Stock Option Agreement, dated as of February 6, 2000, between Akamai and INTERVU Inc.
- *4.2 Form of Stockholder Voting Agreement, dated as of February 6, 2000, by and among Akamai and each of the Stockholders of INTERVU Inc. named thereon.
- **10.1 Agreement and Plan of Merger, dated as of January 14, 2000, by and among Akamai, Aloha Merger Corporation and Network24 Communications, Inc.
- ***10.2 Agreement and Plan of Merger, dated as of February 6, 2000, by and among Akamai, Alli Merger Corporation and INTERVU Inc.
- 27.1 Financial Data Schedule.

* Incorporated by reference to Akamai's Form S-4 (File No. 333-31712), as amended, filed with the Securities and Exchange Commission on March 3, 2000.

** Incorporated by reference to Akamai's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 8, 2000.

*** Incorporated by reference to Akamai's Schedule 13D filed with the Securities and Exchange Commission on February 16, 2000.

(b) Reports on Form 8-K

On February 8, 2000, Akamai filed a Current Report on Form 8-K under Item 2 (Acquisition or Disposition of Assets) to report the consummation of an Agreement and Plan of Merger for the acquisition of Network24. On March 3, 2000, Akamai filed Amendment No. 1 to Current Report on Form 8-K/A under Item 7 (Financial Statements, *Pro Forma* Financial Information and Exhibits) to include the financial statements required to be filed in connection with the acquisition of Network24.

SIGNATURES

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

AKAMAI TECHNOLOGIES, INC.

Date: May 15, 2000

By: /s/ TIMOTHY WELLER

Timothy Weller
Chief Financial Officer and Treasurer
(Principal Financial Officer and Chief
Accounting Officer)

Date: May 15, 2000

By: /s/ ROBERT O. BALL III

Robert O. Ball III
Vice President, General Counsel and Secretary

EXHIBIT INDEX

- *4.1 Stock Option Agreement, dated as of February 6, 2000, between Akamai and INTERVU Inc.
- *4.2 Form of Stockholder Voting Agreement, dated as of February 6, 2000, by and among Akamai and each of the Stockholders of INTERVU Inc. named thereon.
- **10.1 Agreement and Plan of Merger, dated as of January 14, 2000, by and among Akamai, Aloha Merger Corporation and Network24 Communications, Inc.
- ***10.2 Agreement and Plan of Merger, dated as of February 6, 2000, by and among Akamai, Alli Merger Corporation and INTERVU Inc.
- 27.1 Financial Data Schedule.

* Incorporated by reference to Akamai's Form S-4 (File No. 333-31712), as amended, filed with the Securities and Exchange Commission on March 3, 2000.

** Incorporated by reference to Akamai's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 8, 2000.

*** Incorporated by reference to Akamai's Schedule 13D filed with the Securities and Exchange Commission on February 16, 2000.