

AVG Technologies N.V.
Form 20-F
March 25, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20 F

.. REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended December 31, 2013

OR

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

OR

.. SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number 001-35408

AVG TECHNOLOGIES N.V.

(Exact name of Registrant as specified in its charter

and translation of Registrant's name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

Gatwickstraat 9-39, 1043 GL Amsterdam, The Netherlands

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Ordinary Shares, par value 0.01 per share	The New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Title of each class	Number of shares outstanding
Ordinary shares	53,150,630

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) (or for such shorter period that the Registrant was required to file such reports).

Yes ☒ No ☐

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☒

International Financial Reporting Standards as issued

Other ☐

by the International Accounting Standards Board ☐

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow. Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The registrant is an emerging growth company that has not elected to take advantage of the extended transition period provided in section 13(a) of the Exchange Act for complying with new or revised accounting standards.

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FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements about us, our markets and our industry. These statements involve known and unknown substantial risks, uncertainties and other factors as described in detail under Item 3. Key Information D. Risk factors in this Annual Report that may cause our actual results, levels of activity, performance or achievement to be materially different from those expressed or implied by the forward-looking statements. All statements, other than statements of historical fact, included in this Annual Report regarding our strategy, future operations, future financial position, future net sales, projected expenses, prospects and plans and objectives of management are forward-looking statements.

In some cases, you can also identify forward-looking statements by terms such as anticipate, believe, estimate, expect, intend, may, might, plan, project, will, would, should, could, can, predict, potential, continue, and the negatives of these terms, and similar expressions intended to identify forward-looking statements. However, not all forward-looking statements contain these identifying words.

All forward-looking statements reflect our current views about future events and are based on assumptions and subject to risks and uncertainties. Forward-looking statements in this Annual Report include, but are not limited to, statements about:

changes in international or national tax regulations and related proposals;

changes in our growth strategies;

changes in our future prospects, business development, results of operations and financial condition;

changes to the online and computer threat environment and the endpoint security industry;

competition from local and international companies, new entrants in the market and changes to the competitive landscape;

the adoption of new, or changes to existing, laws and regulations;

flaws in the assumptions underlying the calculation of our key metrics, including the number of our active users, revenue per average active user, subscription revenue per subscriber and platform revenue per thousand searches;

potential effects of changes in the applicable search guidelines of our search partners;

the termination of or changes to our relationships with our partners, including Google, and other third parties;

changes in our and our partners' responses to privacy concerns;

our ability to successfully diversify our portfolio of search partners;

our plans to launch new products, such as AVG Zen, and online services and monetize our full user base;

our ability to attract and retain active and subscription users;

our ability to retain key personnel and attract new talent;

our ability to adequately protect our intellectual property;

flaws in our internal controls or IT systems;

our geographic expansion plans;

the anticipated costs and benefits of our acquisitions;

the outcome of ongoing or any future litigation or arbitration, including litigation or arbitration relating to intellectual property rights;

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our legal and regulatory compliance efforts; and

worldwide economic conditions and their impact on demand for our products and services.

Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements.

Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this Annual Report. You should read this Annual Report and the documents that we have filed as exhibits to this Annual Report completely and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

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INTRODUCTION

This Annual Report contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from future results as a result of factors such as those set forth in Item 3. Key Information D. Risk factors and Item 5. Operating and Financial Review and Prospects G. Safe harbor.

The financial information included in this Annual Report is based on generally accepted accounting principles in the United States, or U.S. GAAP, unless otherwise indicated.

In presenting and discussing our financial position, operating results and cash flows, management uses certain non-GAAP financial measures. These non-GAAP financial measures should not be viewed in isolation or as alternatives to the equivalent U.S. GAAP measures and should be used in conjunction with the most directly comparable U.S. GAAP measures. A discussion of non-GAAP measures included in this Annual Report and a reconciliation of such measures to the most directly comparable U.S. GAAP measures are contained in this Annual Report under Item 5. Operating and Financial Review and Prospects A. Operating results Non-GAAP Measures.

Unless otherwise indicated or the context otherwise requires, all references in this Annual Report to AVG or the Company, we, our, ours, us or similar terms refer to AVG Technologies N.V. and its subsidiaries, or if before November 25, 2011, to our predecessor company and former wholly owned subsidiary AVG Technologies N.V. and its subsidiaries. See Item 4. Information on the Company A. History and development of the company. AVG The Online Security Company, Devices. Data. People., AVG Zen, Be Yourself, LinkScan, AVG CloudCare™, AVG PC TuneUp and our logo are our key brands, and are variously registered in several jurisdictions. This Annual Report contains references to these and others of our trademarks and names and those of other entities and all these references may omit the ® or symbols solely for convenience. Such references are not intended, however, to imply that we will not enforce our rights in any of our marks to the fullest extent permitted by law. This Annual Report also contains references to third party trademarks, and references to these third party marks may omit the ® or symbols solely for convenience. All trademarks are property of their respective owners.

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Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION**A. SELECTED FINANCIAL DATA**

We have derived the consolidated statements of comprehensive income data and the consolidated balance sheets data for the years ended, and as of, December 31, 2009, 2010, 2011, 2012, and 2013 from our audited consolidated financial statements. You should read the consolidated financial data set forth below in conjunction with our consolidated financial statements and related notes and the information under Item 5. Operating and Financial Review and Prospects, appearing elsewhere in this Annual Report in Form 20-F. Our reporting currency is the U.S. dollar. Our historical results are not necessarily indicative of our results to be expected in any future period. We have prepared the financial statements included in this Annual Report in accordance with U.S. GAAP.

	Year ended December 31,				
	2009	2010	2011	2012	2013
	(in thousands of U.S. dollars, except for share data and per share data)				
Statement of Comprehensive Income					
Data and Other Operating Metrics:					
Revenue:					
Subscription	\$ 151,365	\$ 166,904	\$ 175,654	\$ 196,858	\$ 250,839
Platform-derived	30,603	50,314	96,738	159,108	156,274
Total revenue	181,968	217,218	272,392	355,966	407,113
Cost of revenue: ⁽¹⁾					
Subscription	(30,112)	(26,686)	(23,374)	(27,064)	(30,027)
Platform-derived	(1,308)	(2,293)	(7,849)	(27,320)	(38,818)
Total cost of revenue	(31,420)	(28,979)	(31,223)	(54,384)	(68,845)
Gross profit	150,548	188,239	241,169	301,582	338,268
Operating expenses: ⁽¹⁾					
Research and development	(19,533)	(23,364)	(35,008)	(55,485)	(60,885)
Sales and marketing	(45,988)	(58,562)	(76,933)	(92,198)	(96,382)
General and administrative	(24,404)	(40,683)	(60,710)	(73,491)	(70,902)
Total operating expenses	(89,925)	(122,609)	(172,651)	(221,174)	(228,169)

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Operating income	60,623	65,630	68,518	80,408	110,099
Other income (expense), net	(1,600)	1,722	(17,104)	(22,939)	(7,379)
Income before income taxes and loss from investment in equity affiliate	59,023	67,352	51,414	57,469	102,720
Income tax (provision) benefit	(6,538)	(9,394)	49,260	(11,141)	(39,006)
Loss from investment in equity affiliate		(46)	(242)	(511)	

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	Year ended December 31,				
	2009	2010	2011	2012	2013
	(in thousands of U.S. dollars, except for share data and per share data)				
Statement of Comprehensive Income Data and Other Operating Metrics (continued):					
Net income	52,485	57,912	100,432	45,817	63,714
Preferred share dividends	(1,802)	(7,210)	(7,208)	(753)	
Distributed and undistributed earnings to participating securities		(12,676)	(27,513)		
Net income available to ordinary shareholders basic ⁽²⁾	\$ 50,683	\$ 38,026	\$ 65,711	\$ 45,064	\$ 63,714
Earnings per ordinary share basic ⁽²⁾	\$ 1.19	\$ 1.06	\$ 1.83	\$ 0.86	\$ 1.18
Earnings per ordinary share diluted ⁽³⁾	\$ 1.09	\$ 0.99	\$ 1.69	\$ 0.84	\$ 1.16
Weighted-average ordinary shares outstanding basic ⁽²⁾	42,750,000	36,000,000	36,000,000	52,395,427	54,208,065
Weighted-average ordinary shares outstanding diluted ⁽³⁾	48,155,490	38,585,664	38,974,953	54,308,518	54,710,704

- (1) We have recognized employee share-based compensation in the consolidated statements of comprehensive income for the periods indicated as follows:

	Year ended December 31,		
	2011	2012	2013
	(in thousands of U.S. dollars)		
Cost of revenue	\$ 21	\$	\$ 40
Research and development	1,116	1,652	1,013
Sales and marketing	949	2,036	1,172
General and administrative	4,310	12,495	6,702
Total share-based compensation expense	\$ 6,396	\$ 16,183	\$ 8,927

- (2) During the 2011 fiscal year the Company had 12 million Class D preferred shares which were entitled to a preference dividend of approximately \$1.8 million per calendar quarter, as well as their pro rata amount of net income assuming distribution to each separate class of shareholder. These shares were excluded from calculations of net income available to ordinary shareholders basic. At the time of the initial public offering, or IPO, these shares converted to ordinary shares on a 1-for-1 basis, and preference dividends are no longer payable.

	2009	2010	2011	2012	2013
Cash dividends declared per ordinary share	\$ 3.28	\$ 0.83	\$ 4.53	\$	\$
Cash dividends declared per preferred share	\$	\$ 1.43	\$ 5.13	\$ 0.21	\$

	Year ended December 31,		
	2011	2012	2013
	(in thousands of U.S. dollars, except for user data)		
Net cash provided by operating activities	\$ 82,911	\$ 119,306	\$ 145,204
Net cash used in investing activities	\$ (69,544)	\$ (30,242)	\$ (39,755)
Net cash used in financing activities	\$ (15,329)	\$ (100,325)	\$ (114,295)
Active users (in millions) ⁽¹⁾	108	146	177
Subscription users (in millions) ⁽²⁾	15	15	16
Revenue per average active user ⁽³⁾	\$ 2.65	\$ 2.80	\$ 2.52

- (1) Active users are those that (i) have downloaded and installed our free software on a PC and have connected to our server at least twice, including at least once in the preceding 30-day period, (ii) represent a unique

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- mobile device, which has installed one or more of our mobile applications, from which at least one application has contacted our server twice in the preceding 30-day period (with at least 24 hours between the first and second contact), (iii) have a valid subscription license for our software solutions or (iv) represent a unique device using our secure search solution that has made at least one secure search in the preceding 30-day period. For further detail on our definition and counting of active users, see Item 5. Operating and Financial Review and Prospects A. Operating results Key Metrics Active, subscription, and stand-alone secure users.
- (2) Subscription users are active users who subscribe to our premium products and online services, the primary component of our subscription revenue. Payments from subscription users make up the substantial majority of subscription revenue. For further detail on our definition and counting of subscription users, see Item 5. Operating and Financial Review and Prospects A. Operating results Key Metrics Active, subscription, and stand-alone secure users.
- (3) The number of average active users is calculated as the simple average of active users at the beginning of a period and the end of a period.

	As of December 31,				
	2009	2010	2011	2012	2013
	(in thousands of U.S. dollars, except for share data)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 47,711	\$ 63,146	\$ 60,740	\$ 51,890	\$ 42,349
Working capital (deficit)	(41,804)	(34,234)	(100,871)	(102,192)	(119,569)
Goodwill and other intangible assets, net	40,711	42,213	106,402	122,483	144,420
Total assets	143,787	175,957	311,635	323,466	306,782
Deferred revenue, current	101,147	107,214	120,269	148,308	164,136
Deferred revenue, less current portion	27,925	28,213	30,839	32,848	33,050
Debt	1,072	1,050	225,440	97,231	30,000
Total liabilities	159,518	176,717	441,960	346,036	297,616
Net assets (liabilities)	(15,731)	(760)	(130,325)	(22,570)	9,166
Class D preferred shares ⁽¹⁾⁽²⁾	191,954	191,954	191,954		
Total shareholders' equity (deficit) ⁽³⁾⁽²⁾	(207,685)	(192,714)	(322,279)	(22,570)	9,166

- (1) In connection with the initial investment in us in October 2009 by TA Coöperatief (which subsequently transferred such investment to TA Sàrl), we amended our articles of association and converted 5,850,000 outstanding Class A ordinary shares and 3,150,000 outstanding Class B ordinary shares into an aggregate of 9,000,000 Class D preferred shares, which our shareholders then sold to TA Coöperatief. At the same time we also issued 3,000,000 Class D preferred shares to TA Coöperatief for \$47.8 million, net of issuance costs. We recorded a distribution in excess of capital in shareholders' equity (deficit) of \$144.1 million in connection with the conversion into 9,000,000 Class D preferred shares of ordinary shares and the issuance of 3,000,000 Class D preferred shares to TA Coöperatief.
- (2) Upon the closing of the IPO, the Class D preferred shares were converted into 12,000,000 ordinary shares. In addition, we closed the IPO of 8,000,000 ordinary shares at an offering price of \$16.00 per share. We offered 4,000,000 ordinary shares and the selling shareholders offered 4,000,000 ordinary shares. We did not receive any proceeds from the sale of the ordinary shares by the selling shareholders other than the proceeds from options which were exercised by certain selling shareholders in connection with the IPO. The IPO resulted in net proceeds of \$50.9 million, after deducting underwriting discounts, commissions and offering expenses paid by us.

B. CAPITALIZATION AND INDEBTEDNESS

Not Applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not Applicable.

