Carbonite Inc
Form 10-Q
November 09, 2016

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of October 31, 2016, there were 27,258,514 shares of the registrant's Common Stock, par value $0.01 per share, outstanding.

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PART I. FINANCIAL INFORMATION

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

	September 30, 2016	December 31, 2015
	(in thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 49,107	$ 63,936
Marketable securities	—	1,000
Trade accounts receivable, less allowances for doubtful accounts of $874 and $139	17,007	3,736
Prepaid expenses and other current assets	6,946	3,188
Restricted cash	135	135
Total current assets	73,195	71,995
Property and equipment, net	22,591	22,083
Other assets	107	167
Acquired intangible assets, net	15,087	8,640
Goodwill	24,455	23,105
Total assets	$ 135,435	$ 125,990
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,866	$ 8,384
Accrued expenses	18,096	11,559
Current portion of deferred revenue	86,860	80,269
Total current liabilities	107,822	100,212
Deferred revenue, net of current portion	20,585	18,434
Other long-term liabilities	5,594	6,271
Total liabilities	134,001	124,917
Commitments and contingencies (Note 11)		
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 September 30, 2016 and December 31, 2015; 28,336,650 shares issued and 27,197,347 shares outstanding at September 30, 2016; 27,756,799 shares issued and 27,216,779 shares outstanding at December 31, 2015	283	278
Additional paid-in capital	174,085	165,391
Treasury stock, at cost (1,139,303 and 540,020 shares as of September 30, 2016 and December 31, 2015, respectively)	(10,446)	(5,693)
Accumulated other comprehensive income	1,883	2,040
Accumulated deficit	(164,371)	(160,943)
Total stockholders' equity	1,434	1,073
Total liabilities and stockholders' equity	$ 135,435	$ 125,990

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands, except share and per share amounts)			
Revenue	$51,948	$ 34,553	$153,498	$101,551
Cost of revenue	15,459	9,774	46,078	29,588
Gross profit	36,489	24,779	107,420	71,963
Operating expenses:				
Research and development	8,156	7,123	25,272	21,500
General and administrative	9,059	10,273	30,868	25,473
Sales and marketing	18,864	12,860	53,069	40,811
Restructuring charges	29	224	834	349
Total operating expenses	36,108	30,480	110,043	88,133
Income (loss) from operations	381	(5,701)	(2,623)	(16,170)
Interest and other income (expense), net	155	139	8	165
Income (loss) before income taxes	536	(5,562)	(2,615)	(16,005)
Provision for income taxes	429	404	814	1,011
Net income (loss)	$107	$ (5,966)	$(3,429)	$(17,016)
Net income (loss) per common share:				
Basic	$0.00	$ (0.22)	$(0.13)	$(0.63)
Diluted	$0.00	$ (0.22)	$(0.13)	$(0.63)
Weighted-average number of common share outstanding:				
Basic	26,973,507	27,173,360	26,976,432	27,212,038
Diluted	27,532,509	27,173,360	26,976,432	27,212,038

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Net income (loss)	$107	$(5,966)	$(3,429)	$(17,016)
Other comprehensive (loss) income:				
Net unrealized (loss) gain on marketable securities	—	(1)	—	8
Foreign currency translation adjustments	(275)	(143)	(157)	768
Total other comprehensive (loss) income	(275)	(144)	(157)	776
Total comprehensive loss	$(168)	$(6,110)	$(3,586)	$(16,240)

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

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

	Nine Months Ended September 30,	
	2016	2015
	(in thousands)	
Operating activities		
Net loss	$(3,429)	$(17,016)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	12,227	10,296
Loss (gain) on disposal of equipment	518	(25)
Accretion of discount on marketable securities	—	(9)
Stock-based compensation expense	6,628	7,418
Other non-cash items, net	168	(80)
Changes in assets and liabilities:		
Accounts receivable	(13,243)	(1,181)
Prepaid expenses and other current assets	(1,822)	1,063
Other assets	69	539
Accounts payable	(5,187)	1,312
Accrued expenses	6,327	1,398
Other long-term liabilities	(734)	(368)
Deferred revenue	1,842	5,193
Net cash provided by operating activities	3,364	8,540
Investing activities		
Purchases of property and equipment	(3,715)	(8,273)
Proceeds from sale of property and equipment	4	113
Proceeds from maturities of marketable securities and derivatives	1,198	17,524
Purchases of marketable securities and derivative settlements	(1,476)	(750)
Decrease in restricted cash	—	693
Payment for acquisition, net of cash acquired	(11,625)	(992)
Net cash (used in) provided by investing activities	(15,614)	8,315
Financing activities		
Proceeds from exercise of stock options	2,020	1,853
Repurchase of common stock	(4,753)	(3,023)
Net cash used in financing activities	(2,733)	(1,170)
Effect of currency exchange rate changes on cash	154	(146)
Net (decrease) increase in cash and cash equivalents	(14,829)	15,539
Cash and cash equivalents, beginning of period	63,936	46,084
Cash and cash equivalents, end of period	$49,107	$61,623
Supplemental disclosure of cash flow information		
Cash paid for income taxes	$703	$1,363
Supplemental disclosure of non-cash investing activities:		
Capitalization of stock-based compensation	$48	$—
Acquisition of property and equipment included in accounts payable and accrued expenses	$(337)	$(1,366)