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D. RISK FACTORS

An investment in our ordinary shares involves a high degree of risk. You should carefully consider the risks and uncertainties described below and the other information in this Annual Report before making an investment in our ordinary shares. Our business, financial condition or results of operations could be materially and adversely affected if any of these risks occurs, and as a result, the market price of our ordinary shares could decline.

This Annual Report also contains forward-looking statements that involve risks and uncertainties. See

Forward-looking statements Our actual results could differ materially and adversely from those anticipated in these forward-looking statements as a result of certain factors.

Risks relating to our business and our industry

We must successfully adapt our business in response to the fast changing technological environment facing our consumers and small and medium-sized businesses, including the increasing use of mobile devices and the introduction of new systems, networks and standards, or our business, operating results and financial condition may be adversely affected.

The technology environment has changed and continues to change rapidly as the use of mobile devices, including smartphones and tablets, increases significantly, as consumers increasingly engage with Internet based services such as social network applications and as an increasing percentage of the world's population is connected to the Internet. In order to deliver high quality products, it is important that our products work well with a range of mobile devices, systems, networks, and standards that we do not control. We may not be successful in developing relationships with key participants in the mobile industry or in developing products that operate effectively with these devices, systems, networks, or standards.

These technological changes may threaten our existing revenue streams, which are currently principally reliant on PC-based products and services to generate both subscription and platform-derived revenues. We have not currently achieved any material monetization from our mobile-based or integrated cross-platform products and services; our future success will be dependent on our ability to do so.

Our failure to adapt to these changes and deliver new products and services meeting the consumers' needs that can be successfully monetized would materially and adversely affect our business, financial condition and results of operations.

Our business model is evolving and we may be unable to increase or monetize our active user base sufficiently to increase or maintain our profitability.

Our business model has evolved in recent years toward seeking to increase and monetize our active user base through a variety of means rather than drawing revenue primarily from users purchasing subscriptions to our premium products and online services. To expand our user base, we have added and plan to continue to add new products and online services to our product portfolio, broadening our focus beyond security solutions and increasing our support for mobile computing devices, including smartphones and tablets. The evolution of our business model is ongoing and may depart further from the subscription-based model we used for much of our operating history.

We may be unsuccessful in executing our new business model of adding compelling new products and online services and monetizing all of our active user base. To date our primary means of monetizing our active user base indirectly has been our dynamic secure search solution provided pursuant to agreements with search providers such as Google,

Yahoo!, Seznam and Yandex. These search agreements have provided us with a significant revenue stream in past years. This revenue stream was impacted by the Google guideline changes announced in February 2013 which subsequently led to our decision in November 2013 to exit in a controlled

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manner the third party search distribution business, in which we distributed our stand-alone secure search solution in connection with the download of other companies' products. The guideline changes, primarily the requirement for a customer to opt-in to accept the AVG search settings, also impacted our organic user base and we expect that revenue stream to decline in 2014. If there are further guideline changes which we are unable to mitigate, if all search providers decide to adopt an opt in policy, or if we cannot find additional methods of monetizing our active user base through products and online services that users find compelling, we may not be able to continue our recent growth and increase our revenue, margins and profitability. If our new methods of monetizing our active user base, attempts to expand that user base, or creation of new products and online services cannot be sustained, our revenue, margins and profitability could be adversely affected.

We must maintain our relationships with our existing users and attract new users if we are to continue to expand and improve the quality of our user base, which we may be unable to do.

A significant portion of our users cease using our products in any given period because the cost of switching to the products and online services of competitors on existing hardware, including mobile devices, is minimal and because competitors' products are often preinstalled on new hardware purchased by our users, among other reasons. For example, in the security software market, new PCs are widely distributed with one of our competitors' security products preinstalled. To continue to expand our user base, we must retain our existing users to the extent possible and continuously attract new users, both to replace the many users who exit our user base and to expand that base. Any failure to continue to expand our user base could have a material adverse effect on our business, operating results and financial condition.

In addition, our ability to monetize our active user base varies depending on many characteristics of those users, including level of engagement with our products and services, amount and nature of Internet and computing activities, geographic location and income level and the device which they use. If we are unable to retain and recruit users whose characteristics contribute to a user base with optimum potential for monetization, our business, operating results and financial condition could suffer materially. For example the vast majority of our current income is derived from our PC user base and if we are unable to monetize our mobile user base successfully, our growth may be adversely impacted. The significant turnover in our user base also limits our ability to predict our revenue and cash flows for future periods, making it more difficult for us to manage our business.

Our search-traffic program is crucial to our effort to monetize more of our active user base and this program is vulnerable to technological and regulatory change, including the rise of mobile computing, and our reliance on a limited number of search providers.

Our most successful program to monetize our active user base has been our dynamic secure search solution, including our browser toolbar, which gives our users a convenient way to access a search engine at any time and to be secure that the sites that are the results of the search will not infect or damage their computers or other devices. Search engine companies pay us for the search queries we steer to them via our dynamic secure search solution. If software companies that provide Internet browsers prevent the addition of our toolbar, either directly by limiting space for toolbars in the browser interface or indirectly by restricting access to software code, our ability to monetize all of our active user base will be adversely affected. The rise of mobile computing makes this risk more acute as most mobile devices have smaller screens than desktop and laptop computers and software developed for these devices may not as readily accommodate additional toolbars as software developed for desktop and laptop computers. We have not yet begun distributing our toolbar with software designed specifically for mobile devices but intend to do so in future, as mobile represents a small but expanding proportion of the total search market. In addition, we currently expect that revenue per average active mobile user will be lower than revenue from traditional active users. As such, there can be no assurance that revenue from our dynamic secure search solution or other similar solutions we may develop will

grow in line with our expectations, or that we will be able to maintain or expand our current and future platform-derived agreements or enter into additional agreements to generate platform-derived revenue. The failure of these markets to continue to grow, or our inability to penetrate these markets, would have an adverse effect on our results of operations.

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For the majority of platform-derived revenue from our dynamic secure search, we have historically relied upon agreements with Yahoo! and Google to generate revenue from our dynamic secure search solution. Although since our November 2012 renewal of our relationship with Google we have had non-exclusive arrangements with search engine companies, and now generate platform-derived revenue from multiple search engine companies, the amount of revenue generated from search engine companies other than Yahoo! and Google is relatively small. Platform-derived revenue generated from our active users in certain geographical regions is dependent on Google, as alternative search providers do not generate significant income in those regions. Revenue generated by Google accounted for 28% of our total revenue in 2013, a decrease from 44% of our total revenue in 2012 (revenue generated by Google accounted for 28% of our total revenue in 2011). Our revenue generated by Yahoo! accounted for 9% of our total revenue in 2013, none in 2012 and 6% in 2011. We have revenue concentration risk as we rely on our contractual arrangements with Google and Yahoo! for a significant portion of our revenue and we cannot guarantee that the revenue generated from the Google and Yahoo! sourced search agreements will continue.

In November 2012 we renewed our relationship with Google by signing a new Internet search and advertising services agreement on a non-exclusive basis and subsequently signed search distribution agreements with other partners including Yahoo!. We expect that we will continue to diversify our dynamic secure search revenue stream but anticipate that Google and Yahoo! will continue to account for a significant percentage of our revenue.

Search engine companies pay us a percentage of any search revenue generated whenever a user clicks on an ad (also called a sponsored link) served by that search engine company and hosted on one of AVG's search domains. Our customers can access our secure search via the toolbar, default search, address bar or the AVG search homepage. Any decline in the popularity of our products or a search engine we utilize could result in a decrease in revenue from this source under our agreements with search engine companies. Certain search engine companies can also unilaterally make changes to their policies and guidelines, which primarily concern the operations and technology of their search services. These changes could require us to modify or suspend certain activities relating to our toolbar or search solutions, which could be costly for us to implement or lead to a reduction in the number of search customers and impact revenue. For example, Google released guidelines in February 2013 that restrict our ability to change our customers search settings. We may also need relevant applicable search engine companies' permission to offer the toolbar or our dynamic search solution in a form other than that previously approved in connection with our initial contracts, which, if they did not grant such permission, could adversely impact our ability to generate revenue by preventing us from offering the toolbar or search solutions as we otherwise would. In addition, the search engine companies may terminate their respective agreements with us if the advertising revenue generated, query volume or traffic quality through our dynamic secure search solution falls below a certain level over a certain time period, and they have other customary termination rights under the agreement, including upon a change of control. Similarly, the revenue share under such agreements varies according to the amount of traffic we deliver to each search engine. The agreements expire on November 30, 2014 and January 22, 2016 with Google and Yahoo! respectively with a mutual right of termination for convenience on 180 days notice to take effect on or after January 23, 2015 in the case of Yahoo!. Neither search engine company is under any obligation to renew its agreement. If, upon the termination or expiration of our agreements, we fail to enter into new agreements with Google or Yahoo! or a similar search provider on substantially the same or more favorable terms, our revenue would significantly decrease. We may also be unsuccessful in diversifying our search revenue and Google and Yahoo! will likely remain responsible in the near term for the majority of our platform-derived revenue, so we will likely continue to have significant revenue concentration risk.

If we are unable to diversify platform revenue beyond secure search, our business, financial condition and results of operation will be negatively impacted.

A key aspect of our strategy to maximize the value of our active user base by indirect monetization occurs when we receive payments from third parties for activities undertaken by our user base but for which the user does not pay directly. Historically our platform revenue has been almost exclusively derived from our

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relationships with search providers. While we have sought to diversify this revenue stream outside of the search business, these diversification activities to date have not yielded any meaningful revenue. As our search-based platform revenue declined in 2013 and, following the exit from the third party search distribution business, is expected to further decline in the future, the diversification of our platform business to areas outside of search has gained greater importance if we are to maintain our revenue growth. Failure to generate significant revenue from non-search related platform activities would materially and adversely affect our business, financial condition and results of operations.

If we are unable to maintain and enhance our brand, our business and operating results may be harmed.

We believe that maintaining and enhancing our brand identity is critical to our business. The successful promotion of our brand will depend largely upon our marketing and public relations efforts, the quality of our Internet software solutions and our ability to differentiate ourselves from our competitors. The promotion of our brand may require us to make substantial expenditures, which will likely increase as our market becomes more competitive. As we expand into new markets, particularly the mobile market, and product sectors within the PC market, such as PC optimization, and the small and medium sized businesses (SMB) market with cloud-based products, our brand may not be as well recognized and additional sales and marketing expenditure may be required. If we are not successful at maintaining and enhancing our brand, our ability to attract new users and talent would be adversely affected and we could lose users, third-party distributors and resellers.

Our business depends on our brand recognition and the failure to maintain or enhance our brand image could adversely affect our business and market position. In particular, we rely on our active users as primary drivers of our user-driven marketing strategy and any negative change to the perception of our brand among our active users could have a material adverse effect on our business.

As we develop and further enhance our brand, marketing messages and visual identification, there are risks that we may adversely impact our business if such developments are not effective.

In addition, independent industry analysts often provide reviews of our solutions, as well as those of our competitors. Perception of our products in the marketplace may be significantly influenced by these reviews. Our brand could be harmed if industry analysts provide negative reviews of our software solutions or our Company. Furthermore, we depend upon certain third-party distributors of our solutions and actions by those third parties could have a negative effect on our brand.

We may not acquire and retain sufficient mobile users and may incur significant costs in our attempts to address the emerging mobile market.

There has been a significant shift toward proportionally reduced use of PCs as individuals spend more time on smartphones and tablets and we believe this shift will accelerate. Tablets and smartphones are generally referred to together as mobile computing or simply mobile. This shift to mobile has resulted in reduced PC shipments and increased sales of smartphones and tablets. Almost all of AVG's current revenue comes from PC-based products. We consider the acquisition and monetization of users in the mobile space to be key for AVG's future development. As of December 31, 2013 we have acquired 68 million users in the mobile space, primarily users of smartphones. The mobile sector is developing and changing much more quickly than the PC sector. There can be no guarantee that we will continue to acquire users or that our current users will continue to use our products. Trends in mobile may differ from those we predict and we may therefore design irrelevant or unwanted products which customers may not wish to use or pay for. User churn in mobile products may differ materially from churn in PC products and our systems may not be able to track such churn effectively leading to incorrect investment decisions. Commercial, privacy and such

other laws and regulation may change and affect trends in the mobile market, and our ability to attract and retain users may require additional effort and cost to comply and compete in this sector. We may lack the scale to be able to effectively compete in the mobile sector, and competition may increase to the point where meaningful monetization is not possible. Any one of these factors or a combination of these factors may make our move into mobile unsuccessful and materially harm our business, financial condition and results of operations.

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We are subject to fluctuations in demand for our products and online services as a result of numerous factors, most of which are beyond our control.

Demand for our products and online services fluctuates from period to period due to factors such as general economic conditions, competition, product obsolescence, technological change, shifts in buying patterns, financial and business conditions of our current and potential customers and levels of Internet usage. Technological change includes the move away from PC-based computing to mobile-based computing and the associated slowdown of shipments in the PC market leading to a potential reduction of our total addressable market. There are also particular factors driving demand for each of our specific products and online services. For instance, demand for our Internet software solutions among our targeted customer base of small businesses and consumers is driven by our small business customers' need for protection of business-critical data, consumers' need for protection of their own personal data, potential users' awareness of Internet security threats (including cybercrime) generally, the perceived potential damage caused by information loss and other factors. In addition, while concerns related to Internet privacy and the protection and control of Internet users' personal information could potentially result in greater demand for some of our products and online services, there is also a risk that the growing awareness of potential privacy breaches and unintended sharing of personal information could slow overall growth in the adoption of Internet solutions, which we depend on to drive demand for our products and online services. Most of these factors are beyond our control. A change in the factors driving demand for our products and online services generally or for particular products and online services could adversely affect our business, financial condition and results of operations.

Any failure or perceived failure to anticipate, prepare for and respond promptly to technological developments and the changing nature of online security threats could harm our competitive position and business prospects.

The needs of our customers and the threats they face evolve constantly. For example, in the endpoint security market, hackers and cybercriminals continuously develop and employ increasingly sophisticated techniques to penetrate systems and networks and access information. Although the market expects timely introduction of software solutions to respond to new threats, the development of these solutions can be challenging and time-consuming. We may experience delays in the introduction of new solutions, updates, enhancements and features. If we fail or are perceived to fail to respond to the rapidly changing needs of our users by developing and introducing on a timely basis Internet security solutions that effectively protect against new security threats, our competitive position, reputation and business prospects could be harmed.

Similarly, the endpoint security market is dynamic, characterized by new technologies and access points to the Internet, which also require protection from hackers and cybercriminal attacks. Responding to the challenges posed by these new platforms and their corresponding new threats can be difficult and require significant reengineering of our software. We may therefore fail or be perceived to fail to provide solutions for these new technology platforms as threats to them arise, which could harm our competitive position, reputation and business prospects and would have an adverse effect on our business, financial condition and results of operations.

If our upgrades and new products and online services, whether acquired or internally developed, fail to achieve widespread market acceptance, our competitive position and business prospects will be harmed.

Our ability to attract new users and to maintain or increase revenue from existing users depends largely upon our ability to continue providing competitive new products and enhanced solutions that meet the changing needs of our target user base as these needs arise. For example, we are introducing a number of new products to both the consumer and the SMB market such as AVG Zen and AVG Managed Workplace. If either these or similar new products fail to gain acceptance, our business, financial condition and results of operations may be adversely affected. We plan to continue to invest in acquisitions, and to increase spending on research and development, marketing, promotion and

sales of our products and online services, with new features, functionalities, enhancements and upgrades. Acquisition of new companies and products creates integration risk,

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while development of upgrades and new products and online services involves significant time, labor and expense and is subject to risks and challenges including management of the length of the development cycle, adaptation to evolving industry standards, entry into new markets, integration into our existing product line, regulatory compliance, evolution in sales methods and acquisition and maintenance of intellectual property rights. If we fail to launch these upgrades or new solutions on time, or they do not achieve widespread market acceptance, do not meet user expectations, do not operate in an efficient manner, otherwise create the perception of slow operating performance, or generate revenue that is not sufficient to recoup or justify the cost of development, our business, financial condition and results of operations may be adversely affected.

A significant percentage of our total revenue comes from purchases of subscriptions to our premium products, which must by their terms be renewed by our users to remain in force.

Historically, a significant majority of our active users have been users of our free products and online services. Our growth strategy is based in part on offering premium products on top of our core, free products. To the extent we are not able to convert these free users into subscription users, or otherwise attract users to our subscription products and services, our ability to generate subscription revenue would be adversely affected.

We generally provide our premium Internet security solutions pursuant to one-year and two-year subscriptions, after which the relevant product or services either cease to operate or are no longer updated with the latest online threat information (rendering the product increasingly less useful as new threats emerge). In 2013, subscription revenue accounted for approximately 62% of our total revenue, compared to 55% of our total revenue in 2012. While we offer subscription users the option to renew their subscriptions, a significant portion of our subscription users choose not to do so. We have taken steps to increase our renewal rates by, for example, adding an auto-renew option on some of our premium products and online services, but there can be no assurance that these efforts will be successful in increasing our renewal rates. The majority of users purchasing a license online in 2013 opted for auto-renewal. The European Union, or EU, has introduced the EU Consumer Rights Directive, scheduled to be enforced in EU member states beginning June 2014, that will restrict the use of auto-renewals, and we are currently implementing a new annual subscription model which is compliant with this Directive. Proposals to restrict auto-renewals are also under consideration in the United States, or U.S. To the extent that we must reduce or eliminate use of auto-renewals in these or other markets, our renewal rates may fall, potentially reducing the number of our subscription users. As a consequence, the growth of our subscription revenue depends significantly on attracting new subscription users, and this dependence could increase due to regulations concerning auto-renewal that are outside of our control. Furthermore, the success of our auto-renewal programs is dependent on maintaining high levels of credit card authorization rates, which are subject to factors outside our control. For example, recent high-profile data thefts, particularly in the U.S., have necessitated the wholesale replacement of consumer credit cards and resulted in a decline in credit card authorization rates. Any failure to maintain or improve the renewal rates of our subscription users or to attract new subscription users could have a material adverse effect on our results of operations.

Furthermore, our ability to measure the conversion of free users into subscription users is limited as there are multiple upgrade paths to our premium products and online services, not all of which we are currently able to track or track accurately. If we are unable to effectively track changes in conversion rates, regardless of the reason for such changes, we may be unable to react to changing market dynamics, and this may negatively affect our growth and revenue. Uncertainty about the renewal rates of our subscription users also limits visibility with respect to future subscription revenue.

We are also planning to adapt our business model going forward for both SMBs and consumers to move towards a Software-as-a-Service (SaaS) model which may involve customers paying on a monthly basis rather than the current annual prepayment. Such a change may result in reduced customer retention and cash flow if our customers fail to

adopt our new billing methods.

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Our business will suffer if the SMB market for our products and online services proves less profitable than projected or if we fail to effectively acquire and service SMB customers.

We market and sell a significant proportion of our products and online services to SMBs which in 2013 represented 12% of our revenue, 12% of which was derived from a hosted SaaS model. We are seeking to continue to transition this business towards a SaaS-based model. Some of our competitors, by contrast, have emphasized sales to larger enterprises, which are attractive customers due to the high revenue and low relative costs they offer per transaction and high renewal rates. SMBs frequently have limited budgets and may choose to allocate resources to items other than our products and online services, especially in times of economic uncertainty. We believe that the SMB market is underserved, however, and we intend to continue to devote substantial resources to it. We aim to grow our revenue by adding new SMB customers, selling additional services to existing SMB customers and encouraging existing SMB customers to renew their subscriptions to our premium products and by the transformation of the business into a SaaS model. If the SMB market fails to be as profitable for us as we project, we are unable to market and sell our services to SMBs effectively or we are unable to successfully transform this business into a SaaS model, our ability to remain profitable may be harmed.

We operate in highly competitive markets and many of our competitors have significantly greater resources than we do.

The markets for the software solutions we offer are highly competitive and subject to rapid technological changes as customers' needs and the threats they face evolve. We expect competition to increase in the future and we may not be able to compete successfully against current or potential competitors. In particular, some of our competitors may make acquisitions or enter into agreements or other strategic relationships to offer more comprehensive products and/or services, and new competitors may enter the market through acquisitions, agreements or strategic or other such relationships.

We and other vendors compete on price and functionality at different price points. Additional competition may cause increased pricing pressure, which could reduce our revenue per user. For example, in the endpoint security software market, while we have historically been able to reduce pricing pressure on our premium solutions and limit the decline in revenue per subscription user by releasing regular product enhancements, there can be no assurance that pricing pressure will not adversely affect our subscription revenue, which would have a material adverse effect on our business and results of operations. Similarly, across our markets, our competitors may offer free products perceived to be superior to our offerings, causing our free and/or subscription users to switch and shrinking our monetizeable user base.

Our main competitors fall into the following categories:

vendors with freemium pricing like our own, such as Avast!, Avira, PC Tools (which was acquired by Symantec), Carbonite and Dropbox;

traditional vendors such as Intel Security (formerly McAfee, which was acquired by Intel Corporation), Symantec and Trend Micro (which primarily provide software solutions, including security software, for large enterprises) and Eset, Kaspersky Labs, Panda Software, Sophos, Rising, Kingsoft, Check Point and F-Secure (which offer more customized and segment-focused products);

vendors offering PC optimization products, such as UniBlue;

secure search toolbar providers;

SMB SaaS players such as Kaseya and Solarwinds;

other vendors in the emerging mobile market, such as Lookout; and

large corporations offering a wide variety of products, only a few of which compete with ours, such as Microsoft, Google, which recently introduced free security software solutions, Apple, which offers cloud-based data protection, Qihoo, Tencent and Facebook.

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Many of these competitors have significantly greater brand name recognition and financial resources to devote to the development, promotion and sale of their products and/or services than we do. For example, Microsoft entered the endpoint security market through the introduction of Microsoft Security Essentials (Windows Defender under Windows 8), a free Internet security product that has captured a significant share of the free endpoint security market. Similarly, Google, one of our two primary providers for our platform-derived revenue stream, has offered products in the security space, for example, by adding a malware alarm to its search engine results display and by offering the Google App verification service, and it may increase its security offerings in the future. Further, smaller and/or more regionally focused vendors may be able to adapt more quickly to new or emerging technologies and changes in customer demand as recently evidenced by the rapid growth of Internet companies like Qihoo and Tencent.

Software vendors have begun to employ a cloud-based or SaaS business model in which vendors host applications for use by customers over the Internet. This model may disrupt existing models like the model we employ for most of our products and online services, based on software downloaded from the Internet that resides on a user's hard drive. Our competitors, including new cloud-based entrants or larger competitors with greater resources to shift to a new model, may have success with cloud-based provision of software, decreasing the demand for those of our products based on another model or new and existing products we may provide using the SaaS model, such as in the SMB market.

In the future, we may face competition from both emerging and established companies operating in our sector and in other areas of the IT business that may develop or acquire software that they may offer as part of their broader product or service offerings and/or for free. Original equipment manufacturers, or OEMs, or operating system vendors may seek to include competitive, pre-installed, fully functional Internet software and mobile solutions with their core product offering. For example, Intel acquired McAfee, one of our leading competitors, and indicated it may integrate McAfee's security solutions into its hardware products, which may adversely affect sales of our aftermarket and/or standalone security solutions. In addition, other competitors may leverage their greater resources to develop relationships with OEMs or operating system vendors, thereby diminishing demand for our products and adversely affecting our ability to acquire and retain customers.

Our business relies on the significant experience and expertise of our key management and technical staff and we must continue to attract and retain highly skilled personnel in order to grow our business successfully.

Our future performance depends on the continued service and performance of our key management, research and development and sales personnel. We may fail to retain key management, research and development and sales employees, or to attract the qualified staff needed to manage and grow our business. We may also fail to attract and retain highly qualified technical, services and management personnel in the future, or may face time-consuming and costly integration of replacement personnel.

In particular, J.R. Smith, our former chief executive officer, or CEO, and member of our Management Board announced his intention to resign as CEO in March 2013 and did not put himself forward for election to the Supervisory Board. Mr. Smith remained CEO of our Company until a successor, Mr. Gary Kovacs was appointed in July 2013.

The appointment of a new CEO may cause a distraction to or hamper retention of our employees. Further, Mr. Kovacs is based in the United States away from our main operating centers in Europe. The new CEO may introduce changes or developments to the vision or strategy of the Company which may prove to be less successful than our prior strategy.

Any of these factors could adversely affect our business, revenue and results of operations.

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Our failure to adequately protect our customers' personal data and information or to comply with applicable laws, regulations and other obligations relating to privacy and data security could have a material adverse effect on our business.

A wide variety of provincial, state, national and foreign laws and regulations apply to the collection, use, retention, protection, disclosure, transfer and other processing of personal data and information. These data protection and privacy-related laws and regulations are evolving and may result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions. Failure to comply with applicable laws and regulations, or to protect such data, could result in enforcement action, including fines, imprisonment of Company officials and public censure, claims for damages by customers and other affected individuals, damage to reputation and loss of goodwill (both in relation to existing customers and prospective customers), any of which could have a material adverse effect on our operations, financial performance and prospects. Evolving and changing definitions of personal data and information, especially relating to classification of IP addresses, machine identification, location data and other information, may limit or inhibit our ability to operate or expand our business, including limiting strategic partnerships that may involve the use or sharing of personal data and information. We offer a privacy product which monitors consumers' exposure to potential privacy breaches. As a provider of privacy products, any breach of the regulations or loss of customer data would have a potentially negative impact on our reputation in the privacy and security market. Even the perception of privacy concerns, whether or not valid, may harm our reputation and inhibit adoption of our products and services by current and future customers.

We are subject to privacy laws, which have become increasingly stringent.

We collect and process personal data (including email addresses, IP addresses, device identifiers, customer satisfaction data, physical names and addresses, customer service issues and website visits) as part of our business. In addition, a majority of our online customers purchase our services online with a credit card. As a result, not only must we comply with strict data protection and privacy laws in the EU, the U.S. and certain other jurisdictions where we operate, we must also comply with the laws applicable to merchants receiving credit card information and the standards adopted by credit card issuers. Those laws and standards regulate and restrict our ability to collect and use personal data and information relating to customers and potential customers. This could impact our strategy for future growth, which involves greater interaction with our customer base.

In the EU, there have been significant developments in the laws and regulations concerning data protection and privacy, including in relation to the use of cookies and the solicitation, collection, processing or other use of personal data and information, including data relating to consumers. In particular, the Privacy and Electronic Communications Regulations (PECR) or Cookies Law have been enacted by more jurisdictions across the EU. This increases our compliance obligations and creates additional work for our technical teams which could otherwise be focused on revenue generating activity. Data protection authorities have issued fines in cases of non-compliance. A new data protection regulation is under review by the European Parliament providing for fines of up to 2% of annual world-wide revenue for non-compliance, demanding breach notification requirements, more onerous data subject consent requirements (including requirements that consent must always be explicit), a so-called right to be forgotten and requirements to ensure privacy by design and by default.