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

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

1. Nature of Business

Carbonite, Inc. ("we" or the “Company”) was incorporated in the State of Delaware on February 10, 2005 and is a provider of cloud backup and restore solutions. The Company’s solutions provide powerful features packaged in a cost-effective, simple and secure manner and are designed to address the specific needs of small and medium-sized businesses ("SMBs") and individuals.

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”), the instructions to Form 10-Q, and the provisions of Regulation S-X pertaining to interim financial statements. Accordingly, certain information and footnote disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the notes thereto, included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as filed with the SEC on March 8, 2016.

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

During 2016, the Company recorded an adjustment for payments owed to foreign tax authorities inclusive of any interest and penalties that were not accrued for in prior fiscal years. This adjustment was recorded as an increase to accrued liabilities for approximately $1.2 million with a corresponding expense recorded in general and administrative expenses in the condensed consolidated statements of operations. Of this $1.2 million adjustment, approximately $0.2 million, $0.2 million, $0.2 million and $0.6 million related to the years ended December 31, 2015, 2014, 2013 and prior, respectively. The Company concluded the effect of these adjustments were not material to its consolidated financial statements for the current period, the forecasted fiscal year, or any of the prior periods and, as such, these consolidated financial statements are not materially misstated.

Reclassifications

The Company has reclassified certain amounts in its condensed consolidated statements of cash flows as of September 30, 2015 to conform to the condensed consolidated statements of cash flows presentation as of September 30, 2016. The reclassification relates to the merger of the provision for (reduction of) reserves on accounts receivable caption into the change in accounts receivable caption.

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.

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Translation of Foreign Currencies

The functional currency of the Company’s foreign subsidiaries is generally the local currency in which they operate. The Company translates foreign subsidiaries' 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 loss.

Foreign currency transaction gains and losses are included in interest and other income (expense), net in the consolidated statements of operations, net of losses and gains from any related derivative financial instruments.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk primarily consist of cash and cash equivalents, marketable securities, derivatives, and accounts receivable. The Company maintains its cash and cash equivalents, marketable securities, and derivatives 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.

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 September 30, 2016, one customer represented 10% or more of the Company's accounts receivable balance, and at December 31, 2015, no customer represented 10% or more of the Company’s accounts receivable balance. At September 30, 2016 and December 31, 2015, no customer represented 10% or more of the Company’s revenue for the periods presented.

Revenue Recognition

The Company derives revenue from Software-as-a-Service ("SaaS") arrangements and multiple element arrangements. Generally, the Company recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable and (iv) collectability is probable. Our revenue recognition policies for these revenue streams are discussed below.

The Company derives the majority of its revenue from cloud backup and restore solutions 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 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. Amounts received prior to satisfying the above revenue recognition criteria are recorded as deferred revenue in the accompanying condensed consolidated balance sheets.

For multiple element arrangements, including those containing a subscription arrangement, the Company follows the multiple element guidance in accordance with ASC 605-25, Revenue Recognition - Multiple-Element Arrangements. The Company allocates revenue to each element based on the relative selling price method to the overall arrangement consideration. The selling price for a deliverable is based on vendor-specific objective evidence ("VSOE"), if available, Third Party Evidence ("TPE"), if VSOE is not available, or Best Estimate of Selling Price ("BESP"), if neither VSOE nor TPE are available. Typically, the Company uses BESP for these arrangements.

For its software arrangements, which often contain multiple revenue elements, such as software licenses, hardware, professional services and post-contract customer support ("PCS"), the Company recognizes and defers revenue using the residual method in accordance with ASC 985-605, Software. Revenue is allocated to each element, excluding the software license, based on VSOE. VSOE is limited to the price charged when the element is sold separately or, for an element not yet being sold separately, the price established by management having the relevant authority. The Company does not have VSOE for its software licenses since they are seldom sold separately. Accordingly, revenue is allocated to the software license using the residual value method. Under the residual value method, revenue equal to VSOE of each undelivered element is initially deferred and any remaining arrangement fee is then allocated to the software license.

Hardware revenues are generally recognized upon delivery or upon installation, if required. Professional services are generally provided on a time and materials basis and revenue from professional services, including installation services, is recognized as services are performed, or upon installation if required.

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The Company excludes any taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction (i.e., sales, use and value added) from its revenue and costs. Reimbursement received for shipping costs is recorded as revenue.

Deferred product costs represent deferred cost of revenue for product shipments to customers prior to satisfaction of the Company's revenue recognition criteria. Such costs are classified as prepaid expense and other current assets if the related deferred revenue is initially classified as current. Deferred product costs are recorded in other assets if the related deferred revenue is initially classified as long-term, and remain a component of noncurrent assets until such costs are recognized in the consolidated statement of operations. In certain cases these costs are recognized ratably over the customer contract term.

Cash Equivalents and Marketable Securities

The Company considers all highly liquid investments purchased with an original purchase maturity of 90 days 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 initial maturities of more than 90 days. Short-term investments in marketable securities are classified as available-for-sale and are recorded at fair value with unrealized gains and losses (excluding other-than-temporary impairments) reported as a separate component of accumulated other comprehensive 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. At September 30, 2016, the Company did not have any marketable securities. At December 31, 2015, the Company’s marketable securities had remaining maturities within one year and had a total cost basis of $1.0 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.

Business Combinations

In accordance with ASC 805, Business Combinations ("ASC 805"), the Company recognizes 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. The Company’s identifiable intangible assets consist of developed technology, customer relationships, tradenames, and non-compete agreements. Developed technology consists of products that have reached technological feasibility, and tradenames represent both 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.

Goodwill and Acquired Intangible Assets

The Company records goodwill when consideration paid in a business acquisition exceeds the value of the net assets acquired. The Company’s 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, 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 at the reporting unit level if facts and circumstances warrant a review. The Company has determined that there is a single reporting unit for the purpose of conducting this 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 30th of each year.

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. The Company reviews its intangible

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assets with definite lives for impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable.

Internal-use Software and Website Development

The Company accounts for its software and website development costs in accordance with the guidance in ASC 350-40, Internal Use Software and ASC 350-50, Website Development Costs. The costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs are capitalized until the application is substantially complete and ready for its intended use, at which point such costs are amortized over the estimated useful life of the software. At September 30, 2016 and December 31, 2015, approximately $2.4 million and $1.8 million of costs associated with internal-use software and website development costs were capitalized on the Company's condensed consolidated balance sheets, respectively. For the three month periods ended September 30, 2016 and 2015, the Company recorded $0.1 million and $0.1 million of amortization expense related to capitalized internal-use software and website development costs, respectively. For the nine month periods ended September 30, 2016 and 2015, the Company recorded $0.4 million and $0.2 million of amortization expense related to capitalized internal-use software and website development costs, respectively.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount. The allowance for doubtful accounts reflects 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 against the allowance for doubtful accounts after all means of collection have been exhausted, and the potential for recovery is considered remote. The allowance for doubtful accounts is recorded as a reduction in accounts receivable. 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 for sales returns and credits 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 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, excluding deferred tax assets, goodwill and intangible assets. Revenue and long-lived assets, excluding deferred tax assets, goodwill and intangible assets, located outside the United States do not exceed 10% of total revenue and total assets.

Accounting for Stock-Based Compensation

The Company recognizes stock-based compensation as an expense in the financial statements using the estimated grant-date fair value over the individual award's requisite service period, which equals the vesting periods in all cases but for certain market-based awards. The Company uses the straight-line amortization method for recognizing stock-based compensation expense. The Company estimates the fair value of stock options on the date of grant using the Black-Scholes option-pricing model and the fair value of stock options with market-based vesting conditions on the date of grant using a lattice model with a Monte Carlo simulation. These models require 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 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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Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-9, Revenue from Contacts with Customers ("ASU 2014-9"), updated guidance and disclosure requirements for recognizing revenue. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The revenue standard is based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March 2016, the FASB issued an amendment to the standard, ASU 2016-8, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued an additional amendment to the standard, ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing ("ASU 2016-10"), which clarifies the guidance on identifying performance obligations and the implementation guidance on licensing. The collective guidance will be effective for the Company on January 1, 2018, with early adoption permitted, but not earlier than January 1, 2017. The guidance may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial adoption. The Company is currently assessing the potential impact of the adoption of these standards on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements — Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). The standard requires that the Company evaluates, at each interim and annual reporting period, whether there are conditions or events that raise substantial doubt about its ability to continue as a going concern within one year after the date the financial statements are issued, and provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and for annual and interim periods thereafter, and early adoption is permitted. While the adoption of this standard may result in additional disclosures, the Company does not expect that it will have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, Intangibles—Goodwill and Other—Internal-Use Software: Customer's Accounting for Fees Paid in a Cloud Computing Arrangement ("ASU 2015-05"). The standard clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software under ASC 350-40. ASU 2015-05 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015, and early adoption is permitted. The Company adopted ASU 2015-05 as of January 1, 2016. The adoption of ASU 2015-05 did not have a material impact on our condensed consolidated financial statements.