In the U.S., the Governor of the State of California has signed two bills into law. The first, Assembly Bill No. 370, amends the California Online Privacy Protection Act and requires the conspicuous posting of a privacy policy on all commercial websites that collect the personally identifiable information (PII) of California residents. The amendments require that each privacy policy also disclose how the website operator responds to mechanisms, such as Do Not Track signals, that provide consumers with the ability to exercise choice regarding PII collection over time and across third-party websites. The second bill, Senate Bill No. 46, amends California's data breach notification law, adding to

the definition of personal information certain information that would permit access to an online account, and imposing additional disclosure requirements if a breach involves personal information that would permit access to an online account or email account. A breach of this

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information, if unencrypted, with respect to any California resident would trigger the state's data breach notification obligations. Additionally, starting in 2015, a new California law, Senate Bill No. 568, will require websites to provide a delete button for minors to remove posts or photos that they may later regret (the so-called "right to be forgotten"). There have also been guidance and proposals for regulation of mobile app development, potentially leading to an increase in opting out by customers and a narrowing of permissible purposes for the use and processing of personal data information. All of the foregoing requirements, and any additional laws, regulations or policies that may come into force in the future, are likely to increase our compliance burden, may discourage potential customers from using our website and our services, may reduce our ability to monetize our products and services, may reduce the opportunity presented by the emerging mobile market and may otherwise adversely affect our business.

These developments in law and regulation, and any future developments, could also affect our ability to execute our strategy of building additional commercial partnerships, as the collection, processing, use and sharing of customer data potentially needed to derive value from those partnerships may be prohibited or restricted. Any present or future laws which restrict the collection and use of personal data and information could have a material adverse effect on our business.

Additionally, the requirements imposed by data protection laws and regulations in one jurisdiction can conflict with laws, and the demands of regulators and other governmental authorities, in other jurisdictions. For example, U.S. authorities can demand access to data that is accessible to or controlled or collected by our group companies that are located in the U.S., pursuant to the USA PATRIOT Act including data collected or controlled by affiliates located outside of the U.S. If any of this data includes personal data and/or confidential information, it is possible that any such disclosure could cause us to breach data protection and privacy laws and regulations in one or more member states of the EU or other jurisdictions.

Our data security defenses could be breached.

Notwithstanding our efforts to secure our IT, data security and other systems, we are exposed to the risk that this personal data and information could be wrongfully accessed or used, whether by employees, customers or other third parties, or otherwise lost or disclosed or processed in a manner that violates applicable data protection laws and regulations. In certain jurisdictions where we operate, we are under an affirmative legal obligation to notify the appropriate government authorities or data subjects in circumstances where personal data and information may have been wrongly accessed or used, or otherwise lost or disclosed. Efforts to mitigate and comply with such laws, and even the perception of a data security breach, increase the risk that such incidents will lead to sanctions (including fines and other penalties), claims by data subjects and disclosure leading to public knowledge of the breach, potentially causing reputational damage to our business. The European Commission is considering proposals to broaden the obligation to implement security measures and report security incidents, and similar proposals may be made in the U.S.

Regulation of the Internet and the lack of certainty regarding application of existing laws to the Internet could substantially harm our operating results and business.

We are subject to laws and regulations applicable to doing business on the Internet over both PCs and mobile devices. It is often not clear how existing laws governing issues such as property ownership, sales tax and other taxes, libel and personal privacy apply to the Internet as these laws have in some cases failed to keep pace with technological change. Recently enacted laws governing the Internet could also impact our business. For instance, existing and future regulations on taxing Internet use or transactions or restricting the exchange of information over the Internet could result in reduced growth or a decline in the use of the Internet and could diminish the viability of our services. In particular, the EU has approved rules that are effective beginning June 2014 to restrict the use of automatic renewals

(and the U.S. is considering similar proposals), and we are currently implementing a new annual subscription model which is compliant with these new EU requirements. The new annual subscription model may reduce the renewal rate of and subscription revenue for our premium

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products. Furthermore, it is possible that governments of one or more countries may censor, limit or block certain users' access to our websites. Changing legal, regulatory and industry standards and industry self-regulation regarding the collection, use and disclosure of certain data may have similar effects. Any such adverse legal or regulatory developments could substantially harm our operating results and our business.

Prior to our initial public offering, we discovered that we and our resellers had sold or provided certain products to a small number of users in jurisdictions that are the subject of export controls laws and economic sanctions administered by the U.S. Commerce Department's Bureau of Industry and Security and the U.S. Treasury Department's Office of Foreign Assets Control, resulting in possible inadvertent violations of certain export controls laws and sanctions in the past. Despite having controls in place, we cannot guarantee that we will not violate such laws in the future.

While we have implemented and are actively maintaining, monitoring and improving an export control compliance program, which is intended to prevent access to our products to denied persons and to users located in prohibited countries as listed by the U.S. Commerce Department's Bureau of Industry & Security (BIS) and the U.S. Treasury Department's Office of Foreign Assets Control (OFAC), we cannot guarantee that our compliance program will be sufficient to prevent all violations of export control laws. Our products are primarily free mass market software products and AVG believes it is in compliance with applicable export controls laws and economic sanctions and has taken the necessary actions to prevent the access of its products to denied persons and to users in prohibited countries.

However, previously we filed voluntary self-disclosures with OFAC and BIS to report occasional distributions of our products in Cuba, Iran, North Korea, Sudan and Syria during the five years before our IPO. We implemented a remediation plan, and the matters were closed without the imposition of any fines or penalties on us. In December 2011, we received a cautionary letter from OFAC, and in September 2013 we received a warning letter from BIS. There can be no assurance that our compliance policies, procedures and controls will be effective to prevent future violations. If we are found to be in violation of BIS, OFAC or similar regulations in the future, we may face criminal and civil penalties and reputational harm, which could have a material adverse effect on our business and financial results.

Our future revenue depends on our ability to continue to market to new users, which we may not be able to accomplish on a cost-effective basis or at all.

We are dependent on the acquisition of new users, many of whom have not previously used products and online services such as those we provide. We rely and have relied on a variety of marketing methods to attract new users to our solutions, such as generating interest through our user base and social networking services to create a user-driven marketing effect, public relations campaigns around new product and service launches and Internet security threats and efforts to improve our positioning in response to online searches through search engine optimization, search engines and other online advertising. Our ability to attract new users depends on the perceived value of our products and online services versus that of the premium and free products and online services offered by our competitors. This dependence increases as we move into new markets such as PC optimization and privacy and address new platforms such as mobile and as the number of users in our traditional PC market may begin to decline as a result of increased mobile usage. If our current marketing initiatives are not successful or become less effective, or if the cost of such initiatives were to significantly increase, we may not be able to attract new customers as efficiently and, as a result, our business and results of operations would be adversely affected.

We have historically relied heavily on user-driven marketing to attract new users to our solutions, although we expect to increase our spending on marketing in the future. If we are unable to maintain or increase the efficacy of our user-driven marketing strategy, particularly in the new markets we may enter, or if our more costly marketing

campaigns do not have the desired impact, we may be required to increase marketing expenses still further to compensate, which could have an adverse effect on our results of operations. We cannot assure our shareholders that we will be successful in maintaining or expanding our user base on a cost-effective basis or at all, and failure to do so would adversely affect our business, operating results and financial condition.

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Our software solutions may contain undetected errors, defects or security vulnerabilities, which could cause harm to our reputation and adversely affect our business.

Our software is inherently complex and may contain material defects, errors or vulnerabilities that may cause it to fail to perform in accordance with our technical specifications and program documentation, or with user expectations. As may happen to any vendor of software, errors, failures and bugs may be found in some of our new offerings or updates after initial distribution of those offerings or updates, particularly given that end users may deploy our products and services in computing environments with operating systems, software and/or hardware different than those in which we test our products and services before release. The costs incurred in analyzing, correcting or eliminating any material defects or errors in our software may be substantial. Furthermore, we may not be able to correct any defects or errors or address vulnerabilities promptly, or at all, or may become subject to legal disputes, claims and proceedings, including class action lawsuits, causing significant harm to our reputation and competitive position.

Any defects, errors or vulnerabilities may cause interruptions to the availability of our software and result in lost or delayed market acceptance and sales, or may require us to issue refunds to our customers. Security products are critical to the businesses of many of our customers, which may make them more sensitive to defects in our products than to defects in other types of software. We could face claims for product liability, tort, breach of warranty or damages caused by faulty installation of, or defects in, our products. In the event of claims, provisions in our contracts relating to warranty disclaimers and liability limitations may be unenforceable. Defending a lawsuit, regardless of its merit, could be costly and divert management attention. Defects, errors and vulnerabilities may also lead to loss of existing or potential customers, to diversion of development resources, or to increasing our services, warranty, product replacement and product liability insurance costs, and may damage our reputation. Our product liability insurance coverage may be inadequate or future coverage may be unavailable on acceptable terms or at all.

We have experienced rapid growth in recent years and we may not be able to sustain the same rate of growth or maintain our operating or profit margins going forward.

Our revenue has grown significantly in recent years, increasing by 14.4% in 2013, compared with 2012, 30.7% in 2012, compared with 2011 and 25.4% in 2011 compared with 2010. Although our operating income margins increased by 19.7% in 2013 compared to 2012, this followed a decrease of 10.2% in 2012 compared to 2011 and a decrease of 16.7% in 2011 compared to 2010. We cannot provide assurance that our operating margins will not decrease again. We operate in a dynamic and changing market and investors should not rely on our historical results as an indication of our future operating performance. Further, as a result of the increased scale of our business, we believe that it is unlikely that we will be able to maintain the historical rate of growth of our revenue in future periods, and that in 2014 we may see a decline in revenue following our decision to exit third-party search distribution activities and the continuing impact of changes in search engine guidelines on platform-derived revenue.

In addition, we plan to pursue a strategy of continued growth, which has required and will continue to require substantial managerial and financial resources particularly as we seek to expand into the mobile market. Our current systems, procedures and staffing may not be adequate to support our future operations. To accommodate our recent and future growth, we must continue to expand our operational, engineering and financial systems and IT infrastructure, improve our accounting and other internal management procedures and systems and hire additional staff. In addition, our efforts to expand our business geographically include developing local language versions of our security software solutions, opening new offices and call centers, including centers to support our solutions in additional languages, hiring staff in new areas and adding additional functionality to our solutions. If we fail to manage our growth adequately, to adapt our operational, financial and management information systems and IT infrastructure, or to motivate or manage our employees effectively, the quality of our products and the management of our operations and costs would suffer, which could adversely affect our operating results. Furthermore, like many peer

companies, we engage contractors as well as

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employees. There is some risk that relevant authorities, both in jurisdictions where we have well-established operations and those we have recently entered, could seek to reclassify our arrangements with certain contractors as employment relationships, with potentially adverse tax and regulatory consequences.

As we expand we may also choose to rationalize our operations in certain business areas. This may lead to reductions in our headcount, changes in our systems or alterations to our processes, any of which may compromise the effectiveness of our operations or reduce staff morale and efficiency and which may be costly to implement or maintain. In particular, in early 2013 we restructured the way we support our PC optimization product portfolio, which may limit our ability to maintain and grow revenues from that technology, and in late 2013 we commenced a restructuring involving a reduction in headcount and the relocation of our e-Shop to the Netherlands on January 1, 2014, which could adversely impact our operations and financial results if not executed effectively or if we lose skills, experience or capabilities that we need to be successful in the future.

In addition, we regularly evaluate and, where appropriate, implement changes to, our internal control structure. Implementing any such changes to our internal control structure may divert management attention, entail substantial costs and take significant time to complete. At the same time we are seeking to rationalize our financial operations and increase automation while reducing costs. These changes may not, however, be effective in maintaining the adequacy of our internal control structure in line with the growth of the business, and any failure to maintain that adequacy, or consequent inability to produce financial statements or provide accurate data from which we derive our key metrics, or monitor business developments on a timely basis, could have a material adverse effect on our business.

If our revenue growth for any period falls short of our expectations, we may not be able to adjust our costs in a timely manner, which could reduce our profit margin in that period.

Although we base our planned operating expenses in part on our expectations of future revenue, a substantial portion of our expenses is fixed in the short term and cannot be reduced quickly if our future revenue falls short of expectations. In particular, in November 2013, we made the decision to gradually exit our third party search distribution business in a controlled manner. If we are not able to exit the search distribution business in the manner we anticipate or if there are further changes which alter our plans to monetize our active user base, our revenue may not meet our expectations. Accordingly, if the rate of growth of our revenue in any period is significantly less than we anticipated, because either our user base is smaller, our subscription renewal rate is lower than expected or our efforts to monetize our active user base fall short, we may be unable to adjust our cost base proportionally on an accurate and timely basis, which would reduce our operating margin.

Our current operations are international in scope and we plan further geographic expansion, creating a variety of operational challenges.