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

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). The amendments in this ASU involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public entities, ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with earlier adoption permitted for all entities. The Company is currently evaluating the effect of the standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). The amendments in this ASU clarify and provide specific guidance on eight cash flow classification issues that are not currently addressed by current GAAP and thereby reduce the current diversity in practice. ASU 2016-15 is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2017, with early application permitted. The Company does not expect any material impact from adoption of this guidance on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16"). The purpose of ASU 2016-16 is to simplify the income tax accounting of an intra-entity transfer of an asset other than inventory and to record its effect when the transfer occurs. The guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods and early adoption is permitted. The Company is currently evaluating the effect of the standard on its consolidated financial statements.

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3. Net Income (Loss) Per Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands, except per share amounts)			
Numerator:				
Net income (loss)	$107	$(5,966)	$(3,429)	$(17,016)
Denominator:				
Weighted average common shares outstanding, basic	26,974	27,173	26,976	27,212
Effect of potential dilutive common shares	559	—	—	—
Weighted average shares outstanding, diluted	27,533	27,173	26,976	27,212
Basic net income (loss) per share	$0.00	$(0.22)	$(0.13)	$(0.63)
Diluted net income (loss) per share	$0.00	$(0.22)	$(0.13)	$(0.63)

The following options to purchase common shares and restricted stock units have been excluded from the computation of diluted net income (loss) per share because they had an anti-dilutive impact (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Options to purchase common shares	702	3,367	1,753	3,367
Restricted stock units	900	1,400	1,957	1,400
Total	1,602	4,767	3,710	4,767

4. Fair Value of Financial Instruments

Derivative Instruments

Non-designated Foreign Currency Contracts

The Company uses foreign currency forward contracts as part of our strategy to manage exposure related to Euro denominated intercompany monetary assets and liabilities. The Company has not designated these forward contracts as hedging instruments pursuant to ASC 815, Derivatives and Hedging. Accordingly, the Company recorded the fair value of these contracts at the end of each reporting period in the condensed consolidated balance sheets, with changes in the fair value recorded in earnings as interest and other income (expense), net in the consolidated statement of operations. Cash flows from the settlement of these non-designated foreign currency contracts are reported in cash flows from investing activities. These currency forward contracts are entered into for periods consistent with currency transaction exposures, generally less than one year. At September 30, 2016 and December 31, 2015, the Company had outstanding contracts with a total notional value of $42.1 million and $36.7 million, respectively.

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The following table provides a quantitative summary of the fair value of derivative instruments not designated as hedging instruments as of September 30, 2016 and December 31, 2015 (in thousands):

Description	Balance Sheet Classification	Fair Value September 30, 2016	Fair Value December 31, 2015
Derivative Liabilities:			
Non-Designated Hedging Instruments			
Foreign currency contracts	Accrued expenses	$ 217	$ 400
Total Derivative Liabilities		$ 217	$ 400

The following table summarizes the (losses) gains related to derivative instruments not designated as hedging instruments for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Location in Statement of Operations	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Foreign currency contracts	Interest and other income (expense), net	$(380)	$(71)	$(1,095)	$2,331

Other Fair Value Measurements

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):

	September 30, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash equivalents—money market funds	$20,718	$ —	$ —	$20,718	$19,703	$—	$ —	$19,703
Marketable securities—U.S. treasury securities and time deposits	—	—	—	—	—	1,000	—	1,000
Total	$20,718	$ —	$ —	$20,718	$19,703	$1,000	$ —	$20,703
Liabilities:								
Foreign currency exchange contracts	—	217	—	217	—	400	—	400
Total	$—	$ 217	$ —	$217	$—	$400	$ —	$400

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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 and foreign currency exchange contracts are classified as Level 2 within the fair value hierarchy as they are valued using professional pricing sources for identical or comparable instruments, rather than direct observations of quoted prices in active markets.

5. Acquisitions

2016 Acquisition

On January 13, 2016, the Company completed the acquisition of the North American cloud-based business continuity and disaster recovery assets of EVault, Inc. ("EVault"). The Company completed the acquisition of the assets used in the European Union operations of EVault on March 31, 2016. The acquisition of EVault has been accounted for as a business combination and, in accordance with ASC 805, the Company has recorded the assets acquired and liabilities assumed at their respective fair values as of the acquisition dates. During the second quarter of 2016, the Company recorded a measurement period adjustment in our condensed consolidated balance sheet. The measurement period adjustment was recorded as a $1.0 million increase to goodwill, with an offsetting increase to accrued liabilities of $0.4 million and a decrease to the fair value of the Transaction Services Agreement ("TSA") credit of $0.6 million. The following table summarizes the preliminary purchase price allocation, including the measurement period adjustments recorded in the second quarter of 2016 (in thousands):

Fair value of consideration transferred:	
Cash	$14,000
Fair value of prepaid transactional services	(2,375)
Fair value of total acquisition consideration	$11,625

Fair value of assets acquired and liabilities assumed:	
Prepaid expenses	$1,330
Property and equipment	6,776
Intangible assets	9,150
Other long-term assets	564
Goodwill	989
Total assets acquired	18,809
Deferred revenue	(6,830)
Accrued liabilities	(354)
Net assets acquired	$11,625

In connection with the acquisition of EVault, the Company negotiated a TSA that provides a credit to be used against future services provided under the terms of the agreement. The Company estimated the fair value of the TSA credit to be $2.4 million based on expected usage and accounted for it as a reduction in consideration transferred in the preliminary purchase price allocation. The TSA credit was recorded in prepaid expenses and other current assets on the consolidated balance sheet as of the acquisition date. For the nine month period ended September 30, 2016, the Company recognized $2.4 million in expense, which was recorded as a reduction in the TSA credit. As of September 30, 2016, there was no remaining balance of the TSA credit on the consolidated balance sheet.

In the three months ended September 30, 2016, the Company recorded an immaterial amount of acquisition-related expenses. In the three months ended September 30, 2015, acquisition-related expenses were $0.4 million. In the nine months ended September 30, 2016 and 2015, acquisition-related expenses were $3.9 million and $1.1 million respectively. Acquisition-related expenses have been included primarily in general and administrative expenses in the condensed consolidated statements of operations. The operating results of EVault, which are included in the condensed consolidated statements of operations beginning on their respective acquisition dates, are comprised of

$16.0 million and $47.0 million of revenue for the three and nine months ended September 30, 2016, respectively. The Company has determined that disclosing the amount of EVault related expenses included in the condensed consolidated statements of operations is impracticable, as certain operations of EVault were integrated into the operations of the Company.

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The significant intangible assets identified in the preliminary purchase price allocation discussed above include developed technology, trade names and customer relationships, which are amortized over their respective useful lives on a straight line basis. The preliminary allocations of the purchase price are subject to revisions as additional information is obtained about the facts and circumstances that existed at the time of acquisition. Developed technology consists of products that have reached technological feasibility and trade names represent acquired company and product names. To value the developed technology asset, the Company utilized the income approach, specifically a discounted cash-flow method known as the multi-period excess earnings method. The trade name intangible was valued using a relief from royalty method, which considers both the market approach and the income approach. Customer relationships represent the underlying relationships with certain customers to provide ongoing services for products sold. The Company utilized the replacement cost/lost profits methodology to derive the fair value of the customer relationships.

The following table presents the estimated fair values and useful lives of the identifiable intangible assets acquired and risk-adjusted discount rates used in the valuation:

	Amount	Weighted Average Useful Life	Risk-Adjusted Discount Rates used in Valuation
	(in thousands)	(in years)	
Developed technology	$ 5,650	4	15%
Customer relationships	2,500	6	14%
Trade names	1,000	7	14%
Total identifiable intangible assets	$ 9,150		

Pro Forma Financial Information

The following unaudited pro forma information presents the condensed combined results of operations of the Company and EVault for the three and nine months ended September 30, 2015 as if the acquisition of EVault had been completed on January 1, 2015. These pro forma condensed consolidated financial results have been prepared for comparative purposes only and include certain adjustments that reflect pro forma results of operations, such as increased amortization for the fair value of acquired intangible assets, fair value adjustments (step-downs) for property, plant and equipment and deferred revenue, reversal of revenues and costs directly attributable to assets and products not acquired, and adjustments relating to the tax effect of combining the Company and EVault businesses. The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings which may result from the consolidation of the operations of the Company and EVault. Accordingly, these unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of the results of operations that actually would have been achieved had the acquisition occurred as of January 1, 2015, nor are they intended to represent or be indicative of future results of operations (in thousands):

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Revenue	$ 54,825	$ 164,974
Net loss	$ (17,415)	$ (59,147)
Basic and diluted net loss per share	$ (0.64)	$ (2.17)
Weighted-average number of common shares used in computing basic and diluted net loss per share	27,173,360	27,212,038

2015 Acquisition

On August 11, 2015, the Company acquired certain assets of Rebit, Inc. ("Rebit") for total consideration of approximately $1.3 million, which included an initial cash payment of $1.0 million and an estimated fair value of $0.3 million for additional consideration which was paid one year from the date of acquisition. The Company employs six of Rebit’s former employees at its current location in Longmont, Colorado.