Our offices, personnel and customers are dispersed around the world. We face difficulties including costs associated with developing software and providing support in many languages, varying seasonality patterns, potential adverse movement of currency exchange rates, longer payment cycles and difficulties in collecting accounts receivable in some countries, tariffs and trade barriers, a variety of regulatory or contractual limitations on our ability to operate, adverse tax events, reduced protection of intellectual property rights in some countries and a geographically and culturally diverse workforce and customer base. The geographic distribution of employees in particular has expanded over time and we plan to continue this expansion as we move employees away from our traditional operational center in the Czech Republic. Failure to overcome any of these difficulties could negatively affect our results of operations. We intend to further expand our operations globally by initially seeking to expand our user base, developing a local version of our product, seeking to introduce localized services and finding a local distributor to manage the distribution of our premium solutions. If these efforts are unsuccessful in creating and expanding our global user base,

or if our expansion increases the difficulties of running a global company, our results of operations could be harmed.

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We may not be able to integrate businesses we have acquired or may in the future acquire and those acquisitions may fail to provide us with the benefits we anticipated.

We have acquired and made investments in other companies and services to expand our technology capabilities, our product breadth and functionalities, our user base and our geographical presence, and we intend to continue to make acquisitions and investments in the future, which may be of a more significant magnitude than the ones we have undertaken historically. The integration of acquired businesses and their operations, technologies and products involves the incurrence of acquisition costs and may expose us to liabilities, including unanticipated liabilities and tax liabilities, operating difficulties and expenditures associated with the assimilation and retention of employees of the acquired business, acquisition legal contingencies, risks related to maintaining procedures, controls and quality standards and other risks and difficulties. These difficulties may increase relative to the size of an acquisition. We may not be able to achieve the anticipated benefits from any acquisition or investment and the consideration paid for an acquisition or investment may also affect our financial results. Such acquisitions and investments could divert management's time and focus from operating our business and divert other resources needed in other parts of our business. The financing of acquisitions or investments in other companies may require us to use a substantial portion of our available cash, raise debt, which would increase our interest expense, or to issue shares or other rights to purchase shares, which may result in dilution to existing shareholders and decrease our earnings per share. Moreover, acquisitions may result in write-offs and restructuring charges as well as in creation of goodwill and other intangible assets that are subject to regular impairment testing, which could result in future impairment charges. All of these factors could adversely affect our business, results of operations and financial condition.

We are subject to fluctuations in our financial results, making it difficult to project future results.

A variety of factors cause volatility in our financial results, making any projections of future results uncertain. Such factors include but are not limited to fluctuations in demand for or pricing of our products and services, impacts of acquisitions, timing of product orders and payments, issues relating to alliances with third parties, product and geographic mix, timing of new products and customers, currency exchange fluctuations and potential accelerations of prepaid expenses and deferred costs and the impact of taxation with respect to the foregoing.

Accurately measuring the number and retention of our active and subscription users is difficult and our failure to accurately measure the number and retention of our active and subscription users at any time will compromise our ability to monitor our key performance indicators, which in turn could adversely affect our ability to manage our business.

We measure the number of active users as those that (i) have downloaded and installed our free software on a PC and have connected to our server at least twice, including at least once in the preceding 30-day period, (ii) represent a unique mobile device, which has installed one or more of our mobile applications, from which at least one application has contacted our server twice in the preceding 30-day period (with at least 24 hours between the first and second contact), (iii) have a valid subscription license for our software solutions or (iv) represent a unique device using our secure search solution that has made at least one secure search in the preceding 30-day period. Subscription users are active users who subscribe to our premium products and online services, the primary component of our subscription revenue. We include in the number of free users those with trial licenses and licenses distributed for promotional purposes. We believe that our methodology for counting our user base is more conservative than methodologies used by other software companies, some of which count users with less frequent interaction.

We will continue to attempt to improve the accuracy of our measurement of the numbers of our active users, but we cannot provide assurance that we will be successful in doing so. For example, we have made various adjustments to our counting methodology over time, including by changing the way users are recognized and counted during upgrade

campaigns. While we believe these adjustments have improved the overall accuracy of our user numbers, we have still discovered some errors. As a result, we also introduced two new systems for

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counting user numbers. This project is ongoing, however, and will not be fully implemented until all users have migrated to the new version of our products. Once these counting systems are fully implemented, based on initial results, we expect that we will have greater confidence in the accuracy of our user counts, but these systems remain new and have not been tested over time, and there can be no assurance that they will meet our expectations. We seek to analyze and eliminate any double count of the number of active users who are using our search product or our PC optimization product as well as our PC security product in our user base.

We also face difficulties in quantifying user retention, both in terms of user churn and subscription renewal rates. This difficulty is in part due to our limited ability to track non-subscription users based on personally identifiable information. For instance, when a non-subscription user replaces a device on which he or she uses our products and services, this event typically registers as the loss of an existing user and the gain of a new one, causing no change to the size of our user base but inflating the level of apparent churn. We compile renewal rates for users of particular subscription products, but such rates only describe the activities of subscription users representing a small portion of our total active user base. Furthermore, we offer a variety of products and online services and do not have integrated methods of quantifying retention of our users across these products and services. This inability to quantify certain aspects of aggregate user behavior may adversely affect our business if we are unable to accurately monitor the results of our strategic decisions on pricing and product introduction and marketing. In particular, if we are unable to accurately assess and predict user behavior, our initiative to up-sell and cross-sell our expanding set of products and services to users across our platform may be harmed.

Our understanding and management of our business depends on accurate measures of the numbers of our active and subscription users and other key performance indicators derived from these metrics and our management decisions may be suboptimal if our measurements of these key metrics are inaccurate. Furthermore, if a significant understatement or overstatement of our active user or subscription user metrics were to occur, the market might perceive us to be underperforming or to have inadequate systems, which could adversely affect our share price. Additionally, as we grow into other markets and particularly the mobile market, certain of our other users may also be among our PC users, and we are currently unable to determine the extent of this duplication. This means that the number of our underlying customers is likely to be less than the number of our active users when calculated as described above.

We currently define a customer, as opposed to an active user, as a person who purchases or uses a product or service, or multiple products or services. We do not currently have the means to accurately count the number of our customers. We intend to develop such means, but our ability to do so will be constrained by our technical capabilities.

We depend on download sites and search engines to attract a significant percentage of our users and if those sites or search engines change their listings, increase their pricing or experience a material reduction in their online traffic, our ability to attract new users would be adversely affected.

Many of our users locate our products and online services and our website through download sites and search engines. A significant number of new users of our endpoint security solution acquire that software through just one of the many download sites that features our products, CNET's Download.com website. If any of our key download sites such as Download.com cease to feature or carry our solutions or traffic to them declines, fewer potential users may download our products, particularly our AVG Anti-Virus Free Edition. Search engines typically provide two types of search results: algorithmic and purchased listings, and we rely on both types. Algorithmic listings cannot be purchased and are determined and displayed based on criteria formulated by the relevant search engine. Search engines revise their algorithms from time to time in an attempt to optimize their search results. If the search engines on which we rely for algorithmic listings modify their algorithms in a manner that reduces the prominence of our listings, fewer potential users may click through to our websites, requiring us to resort to more costly methods of attracting this traffic.

Furthermore, the majority of our traffic from search engines came from a single source, Google. This traffic is unrelated to our agreement with Google to steer search queries to Google in connection with our dynamic secure search solution. The concentration of search traffic

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from a single search engine increases our vulnerability to potential algorithm modifications by that search engine. Any failure to replace the traffic to our website coming from search engines could reduce our revenue or require us to increase our customer acquisition expenditures.

Similarly, we have in the past and may in the future be the target of so-called cybersquatters, who seek to register Internet domain names that are confusingly similar to our own domains or marks. Although we have not suffered material losses due to cybersquatters to date, we nonetheless make diligent efforts to block their activities. Some cybersquatters have taken our free product and sold it to users, which could lead to confusion among our users and, ultimately, a loss of these users, which would reduce any platform revenue that we would have received from these users. In addition, although no cyber-squatting incidents have raised material security concerns relating to our business and products to date, there can be no guarantee that future cybersquatting incidents will not cause material losses or raise security concerns. If search engines rank cybersquatters' imitation websites above our own sites, existing or potential customers may be misled, and this could harm our reputation, cost us consumer goodwill and negatively affect our operating results.

Adverse conditions in national and global economies or adverse information technology spending trends in the consumer and SMB markets may adversely affect our business and financial results.

National and global economies have recently experienced a prolonged downturn and the future severity of adverse economic conditions and the length of time such conditions may persist is unknown. In particular, ongoing concerns about sovereign debt in both the EU and the U.S. have increased economic uncertainty and raised the possibility of further disruption in the global capital markets. During challenging economic times, periods of high unemployment and in tight credit markets, many of our users may delay or reduce technology purchases. This is true of both consumers and SMBs, whether independent or part of a network. Such delays or reductions in purchasing could result in reductions in sales primarily of our online services, as well as our products, difficulties in collecting our accounts receivable, slower adoption of new technologies, lower renewal rates and increased price competition.

Other trends (whether the result of economic factors or otherwise), such as reduction in interest in our products leading to declines in traffic to our sites, declines in the demand for PCs, servers and other computing devices, or softness in small business and consumer information technology spending, could have similar effects. Nearly all of our revenue is currently derived from our PC users and there has been a global slowdown in PC shipments as consumers and businesses switch to mobile devices. The persistence of any of these conditions would likely harm our business, operating results, cash flows and financial condition.

In 2013, 49.6% of our total revenue was comprised of sales into the U.S. and we are therefore exposed to conditions in the U.S. Any continuation of or further deterioration in these conditions or a reduction in consumer or small business information technology spending for any reason could result in a downturn in sales of our premium software solutions or adoption of our online services such as our hosted SaaS offering, which, in turn, could have a material adverse effect on our growth, business, revenue and results of operations.

False detection of viruses or other security or privacy threats by our products and online services could adversely affect our business.

Some of our solutions identify threats by behavioral monitoring, which is a methodology that seeks to identify threats by their behavior rather than scanning for malicious code. There are inherent inaccuracies in the detection of threats based on behavioral monitoring and as a result, our anti-virus and other Internet security services may falsely indicate the presence of viruses and other threats that do not actually exist even when these programs are working correctly. These false positives may impair the perceived reliability of our services and may therefore harm our market

reputation. Also, our anti-spam and anti-spyware services may falsely identify emails or programs as unwanted spam or potentially unwanted programs, or alternatively fail to properly identify unwanted emails or programs, particularly as spam emails or spyware are often designed to circumvent Internet

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security software. Parties whose emails or programs are blocked by our services may seek redress against us for labeling them as spammers or spyware, or for interfering with their business. In addition, false identification of emails or programs as unwanted spam or potentially unwanted software may reduce the popularity and adoption of our services. Also, since our launch of Do-Not-Track functionality we may falsely identify and block tracking advertising networks or websites. If our system restricts important files, applications or tracking advertising networks or websites based on falsely identifying them as malware or some other item that should be restricted, this could adversely affect customers' systems and cause material system failures. Any such false identification of important files, applications or tracking advertising networks or websites could result in negative publicity, loss of customers and sales, increased costs to remediate and costly litigation.

Our software products and IT infrastructure may be subject to intentional disruption that could harm our reputation and future sales.

We have been the target of spam attacks on our email addresses and denial of service and other sophisticated attacks on our websites, mail system and firewalls. Although we believe we have sufficient controls in place to prevent intentional disruptions or to regain control following such an attack, we expect to be an ongoing target of attacks specifically designed to impede the performance of our products. Similarly, experienced computer programmers, including programmers on our staff, could attempt to penetrate our network security or the security of our solutions and misappropriate proprietary information or cause interruption of our services. Because the techniques used by such computer programmers to access or sabotage networks change frequently and may not be recognized until launched against a target, we may be unable to anticipate these attacks. In addition, hackers have created pirated versions of our software, malware that attacks our software after it has been downloaded onto customers' computers and malware that deceptively assumes our brand name and imitates the interface of our software, encouraging our users and potential users to download it in place of our software. We may face legal liability, our activities could be adversely affected and our reputation, brand and future sales could be harmed if these intentionally disruptive efforts are or are perceived to be successful.

We may be required to expend significant resources both to protect us against system architecture and network failure and disruption and to enable us to grow our business.

Our core web server content is stored in five data centers, which are located in Amsterdam, London, Toronto, Hong Kong and Prague. Virus definition files are sent to Akamai Technologies GmbH, a content delivery network, for distribution to our customers and backed up at our primary and secondary data centers, which are located at separate sites in Brno for redundancy purposes. While we have disaster recovery plans for critical business systems, we currently do not have written or formal business continuity plans with regard to our virus research and systems in general. Furthermore, our systems are composed of various components which were not designed to interoperate with one another, potentially leading to significant system breakdowns. Although we believe we have the technical knowledge necessary to mitigate problems relating to our systems and system architecture, we may at any time be required to expend significant capital or other resources (including staff and management time and resources) to protect ourselves against network failure and disruption, including the replacement or upgrading of our existing business continuity systems, procedures and security measures. In addition, our evolving business model and growth plan will require expansion and upgrading of our systems to support additional users, localities, products and online services. These expansions and upgrades will likely consume significant capital and managerial resources.

If replacements, expansions, upgrades and/or other maintenance are not implemented successfully or completed efficiently, or there are operational failures, the quality of our product portfolio and service experienced by our users will be adversely affected. If, as a result, users were to reduce or stop their use of our Internet security solutions, this could have a material adverse effect on our operations, financial performance and prospects.

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We may become subject to unanticipated tax liabilities that have a material adverse effect on us or our shareholders.