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 acquisition of Rebit has been accounted for as a business combination and, in accordance with ASC 805, the Company has recorded the assets acquired and liabilities assumed at their respective fair values as of the acquisition date. As a result of the acquisition of Rebit, the Company recorded goodwill in the amount of $0.6 million and identifiable intangible assets of $0.7 million. As of the acquisition date, developed technology and customer relationships had weighted-average useful lives of 6.0 years and 4.0 years, respectively. These identifiable intangible assets are amortized 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.

6. Goodwill and Acquired Intangible Assets

As of September 30, 2016 and December 31, 2015, the carrying amount of goodwill was $24.5 million and $23.1 million, respectively. The following is a rollforward of our goodwill balance (in thousands):

	Goodwill
Balance as of December 31, 2015	$ 23,105
Goodwill acquired	989
Effect of foreign exchange rates	361
Balance as of September 30, 2016	$ 24,455

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

		September 30, 2016			December 31, 2015		
	Weighted-Average Estimated Useful Life (in years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Developed technology	5.4	$ 14,005	$ 4,493	$ 9,512	$ 8,167	$ 2,463	$ 5,704
Customer relationships	6.5	6,197	1,963	4,234	3,627	1,216	2,411
Trade names	7.0	1,743	402	1,341	726	213	513
Non-compete agreements	3.8	380	380	—	380	368	12
		$ 22,325	$ 7,238	$ 15,087	$ 12,900	$ 4,260	$ 8,640

The Company recorded amortization expense of $1.0 million and $0.5 million for the three month periods ended September 30, 2016 and 2015, respectively, and $2.9 million and $1.5 million for the nine month periods ended September 30, 2016 and 2015, 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 trade names and non-compete agreements is recorded within general and administrative expenses.

Future estimated amortization expense of acquired intangibles as of September 30, 2016 is as follows (in thousands):

Remainder of 2016	$ 946
2017	3,713
2018	3,661
2019	3,603
2020	2,008
Thereafter	1,156
	$ 15,087

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7. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	September 30, 2016	December 31, 2015
Accrued marketing	$ 1,890	$ 1,727
Accrued compensation	7,714	3,130
Accrued cost of goods sold	571	—
Accrued tax liabilities	2,208	435
Accrued consulting and professional fees	1,627	3,263
Accrued facilities	989	819
Derivative liability	217	400
Accrued other expenses	2,880	1,785
Total accrued expenses	$ 18,096	$ 11,559

8. Stockholders' Equity

Share Repurchase Program

On May 11, 2015, the Company's Board of Directors authorized a $20.0 million share repurchase program, effective from May 15, 2015 through May 15, 2018. Share repurchases are made from time-to-time in the open market, in privately negotiated transactions or otherwise, in accordance with applicable securities laws and regulations. The timing and amount of any share repurchases are determined by the Company's management based on an evaluation of market conditions, the trading price of the stock, and other factors.

For the three months ended September 30, 2016, the Company did not repurchase any shares of its common stock under the repurchase program. For the nine months ended September 30, 2016, the Company repurchased 574,118 shares of its common stock at an average price of $7.81 per share for a total cost of approximately $4.5 million. For the nine months ended September 30, 2015, the Company repurchased 274,700 shares of its common stock at an average price of $10.88 per share for a total cost of approximately $3.0 million. At September 30, 2016, approximately $10.2 million remained available under the Company's share repurchase program.

9. Stock-based Awards

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

The 2011 Plan provides for the issuance of stock options, restricted stock, restricted stock units, 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 2011 Plan, the Company reserved 1,662,000 shares of common stock for issuance thereunder. On January 1st of each year, beginning January 1, 2012, the number of shares reserved under the 2011 Plan increased or 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 September 30, 2016, 1,702,664 shares of common stock were available for future grant under the 2011 Plan.

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

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Stock Options

The following summarizes stock option activity under stock incentive plans for the nine months ended September 30, 2016:

	Number of Shares	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands) (2)
Outstanding at December 31, 2015	2,975,673	$ 11.06		$ 724
Granted	1,500	8.95		
Exercised	(220,691)	9.14		
Forfeited	(1,253,042)	11.21		
Outstanding at September 30, 2016	1,503,440	$ 11.21	6.98	$ 6,241
Exercisable as of September 30, 2016	1,016,873	$ 10.84	6.55	$ 4,597
Vested and expected to vest as of September 30, 2016 (1)	1,411,783	$ 11.15	6.90	$ 5,939

(1) Represents the number of vested stock options as of September 30, 2016, plus the number of unvested stock options expected to vest as of September 30, 2016, based on the unvested stock options outstanding at September 30, 2016, adjusted for estimated forfeitures.

(2) The aggregate intrinsic value is calculated as the positive difference, if any, between the exercise price of the underlying stock options and the fair market value of the Company's common stock on September 30, 2016.