AVG Technologies N.V. is a company incorporated under the laws of the Netherlands and on this basis is subject to Netherlands tax laws as a Netherlands resident taxpayer. We believe that it is resident solely in the Netherlands for tax purposes and that we, and in certain cases, the holders of our shares, can rely on this position for purposes of the application of tax treaties between the Netherlands and other jurisdictions. However, if our tax position were successfully challenged by applicable tax authorities, or if there were changes in the tax laws, tax treaties, or the interpretation or application thereof (which could in certain circumstances have retroactive effect) or in the manner in which we conduct our activities and manage our operations, AVG Technologies N.V. could be considered or may become a resident of a jurisdiction other than the Netherlands, which could subject us to unanticipated tax liabilities, possibly on a retroactive basis and holders of our shares could become subject to different tax treatment in respect of the acquisition, holding (including in respect of dividend payments on our shares or other distributions), redemption or disposal of our shares.

Challenges by various tax authorities to our international structure may, if successful, increase our effective tax rate and adversely affect our earnings.

We are a Dutch public limited liability company holding subsidiaries that operate in multiple jurisdictions in addition to the Netherlands, including the United States, Czech Republic, Germany, Cyprus, United Kingdom, Israel, France, Australia, Canada, Switzerland and China. We have undertaken, and may in the future undertake, internal re-organizations which alter the proportion of people, resources and revenue in any given jurisdiction over time. In particular we have moved away from our original Czech-based operations towards a more international company. As a result, we will need to modify our tax structure to reflect these business developments.

Our income taxes are based upon the applicable tax laws and tax rates in the Netherlands and these jurisdictions as well as upon our operating structures in these countries. At the end of 2013 we made the decision to transfer our e-commerce operations from Cyprus to the Netherlands beginning January 2014, which will also impact our tax structure. We determine the amount of taxes we are required to pay based on our interpretation of the applicable laws and regulations in the jurisdictions in which we operate and our application of the general transfer pricing principles to our cross-border intercompany transactions. Many countries' tax laws and international treaties impose taxation upon entities that conduct a trade or business or operate through a permanent establishment in those countries. However, these applicable laws and treaties are subject to interpretation. The tax authorities in these countries may contend that a greater portion of the income of the group should be subject to income or other tax in their respective jurisdictions. This may result in an increase to our effective tax rate and adversely affect our results of operations. Moreover, tax audits may expose us to potential adverse tax consequences, including interest payments and potential penalties.

Changes in international or national tax laws and regulations or in the channels in which we distribute our solutions may adversely affect our business and reported results.

Our business is internationally organized in multiple jurisdictions that can be subject to changes in international or national tax regulations and related proposals.

Changes in such tax laws, regulations, related interpretations and tax accounting standards in the United States, Czech Republic, Germany, Cyprus, United Kingdom, Israel, France, Australia, China, Canada, Switzerland, the Netherlands and other jurisdictions may result in a higher tax rate on our earnings, which may result in a significant negative impact on our earnings and cash flow from operations. Governments are increasingly considering tax law changes as a means to cover budgetary shortfalls resulting from the recent economic environment. If such proposals were enacted,

or if modifications were made to certain existing tax treaties, or if tax authorities were to change their interpretations of such existing laws or treaties, the consequences may have a material adverse impact on us, including increasing our tax burden, increasing costs of our tax compliance or otherwise adversely affecting our financial condition, results of operations and cash flows.

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In addition, even if tax laws and regulations remain unchanged, a change in the channels in which we distribute our solutions could adversely affect our effective tax rate. For example, growth in retail box-on-shelf sales would subject us to additional income tax in the jurisdiction of the relevant selling entity, resulting in a higher portion of our income being subject to a higher tax rate. These events could increase our effective tax rate and therefore reduce our net profits.

Laws regarding the tax deductibility of interest in the Netherlands may adversely affect our financial position and results of operations.

The Dutch government has approved legislation limiting the deductibility of interest. The law limits the interest deductions in respect of all loans used to acquire a Dutch target company which is either (i) included in a corporation tax consolidation (i.e. fiscal unity) with the acquirer or (ii) merged with the acquirer. Interest expenses incurred on borrowings obtained to finance such acquisition structures would be deductible against the stand-alone taxable income of the acquirer only (i.e., in effect, the fiscal unity or legal merger is disregarded). A grandfathering applies for leveraged acquisitions that resulted in the inclusion of the Dutch target company in a fiscal unity or legal merger with the acquirer before November 15, 2011. The legislation should not limit the tax deductibility of the interest payable by us under our current indebtedness. However, in certain circumstances if we were to incur new indebtedness, the legislation would limit the tax deductibility of the interest payable by us in the future and could therefore have a material adverse effect on our financial position and results of operation.

U.S. states may seek to impose state and local business taxes.

Even if AVG's non-U.S. entities are not subject to U.S. federal income tax, those entities could still be liable for U.S. state and local business activity taxes based upon income or gross receipts. States generally impose business activity taxes on entities deriving revenue from customers located within the state, owning or leasing property in the state or employing personnel in the state. States are becoming increasingly aggressive in asserting nexus for business activity tax purposes. Therefore, in states where we have customers, employees, agents or any activity, state tax authorities may attempt to assert nexus. If, based on our sale of products or services in the state, a state tax authority asserts that our activities give rise to nexus, we could be subject to an increased state and local tax burden.

We may not be able to make the necessary changes in our systems to achieve compliance with new valued-added tax (VAT) regulations in the European Union (EU), or may otherwise fail to comply with our obligations to collect and pay VAT on sales made within the EU.

Effective January 1, 2015, all businesses that supply e-services, broadcasting or telecommunications services to EU consumers will need to charge VAT at the rate of the member state where the customer is based, instead of at the rate where the business is based. These changes are the final phase of the VAT Package within EU Council Directive 2008/8/EC of February 12, 2008, amending Directive 2006/112/EC as regards the place of supply of services. This rule has applied to non-EU suppliers for many years, but is now applicable to suppliers based within the EU, including us. To simplify the process of collection and accounting for VAT in the twenty-eight member states of the EU, a one-stop-shop registration scheme (OSS) will enable suppliers to register for VAT in only one member state, instead of in every country where it has customers.

As a consequence of this change, we will need to adapt our systems and processes to ensure we can accurately determine the member state of residence of customers in the EU so that we can collect VAT at the correct rate and remit it to the tax authorities. If we are unable to adapt our systems and processes by January 1, 2015 we may risk penalties for non-compliance as well as any potential costs of paying VAT that we should have, but have not collected, together with associated interest, or in refunding customers where we may have incorrectly collected VAT.

Any non-compliance with our obligations to collect and pay VAT, or any impact on our customers in the EU from an inadequate VAT collection process, could have an adverse impact on our reputation and on the willingness of customers to do business with us, potentially leading to a reduction in active users and in revenue. In addition, the requirement to adapt our systems to meet this requirement may divert resources and funds that could otherwise have been available to support our future growth.

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End-user taxation in our key sales jurisdictions could impact our revenues and a successful assertion that we should have been collecting (or collecting additional) sales tax or other transaction taxes on prior sales of products or services could result in substantial tax liabilities.

Point-of-sale taxation, including U.S. state and local sales/use taxes, of our products and of services provided over the Internet or other charges imposed by government agencies or by private organizations for accessing the Internet, may be imposed on our end users and/or on us. Increased taxation on our end users for the purchase or use of our products and online services could have a material impact on the purchasing decisions of our end users and adversely affect our revenues and could also increase our internal costs. If we do not collect reimbursement for such assessments from our customers, we would become liable for these taxes. In addition, a successful assertion by any state, local jurisdiction or country that we should have been collecting (or should have been collecting additional) sales or other transaction taxes on the sale of our products or services could result in substantial tax liabilities related to past sales.

Historically, we have taken the position that our sales of software delivered over the Internet are not subject to sales/use taxes in the states in the United States. This conclusion was based on one or both of the following propositions: (i) many states do not impose sales/use tax on electronic delivery of our products; and (ii) AVG Cyprus (and, subsequent to our internal reorganization, AVG eCommerce CY Limited), operating our ecommerce online sales platform, and AVG Netherlands B.V., operating our search partnerships and third party search distribution, did not have a physical presence and did not have nexus in any state in the United States. However, it is possible that a state or local jurisdiction in which we do not charge and collect sales/use tax or other transaction taxes could assert that we should have previously been collecting such taxes in prior periods; if successful, such challenges could require us to pay substantial amounts of taxes, interest and penalties, which could have an adverse effect on our business.

In addition, national and local governments are facing deteriorating fiscal situations and tax authorities are currently reviewing the appropriate treatment of transactions and companies engaged in electronic commerce. New or revised tax laws and regulations are being passed that may subject us or our customers to additional sales, income and other taxes. In particular, there has recently been much activity and legislation as well as audits and court cases involving imposition of sales/use taxes on e-commerce transactions in several U.S. states.

For example, some states are adopting statutes (sometimes colloquially referred to as Amazon Laws) which attribute to out-of-state vendors the in-state physical presence of a referral source, and these laws may adversely affect our business. If the vendor compensates even unrelated parties for driving business to its website (i.e., by click-through) then, in some states, there is a rebuttable presumption the vendor has nexus, which enables the state to charge sales tax on the vendor's transactions. We use referral sources which we compensate, and there is a risk that we will have to collect sales/use taxes or terminate our relationship with important referral sources, including those based in key states such as California and New York that have adopted these so-called Amazon Laws. In addition to click-through nexus statutes, some states have introduced extensive and onerous reporting requirements that are burdensome and costly and could affect our business. Although the constitutionality of these click-through statutes and reporting requirements is being challenged on various grounds, if these laws are upheld as constitutional, such a result likely would lead to more widespread adoption of similar legislation which could further negatively impact our business.

We rely on software licensed from third parties, including server software, and intellectual property rights associated with such software, that are required for the provision of our services. These licenses may be difficult to retain or the third-party software could cause errors or failures of our solutions.

We rely on software licensed from third parties to offer some of our services and software solutions, including server software from Mailshell, and other third-party technology. In addition, we may need to obtain future licenses from third parties to use intellectual property rights associated with the development of our solutions, which might not be

available to us on acceptable terms, or at all. Any loss of the right to use any third-party software required for the development and maintenance of our solutions could result in delays in the

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provision of our solutions until equivalent technology is either developed by us, or, if available, is identified, obtained and integrated, which could harm our business. Any errors or defects in third-party software could result in errors or a failure of our solutions which could result in legal disputes, claims and proceedings, including class action law suits, and harm our business.

Some of our solutions contain open source software, which may pose increased risk to our proprietary software.

We may have in the past and could in the future combine our proprietary software with certain open source software in a certain manner, which could, under certain of the open source licenses, require us to release the source code of our proprietary software. In addition to risks related to license requirements, usage of certain open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of software. We cannot be sure that all open source code is submitted by our developers to our internal review process for approval prior to its inclusion in our products. In addition, many of the risks associated with the usage of open source software may be difficult to eliminate and could, if not properly addressed, negatively affect our business.

We are and could be subject to further claims for infringing third-party intellectual property rights, which could adversely affect our business.

Because of the nature of our business, including development and acquisition of intellectual property rights and the hiring of employees formerly employed by competitors, we are and could become further subject to claims, some of which could be material, of infringement by competitors and other third parties with respect to current and future software solutions, patents, trademarks, copyrights, licenses or other intellectual property rights. In addition, we license and utilize certain third-party proprietary and open source software as part of our solutions offering. If an author or another third party that distributes such third-party or open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, required to disclose and/or provide part of the source code of our proprietary software for no fee, enjoined from the sale of our services and required to comply with conditions that could disrupt the distribution and sale of some of our services.

To the extent that we gain greater visibility and market exposure, we may face a higher risk of being the subject of intellectual property rights infringement claims. Moreover, some of these claims may involve patent holding companies (non-practicing entities) or other adverse patent owners who have no relevant product revenue of their own and against whom our own patent portfolio may therefore provide little or no deterrence. Any claims of infringement by a third party, even those without merit, could damage our reputation and the value of our brand, cause us to incur substantial defense costs and distract our management and employees from our business. Furthermore, a party making such a claim, if successful, could secure a judgment that requires us to pay substantial damages. A judgment could also include an injunction or other court order that could prevent or limit us from offering our software. In addition, we might be required to seek a license for the use of the infringed intellectual property rights, which may not be available on commercially reasonable terms or at all. Alternatively, we might be required to develop non-infringing technology, which could require significant effort and expense and which might not be successful.

Third parties may also assert infringement claims relating to our software against our customers. Any of these claims might require us to initiate or defend potentially protracted and costly litigation on their behalf, regardless of the merits of these claims. If any of these claims were to succeed, we might be forced to pay damages on behalf of our customers, which could adversely affect our business.

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Protection of our intellectual property rights is currently limited and any misuse of our intellectual property rights by others could adversely affect our revenue and results of operations.

Proprietary technology used in our software is important to our success. To protect our intellectual property rights related to our software, products, services, solutions and development, we have to date focused primarily on patents, trademarks, copyrights, trade secrets, confidentiality procedures and protections afforded by contractual provisions. For example, we have registered trademarks such as AVG and our logo in the United States, the European Union and in various countries throughout the world where we currently do business or are planning to do business.

Intellectual property rights laws and regulations are uncertain.