The Company generally estimates the fair value of stock options on the date of grant using the Black-Scholes option-pricing model. This model 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 granted during the three and nine months ended September 30, 2016 and 2015 using the Black-Scholes option-pricing model were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Weighted-average exercise price	$—	$11.81	$8.95	$13.27
Weighted-average grant-date fair value	$—	$5.69	$4.03	$6.50
Black-Scholes Assumptions				
Risk-free interest rate	—%	1.85 %	1.93 %	1.54% to 1.85%
Expected dividend yield	—%	— %	— %	— %
Expected volatility	—%	49 %	44 %	49% to 51%
Expected term (in years)	0	6.1	6.1	5.5 to 6.1

Restricted Stock Units

The Company recognizes non-cash compensation expense over the vesting term of restricted stock units. The fair value is measured based upon the number of units and the closing price of the Company's common stock underlying such units on the dates of grant. Upon vesting and settlement, each restricted stock unit entitles the holder to receive one share of common stock.

The following table summarizes restricted stock unit activity for the nine months ended September 30, 2016:

Number of Weighted Average

	Shares	Grant Date Fair Value
Unvested restricted stock units as of December 31, 2015	1,001,364	$ 13.19
Restricted stock units granted	878,763	9.08
Restricted stock units vested	(257,413)	13.12
Restricted stock units forfeited	(209,145)	10.94
Unvested restricted stock units as of September 30, 2016	1,413,569	$ 10.98

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Restricted Stock Awards

The Company grants restricted stock awards to members of the Board of Directors annually. The fair value is measured based upon the number of units and the closing price of the Company’s common stock underlying such units on the dates of grant. Awards to directors vest on the first anniversary of the date of grant.

The following table summarizes restricted stock award activity for the nine months ended September 30, 2016:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock awards as of December 31, 2015	41,917	$ 10.90
Restricted stock awards granted	108,497	9.46
Restricted stock awards vested (restriction lapsed)	(32,208)	10.93
Restricted stock awards forfeited	—	—
Unvested restricted stock awards as of September 30, 2016	118,206	$ 9.57

Equity Awards with Market-Based Vesting Conditions

On February 1, 2016, the Company granted select executive officers 325,000 restricted stock units with market-based vesting conditions. These restricted stock units contain both performance and service vesting conditions. These awards will meet the performance vesting condition if, within three years from the date of grant, the closing price per share of the Company's common stock is at least $15.00 per share for 20 consecutive trading days. Upon achievement of the applicable performance vesting condition, the award will be subject to service vesting, with vesting to occur in four equal quarterly installments over the one-year period from the date of achieving the performance-based vesting conditions, subject to the recipient's continued service to the Company through the applicable vesting date.

The Company estimated the fair value and derived service period of the restricted stock units with market-based vesting conditions on the date of grant using a Monte-Carlo simulation. The model requires the use of subjective estimates and assumptions, including expected volatility, risk-free interest rate and dividend yield.

The grant-date stock price and assumptions used to estimate the derived service period and fair value of the equity awards with market-based vesting conditions were as follows:

	As of February 1, 2016
Grant-date stock price	$ 8.95
Assumptions	
Risk-free interest rate	1.01 %
Expected dividend yield	— %
Expected volatility	40 %

In 2015, the Company granted 100,000 restricted stock units with market-based vesting conditions. Of the 100,000 restricted stock units granted, 50,000 shares accrue in four equal, 25% installments on each anniversary of the date of grant based on continued service through the applicable accrual date, provided that no vesting will occur unless the Company maintains a closing stock price of $14.00 per share for 20 consecutive trading days. The remaining 50,000 shares accrue in four equal, 25% installments on each anniversary date of grant based on continued service through the applicable accrual date, provided that no vesting will occur unless the Company maintains a closing stock price of $18.00 per share for 20 consecutive trading days.

The Company recognizes the stock-based compensation expense on equity awards with market-based vesting conditions in the consolidated statements of operations over the requisite service period. The achievement of certain market-based vesting conditions may result in the acceleration of recognizing stock-based compensation expense compared to the original valuation. As of September 30, 2016, no market-based vesting conditions had been achieved which resulted in the acceleration of expense.

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The following table summarizes equity awards with market-based vesting conditions activity for the nine months ended September 30, 2016:

	Options with Market-Based Vesting Conditions	Weighted Average Grant Date Fair Value	Restricted Stock Units with Market-Based Vesting Conditions	Weighted Average Grant Date Fair Value
Unvested market-based vesting awards as of December 31, 2015	250,000	$ 7.41	100,000	$ 11.32
Market-based vesting awards granted	—	—	325,000	4.34
Market-based vesting awards vested	—	—	—	—
Market-based vesting awards forfeited	—	—	—	—
Unvested market-based vesting awards as of September 30, 2016	250,000	$ 7.41	425,000	$ 5.98

Stock-based Compensation Expense

Stock-based compensation is reflected in the consolidated statement of operations as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Cost of revenues	$189	$195	$600	$524
Research and development	276	273	790	911
General and administrative	1,388	1,745	4,475	5,074
Sales and marketing	277	332	763	909
Total stock-based compensation expense	$2,130	$2,545	$6,628	$7,418

10. Income Taxes

The Company's effective income tax rates were 80.0% and (7.3%) for the three months ended September 30, 2016 and 2015, respectively. The Company's effective income tax rates were (31.1%) and (6.3%) for the nine months ended September 30, 2016 and 2015, respectively. Our effective income tax rate is based upon estimated income before provision for income taxes for the year, composition of the income in different countries, and adjustments, if any, in the applicable quarterly periods for potential tax consequences, benefits and/or resolutions of tax audits or other tax contingencies. For the three and nine months ended September 30, 2016, the effective income tax rate varied from the statutory income tax rate principally as a result of significant pre-tax book losses in the U.S. and Switzerland that cannot be benefited.

The Company's effective income tax rate in the three and nine months ended September 30, 2016 differed from the three and nine months ended September 30, 2015 primarily due to an increase in foreign earnings resulting from the EVault acquisition, a decrease in profitable foreign earnings resulting from jurisdictional foreign consolidation, and a worldwide consolidated reduction in losses before income taxes.

The statute of limitations for assessment by the Internal Revenue Service ("IRS") and state tax authorities is open for each of the tax years ending December 31, 2013 through 2015, although carryforward attributes that were generated prior to tax year 2013 may still be adjusted upon examination by the IRS or state tax authorities if they either have been or will be used in a future period. There are currently no federal or state audits in progress in the U.S. or foreign jurisdictions. The statute of limitations for assessments by foreign taxing authorities is generally not open for years prior to 2010, although carryforward attributes that were generated prior to tax year 2010 may still be adjusted upon examinations.

11. Commitments and Contingencies

Operating Leases

The Company leases facilities under leases that expire at varying dates through 2024. Certain of these leases contain renewal options and require the Company to pay operating costs, including property taxes, insurance, and maintenance.

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The Company has lease agreements to rent office space in Boston, Massachusetts (corporate headquarters); Lewiston, Maine; Sunnyvale, California; Longmont, Colorado; Munich, Germany; Viersen, Germany; Salt Lake City, Utah; Oakville, Canada; Emeryville, California; Hertogenbosch, Netherlands; Berkshire, United Kingdom and Anatole, France. The Company has lease agreements to rent data center space in Wakefield, Massachusetts; Phoenix, Arizona; Chandler, Arizona; and Ashburn, Virginia. The Company has data center colocation agreements in place with Iron Mountain and Center 7 to rent colocation space at each of their data centers. The terms of 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, such that rent is being recognized on a straight-line basis over the terms of the leases. At September 30, 2016 and December 31, 2015, $4.6 million and $4.9 million, respectively, was included in accrued expenses and other long-term liabilities related to the deferred rent.

In September 2016, the Company entered a lease agreement for a new data center in Ashburn, Virginia. The initial term of the lease expires on November 30, 2021, with escalating rent payments throughout the term. The Company has the option to extend the original term of the lease for two successive three-year periods. In accordance with the lease, the Company received an incentive whereby the landlord will pay for a portion of the moving expenses associated with moving equipment from the current data center to the Ashburn location. The rent expense is recorded net of the incentive over the term of the lease.

In May 2014, the Company entered into a lease agreement for its new corporate headquarters in Boston, Massachusetts. The initial term of the lease expires on December 31, 2024, and the Company has the option to extend the original term of the lease for one successive five-year period. Upon execution of the lease agreement, the Company was required to post a security deposit of $0.8 million, which the Company maintains as a letter of credit. The Company's landlord can draw against this letter of credit in the event of default by the Company. The facility was made available to the Company to begin its build-out on June 1, 2014, and as such, the Company began recording rent expense at that time. In accordance with the lease, the Company received a tenant improvement allowance. The rent expense is recorded net of the allowance over the term of the lease. The leasehold improvements associated with the initial build-out are being amortized over the initial term of the lease. Any additional leasehold improvements made during the course of occupancy will be amortized over the shorter of the useful life or remaining life of the lease.

Future non-cancellable minimum lease payments under all operating leases as of September 30, 2016, are as follows (in thousands):

Years Ended December 31,	Office Leases	Data Center Leases	Total
Remainder of 2016	$1,042	$1,051	$2,093
2017	3,894	3,538	7,432
2018	3,161	1,970	5,131
2019	2,387	872	3,259
2020	2,263	827	3,090
Thereafter	8,666	779	9,445
Total	$21,413		