The protection from and enforcement of any intellectual property rights in the markets in which we operate are uncertain. The laws of countries in which we operate or intend to expand our operations, including China, may afford little or no protection to our patents, copyrights, trade secrets and other intellectual property rights. While we monitor the use of and respect for our intellectual property rights, policing unauthorized use of our trademarks and our patented, copyrighted and trade secret technologies and proving infringement or misappropriation of our intellectual property rights are difficult. In addition, certain of our licenses are click-through licenses or are unsigned, which may render them unenforceable under the laws of some jurisdictions. Furthermore, any changes in, or unexpected interpretations of, the copyright, trade secret and other intellectual property rights laws in any country in which we operate or intend to expand our operations may adversely affect our ability to enforce our copyright, trade secret and other intellectual property rights. Costly and time-consuming litigation could be necessary to enforce or defend our intellectual property rights and/or to determine the scope of our confidential information, intellectual property right and trade secret protection. If we are unable to protect our intellectual property rights or if third parties independently develop similar technologies to ours or otherwise gain legal access to our or similar technologies, our competitive position and brand recognition could suffer and our revenue, financial condition and results of operations could be adversely affected.

Protection of trade secrets is limited.

We seek to protect our software, trade secrets and proprietary information, in part, by generally requiring our employees and consultant contractors to enter into agreements providing for the maintenance of confidentiality and the assignment of rights to inventions made by them while employed by or providing consulting services to us. We also enter into non-disclosure agreements with our distributors, resellers and other business partners to protect our confidential and proprietary information. There can be no assurance that our confidentiality agreements with our employees and third parties will not be breached, that we will be able effectively to enforce these agreements or to have adequate remedies for any breach or that our trade secrets and other proprietary information will not be disclosed or otherwise cease to be protected. Accordingly, despite our efforts, we may be unable to prevent third parties infringing or misappropriating our intellectual property rights and using our technology for their competitive advantage. Any such infringement or misappropriation could have an adverse effect on our business, results of operations and financial condition.

We may encounter difficulties and uncertainties in obtaining or enforcing patents.

Currently we have several patent applications pending in various jurisdictions, including the United States, the European Patent Organization and Canada, and filed under the Patent Cooperation Treaty. For example, we have applied for patent protection for our LinkScanner technology, as well as our software for detection of harmful software and code analyses. We do not know whether any pending patent applications we have filed or will file in the future will result in the issuance of patents. Moreover, any patents that have been granted to us or may be granted may

be opposed, contested or designed around by a third party, or may be subject to other limitations. We therefore may not receive significant competitive advantages from any patent rights that have been or that may ultimately be granted to us.

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The value of our products and online services is partially dependent on the quality of our support services and our failure to offer adequate support services could have an adverse effect on our reputation and results of operations.

Our users depend on us and, to some extent, on our user community, to resolve installation, technical or other issues relating to our software solutions and online services. We consider a high level of service to be critical for the successful marketing and adoption of our software as well as for retaining our existing users. In providing that service, we rely in part on the feedback and knowledge shared through our active online user community. Also, we have outsourced certain of our consumer support functions to third-party service providers, which may fail to perform at the level specified in our contracts with them. We also now provide a service in certain geographies where free user support is available for free users. If we, our user community or our third-party service providers do not provide accurate technical assistance or otherwise succeed in helping our users resolve issues related to the use of our software solutions and online services, our reputation could be harmed and our results of operations could be adversely affected. Similarly if we are unable to successfully operate the model for free user support for free users or the basis for the operation of that model changes, then our financial results may be negatively impacted or we may be forced to discontinue the service which could damage our reputation.

In addition to our direct sales and distribution channels, we rely on third-party distributors and resellers to sell or distribute our software. If we fail to sell or distribute our products effectively through our third-party distributors and resellers, our results of operations could be adversely affected.

Software sales made indirectly through third-party distributors and resellers accounted for 15.5% of our total revenue in 2013, and although it may decline, we expect this sales channel to continue to represent a significant portion of our total revenue particularly as our SMB SaaS business continues to develop as this is primarily sold through distributors and resellers. We have limited control over the amount of software that these indirect sales partners purchase from us or sell on our behalf. Weakness in the end-user market could negatively affect the cash flow of our distributors and resellers who could, in turn, delay paying their obligations to us. Furthermore, a change in the credit quality at one of our distributors or other counterparties can increase the risk that such counterparty is unable or unwilling to pay amounts owed to us, which could directly or indirectly (through a disruption in our distribution network) have a material adverse effect on our results of operations. Any material decrease in the volume of revenue generated by our indirect sales channels could adversely affect our revenue and results of operations.

In 2012 we began to distribute our stand-alone LinkScanner product via third parties and pay them a bounty for distribution. End users adopt our stand-alone LinkScanner solution and hence our dynamic search solution as a result of this distribution and we generate revenue from the search activity of these users. These deals generated a significant proportion of our platform growth in 2012. There were significant changes in the search distributions market during 2013 which were initially triggered by the Google guideline changes that became effective in February 2013. Developments in this market led us to announce our plan to gradually exit the third party search distribution business in November 2013. The revenue we generated depended on the quality and volume of the search activity by our users and this traffic declined in quality and volume, the bounties we were able to pay became worth more than the search traffic they generated and the results of our operations were negatively impacted. Further guideline changes or other factors which make it difficult or impossible for us to compete for traffic for our subscription or platform products could further negatively impact our business, financial condition and results of operations.

While we believe we conduct appropriate due diligence on our sales partners, we may not be able to monitor their activities for regulatory or contractual compliance, which may jeopardize our reputation or our relationships with our search engine partners. Furthermore, certain national regulations could require licenses from governments or government agencies for the use of our products and these regulations may limit our penetration of certain markets by us or our indirect sales partners. For instance, we were required to obtain a business license to begin distribution of

our products in China, which entailed defining the scope of our business and would require a revised license if that scope changed. China is the only jurisdiction important to our business in which

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we have sought a license to date, but developments such as release of new products, entry into new markets or regulatory changes in existing markets could oblige us to seek additional licenses in other jurisdictions in the future. If we violate the terms of a required license, it could cause us to lose the license, damage our reputation or require the reorganization of our distribution model.

While we have standard contract terms for our third-party distributors and resellers that allow those parties the flexibility to decide where to sell our solutions and the price at which they are sold, some of our distribution and resale contracts contain provisions relating to exclusivity or allocation of territories and/or minimum price requirements. Challenges to these exclusivity arrangements, regardless of merit, could divert management time and attention and have a material adverse effect on our financial condition and results of operations. This risk may be highest among third-party distribution contracts that we may seek to terminate.

Any material disruption of our relationships with major providers of Internet distribution services, including Akamai, and payment services could adversely affect our business.

Third parties supply us with certain products and services that are integral to our business. For example, we depend on Akamai for the distribution of our security software, for software updates to our active users and for acceleration and caching of our Web pages. We consider the possibility of Akamai failing to be remote and we have not developed a formal back-up or business continuity plan in the event of Akamai's failure. If Akamai's systems were to fail, we would be able to accommodate the distribution of our software and software updates on our own systems, but the delivery of our content would be slower. These services are material to our business. Accordingly, any disruption in the relationship between us and Akamai or between us and one of our Internet payment service providers, including any disruption of service, or the existence of any dispute, may harm our business and results of operations.

We are exposed to risks associated with credit card fraud and credit card payment processing.

Our customers use credit and debit cards to pay for our services and products. We may suffer losses as a result of orders placed with fraudulent credit and debit cards. We, our payment providers, contracted support partners, reseller network and other partners may not have the means to detect or control payment fraud, which could have an adverse effect on our results of operations. The secure transmission of confidential credit and debit card information is essential to maintain customer and supplier confidence in us. Advances in technology or other developments could make it possible to compromise or breach the technology that we use to protect subscriber and transaction data. It is possible that our security measures may not prevent security breaches, and we may be unsuccessful in, protecting against these potential exposures. Security breaches, whether of our system or third party systems, could significantly harm our business or our reputation. In addition, we currently adhere to the Payment Card Industry Data Security Standard, which is a worldwide information security standard defined by the Payment Card Industry Data Security Standards Council, as required by our payment providers. The standard was created to help payment card industry organizations that process card payments prevent credit and debit card fraud through increased controls around data and its exposure to compromise. If we are unable to comply with the standard, or similar standards, or if there is a perceived breach of such standards, such incidents may lead to sanctions (including fines and other penalties), claims by banks, card holders and others and disclosure leading to public knowledge of such incidents, potentially causing reputational damage to our business. Even if we comply with all of the above regulations, we are subject to credit card authorization procedures that are conducted by third parties and beyond our control.

For credit and debit card transactions we pay interchange and other fees which may increase over time and raise our operating costs and lower profitability. In addition, our credit card fees may be increased by credit card companies if our chargeback rate, or the rate of payment refunds, exceeds certain minimum thresholds. If we are unable to maintain our chargeback rate at acceptable levels, our credit card fees for chargeback transactions, or for all credit card

transactions, may be further increased, and credit card companies may increase our fees or terminate their relationship with us. Any increase in the credit card fees we are required to pay could adversely

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affect our results of operations and cash flows. The termination of our ability to process payments on any major credit or debit card could significantly impair our ability to operate and grow our business.

We are also subject to rules regarding payments of disputed charges, and if we have disputed charges over the permitted amount, we could be subject to fines and penalties and our ability to use credit cards and debit cards as a payment mechanism may be terminated. We rely on third parties to provide payment processing services, including the processing of credit and debit cards, and it could disrupt our business if these companies become unwilling or unable to provide these services to us on commercially reasonable terms or at all. We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted or otherwise make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our customers, process or facilitate other types of online payments, and our business and operating results could be adversely affected.

We may be unable to obtain additional financing or generate sufficient cash flows to make additional investments or fund potential acquisitions.

We may need to raise additional funds in the future in order to invest in or acquire complementary businesses, technologies, products or services. Additional financing may not be available on terms acceptable to us, or at all. If we raise additional funds by issuing equity securities, our shareholders may experience further dilution of their ownership interests. If we raise additional funds by issuing debt securities or obtaining loans from third parties, the terms of those debt securities or financing arrangements may include covenants or other restrictions on our business that could impair our operational flexibility and would also require us to fund additional interest expense. If additional financing is not available or is not available on acceptable terms when required, we may be unable successfully to develop or enhance our software solutions and online services, which could materially adversely affect our business, results of operations and financial condition.

Our indebtedness could affect our financing options and liquidity.

In April 2013, we entered into a new credit agreement with HSBC Bank plc comprised of a term loan facility of \$25 million (Facility A) and a \$50 million revolving credit facility (Facility B) together with an accordion that permits an increase in Facility B of another \$50 million with the agreement of the lender(s). Facility A and Facility B were fully drawn and used to refinance existing facilities and thereafter they are planned to be used for general corporate purposes.

Our indebtedness could have important consequences to our business or the holders of our ordinary shares, including:

making us more vulnerable to economic downturns and interest rate changes;

limiting our ability to withstand competitive pressures; and

preventing us from paying dividends on our ordinary shares or other distributions to shareholders

We are subject to debt covenants that impose operating and financial restrictions on us and could limit our ability to grow our business.

Covenants in our credit agreement impose operating and financial restrictions on us. These restrictions prohibit or limit, among other things, our incurrence of additional indebtedness, the creation of certain types of liens, mergers or consolidations, certain change in control transactions, asset sales, payment of dividends or other distributions to shareholders, investments and transactions with affiliates. These restrictions could also limit our ability to take advantage of business opportunities. We must maintain financial covenants under the credit agreement measured as of the end of each quarter, including a covenant to maintain a specified leverage ratio and

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interest coverage ratio. Our ability to comply with these ratios may be affected by events beyond our control, including prevailing economic, financial and industry conditions. Under the credit agreement, a change in control in our company, including any new shareholder or a group of shareholders acting together acquiring at least 35% of our issued share capital, would require mandatory prepayment of Facility B. As of December 31, 2013, we were in compliance with all required covenants and the change of control restriction.

However, if we are unable to comply with the covenants and ratios in our credit agreement in the future, we may be in default under the agreement. A default would result in an increase in the rate of interest and may cause the loan to be accelerated. These developments could have a material adverse effect on our business.

Changes in the relative value of currencies against the U.S. dollar could adversely affect our results of operations.

At the parent company level, our reporting currency is the U.S. dollar and our revenue and costs are reported in U.S. dollars. The majority of our revenue is earned in U.S. dollars while a significant portion is also earned in euros and in other European currencies, including British pounds sterling and Czech crowns. A substantial portion of our costs are incurred in currencies other than the US dollar, namely Czech crowns, euros, British Pound, Israeli shekel and Australian and Canadian dollars. We are exposed to transaction currency risk from fluctuations in exchange rates between the U.S. dollar and British pound sterling, Czech crown, Israeli shekel, Australian and Canadian dollar and euro. In addition, we are exposed to translational risk resulting from our international sales denominated in currencies other than U.S. dollars and the resulting foreign currency balances held on our balance sheet. We enter into foreign exchange contracts to hedge our transactional exposure between the U.S. dollar and British pound sterling, Czech crown, Israeli shekel and euro. However, these hedging arrangements may not fully protect us from currency risk. As a result, currently exchange rate fluctuations could adversely affect our results of operations and financial condition.

If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements would be impaired, which could adversely affect our operating results, our ability to operate our business and our share price.

We must ensure that we have adequate internal financial and accounting controls and procedures in place to produce accurate financial statements on a timely basis. Section 404(a) of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal controls over financial reporting. We qualify as an emerging growth company under the JOBS Act, potentially delaying the time at which we have to comply with section 404(b) of the Sarbanes-Oxley Act, which will require a report by our independent registered public accounting firm on the effectiveness of our internal control over financial reporting. We have a fully established system of internal controls over financial reporting which has been tested for design of operational effectiveness by management.

While our management concluded that there were no material weaknesses in our internal controls over financial reporting as of December 31, 2013, there can be no assurance that our internal controls over financial processes and reporting will be effective in the future or that material weaknesses or significant deficiencies in our internal controls will not be discovered in the future.

Ongoing maintenance and improvement of our system of internal controls and testing will entail substantial costs.

We have compliance burdens as a public company and as a foreign company reporting in the United States.

As a public company, we implement and maintain and following any changes in applicable laws and regulations may be required to continue to implement and maintain processes and controls due to certain laws

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and rules and various requirements applicable to public companies. We also incur significant legal, accounting and other expenses as a public company. The Sarbanes-Oxley Act and rules of the Securities and Exchange Commission, or SEC, and the New York Stock Exchange, or NYSE impose various requirements on public companies beyond establishment and maintenance of effective disclosure and financial controls. We will need to continue to strengthen our internal procedures in a range of areas to comply with these standards. In addition, our entry into the U.S. capital markets imposes complex tax burdens and disclosure obligations unfamiliar to us as a company foreign to the United States. Similarly, our financial statements historically were prepared and will continue to be prepared in accordance with international financial reporting standards as adopted by the European Union, but since our IPO, we have prepared and will continue to prepare our financials under U.S. GAAP for purposes of our reporting as a public company in the United States as well. Compliance with these laws and standards will continue to increase our legal, insurance and financial compliance costs and consume staff and management time, potentially harming our business and financial position.

Risks relating to ownership of our ordinary shares

Our share price has been and may continue to be volatile and the value of an investment in our ordinary shares may decline.

Actual or anticipated fluctuations in our quarterly financial or operating results, the risks described above and additional factors listed below, some of which are beyond our control, may cause significant volatility in our share price. These additional factors include:

the failure of financial analysts to cover our ordinary shares or changes in financial estimates by analysts;

changes in financial estimates by financial analysts, or any failure by us to meet or exceed any of these estimates, or changes in the recommendations of any financial analysts that elect to follow our ordinary shares or the shares of our competitors;

announcements by us or our competitors of significant contracts or acquisitions;

future sales or expected future sales of our ordinary shares; and

investor perceptions of us and the industries in which we operate.

In addition, the stock market in general has experienced substantial price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of particular companies affected. These broad market and industry factors may materially harm the market price of our ordinary shares, regardless of our operating performance. In the past, following periods of volatility in the market price of certain companies' securities, securities class action litigation has been instituted against these companies. Similar litigation, if instituted against us, could adversely affect our financial condition or results of operations.

Concentration of ownership among our directors, officers and large shareholders and their affiliates may prevent new investors from influencing corporate decisions.

Current members of our Management Board, our Supervisory Board and our senior management and holders of greater than 5% of our ordinary shares and their affiliates beneficially owned an aggregate of approximately 55.66% of our outstanding ordinary shares as of February 28, 2014. As a result, these persons will be in a position to exert significant influence over the outcome of matters submitted to a vote of our shareholders, including matters such as approval of the financial statements, declarations of dividends, the appointment and removal of the members of our Management Board and our Supervisory Board, capital increases and amendments to our articles of association. In addition, one of the members of our Supervisory Board is affiliated with a holder of greater than 5% of our ordinary shares.

In addition, certain shareholders' significant shareholdings in us may have the effect of making certain transactions more difficult without the support of these shareholders and may have the effect of delaying or preventing our acquisition or other change in control.

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Anti-takeover provisions in our articles of association may prevent or delay change-of-control transactions.

Our articles of association contain provisions that may have the effect of making a takeover of our Company more difficult or less attractive, including:

the staggered four-year terms of our Supervisory Board members, as a result of which only approximately one-fourth of our Supervisory Board members will be subject to election in any one year;

a provision that our Management Board and Supervisory Board members may only be removed at the General Meeting of Shareholders by a two-thirds majority of votes cast representing at least 50% of our outstanding share capital if such removal is not proposed by our Supervisory Board;

the authorization of a class of preference shares that may be issued by our Management Board, subject to the approval of our Supervisory Board, in such a manner as to dilute the interest of any potential acquirer;

requirements that certain matters, including an amendment of our articles of association, may only be brought to our shareholders for a vote upon a proposal by our Management Board that has been approved by our Supervisory Board; and

minimum shareholding thresholds, based on nominal value, for shareholders to call General Meetings of our Shareholders or to add items to the agenda for those meetings.

We are a Dutch public company with limited liability. The rights of our shareholders may be different from the rights of shareholders in companies governed by the laws of U.S. or other jurisdictions.

We are a Dutch public company with limited liability (*naamloze vennootschap*). Our corporate affairs are governed by our articles of association and by the laws governing companies incorporated in the Netherlands. The rights of shareholders and the responsibilities of members of our Management Board and Supervisory Board may be different from the rights and obligations of shareholders in companies governed by the laws of the U.S. or other jurisdictions. In the performance of its duties, our Management Board and Supervisory Board are required by Dutch law to consider the interests of our company, its shareholders, its employees and other stakeholders, in all cases with due observation of the principles of reasonableness and fairness. It is possible that some of these parties will have interests that are different from, or in addition to, the interests of our shareholders.

We are a foreign private issuer and, as a result, are not subject to U.S. proxy rules and are subject to Exchange Act reporting obligations that, to some extent, are more lenient and less frequent than those of a U.S. domestic public company.

We report under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as a non-U.S. company with foreign private issuer status. Because we qualify as a foreign private issuer under the Exchange Act and although we are subject to Dutch laws and regulations with regard to such matters and intend to furnish quarterly financial information to the SEC, we are exempt from certain provisions of the Exchange Act that are applicable to U.S. domestic public companies, including (i) the sections of the Exchange Act regulating the solicitation of proxies,

consents or authorizations in respect of a security registered under the Exchange Act; (ii) the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and (iii) the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q containing unaudited financial and other specified information, or current reports on Form 8-K, upon the occurrence of specified significant events. In addition, foreign private issuers are not required to file an Annual Report on Form 20-F until 120 days after the end of each fiscal year, while U.S. domestic issuers that are accelerated filers are required to file an Annual Report on Form 10-K within 75 days after the end of each fiscal year. Foreign private issuers are also exempt from Regulation FD (Fair Disclosure), aimed at preventing issuers from making selective disclosures of material information. As a result of the above, our shareholders may not have the same protections afforded to shareholders of companies that are not foreign private issuers.

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As a foreign private issuer and as permitted by the listing requirements of the New York Stock Exchange, we rely on certain home country governance practices rather than the corporate governance requirements of the New York Stock Exchange.

We are a foreign private issuer. As a result, in accordance with the listing requirements of the NYSE, we rely on home country governance requirements and certain exemptions thereunder rather than relying on the corporate governance requirements of the NYSE. See Item 16G. Corporate Governance. Accordingly, our shareholders may not have the same protections afforded to shareholders of companies that are not foreign private issuers.

We comply with the Dutch Corporate Governance Code but do not apply all best practice provisions of the Dutch Corporate Governance Code.

As a Dutch company we are subject to the Dutch Corporate Governance Code, or DCGC. The DCGC contains both principles and best practice provisions for Management Boards, Supervisory Boards, shareholders and General Meetings of Shareholders, financial reporting, auditors, disclosure, compliance and enforcement standards. The DCGC applies to all Dutch companies listed on a government-recognized stock exchange, whether in the Netherlands or elsewhere, including the NYSE. The principles and best practice provisions apply to our Management Board and our Supervisory Board (in relation to role and composition, conflicts of interest and independency requirements, board committees and remuneration), shareholders and the General Meeting of Shareholders (for example, regarding anti-takeover protection and obligations of the Company to provide information to its shareholders) and financial reporting (such as external auditor and internal audit requirements). We do not apply all best practice provisions of the DCGC. See Item 16G. Corporate Governance. This may affect the rights of our shareholders, who may not have the same level of protection as shareholders in a Dutch company that fully complies with the DCGC.

Our ordinary shares are not traded on any exchange outside the United States.

Our ordinary shares are listed only in the United States on the NYSE and we have no plans to list our ordinary shares in any other jurisdiction. As a result, a holder of our ordinary shares outside the United States may not be able to effect transactions in our ordinary shares as readily as the holder may if our securities were listed on an exchange in that holder's home jurisdiction.

We may not be able and currently have no intention to pay further dividends for the foreseeable future.

Payment of future dividends may be made only if our equity exceeds the amount of the paid-in and called-up part of the issued share capital, increased by the reserves required to be maintained by law or by our articles of association. We currently intend to retain future earnings, if any, to finance the growth and development of our business. Also, our credit agreement restricts the payment of dividends to holders of our ordinary shares. As a result, we currently have no intention to pay dividends. Accordingly, investors cannot rely on dividend income from our ordinary shares and any returns on an investment in our ordinary shares will likely depend entirely upon any future appreciation in the price of our ordinary shares.

Raising additional capital by issuing securities may cause dilution to existing shareholders, restrict our operations or require us to relinquish proprietary rights.

We may in the future seek the additional capital necessary to fund acquisitions through public or private equity offerings. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our existing shareholders will be diluted, unless pre-emptive rights are granted, and the terms of such securities may include liquidation or other preferences that adversely affect the rights of our shareholders. Debt

financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions such as incurring additional debt, making capital expenditures or declaring dividends.

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Certain holders of our ordinary shares may not be able to exercise pre-emptive rights and as a result may experience substantial dilution upon future issuances of ordinary shares.

Holders of our ordinary shares in principle have a pre-emptive right with respect to any issue of ordinary shares or the granting of rights to subscribe for ordinary shares, unless explicitly provided otherwise in a resolution by the General Meeting of Shareholders or by a resolution of our Management Board with the approval by our Supervisory Board. Our General Meeting of Shareholders has empowered our Management Board, with the approval by our Supervisory Board, to limit or exclude pre-emptive rights on shares for a period of eighteen months from the date of our Extraordinary General Meeting of Shareholders on July 30, 2013, which could cause existing shareholders to experience substantial dilution of their interest in us.

Claims of U.S. civil liabilities may not be enforceable against us.

We are incorporated under the laws of the Netherlands and substantial portions of our assets are located outside of the United States. In addition, one member of our Management Board, certain members of our Supervisory Board, certain members of our senior management and certain experts named herein reside outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us or such other persons residing outside the United States, or to enforce outside the United States judgments obtained against such persons in U.S. courts in any action, including actions predicated upon the civil liability provisions of the U.S. federal securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United States, rights predicated upon the U.S. federal securities laws.

There is no treaty between the United States and the Netherlands for the mutual recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon the U.S. federal securities laws, would not be enforceable in the Netherlands unless the underlying claim is re-litigated before a Dutch court of competent jurisdiction. Under current practice however, a Dutch court may be expected to recognize the binding effect of a final, conclusive and enforceable money judgment of a federal or state court in the United States without re-examination or re-litigation of the substantive matters adjudicated thereby, if (i) that judgment resulted from legal proceedings compatible with Dutch notions of due process, (ii) that judgment does not contravene public policy of the Netherlands and (iii) the jurisdiction of the U.S. federal or state court has been based on internationally accepted principles of private international law.

Based on the foregoing, there can be no assurance that U.S. investors will be able to enforce against us or members of our Management Board or Supervisory Board, officers or certain experts named herein who are residents of the Netherlands or countries other than the United States any judgments obtained in U.S. courts in civil and commercial matters, including judgments under the U.S. federal securities laws.

In addition, there is doubt as to whether a Dutch court would impose civil liability on us, the members of our Management Board or Supervisory Board, our officers or certain experts named herein in an original action predicated solely upon the U.S. federal securities laws brought in a court of competent jurisdiction in the Netherlands against us or such members, officers or experts, respectively.

We may not be able to make distributions or repurchase shares without subjecting our shareholders to Dutch withholding tax.

Dutch dividend withholding tax may be levied on dividends and similar distributions made by us to our shareholders at the statutory rate of 15%. If dividend distributions are structured as a repayment of capital or a repurchase of shares,

Dutch withholding tax may still be due at 15%. Such repayment of capital or repurchase of shares will be exempt from dividend withholding tax only in limited circumstances. See also Item 10. Additional Information E. Taxation below.

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ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Our legal name is AVG Technologies N.V. and our commercial name is AVG or AVG Technologies. We are a public company with limited liability (*naamloze vennootschap*) incorporated under the laws of the Netherlands. We are registered with the Trade Register of the Chamber of Commerce of Amsterdam under number 52197204 and have an official seat in Amsterdam, the Netherlands. Our registered office address is at Gatwickstraat 9-39, 1043 GL Amsterdam, the Netherlands, with telephone number +31 20 522 6210. Our principal executive offices are located at that address. Our principal website address is www.avg.com. The information contained in our website or that can be accessed through our website neither constitutes a part of this Annual Report nor is incorporated by reference herein.

We were incorporated in the Netherlands on March 3, 2011 by a notarial deed of incorporation as a cooperative (*coöperatie*) under the laws of the Netherlands under the name AVG Holding Coöperatief U.A. On November 25, 2011, we entered into a legal merger with our predecessor company and wholly owned subsidiary AVG Technologies N.V., and on November 25, 2011, we were converted into a public company with limited liability. Upon this conversion, the membership rights held by the members of the cooperative were converted into shares. For a discussion of our capital expenditures, see Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources.

B. BUSINESS OVERVIEW

Our business

We provide software and online services that deliver peace of mind to users by simplifying, optimizing and securing their Internet experiences. We seek to protect devices, the data that is transmitted by and stored on those devices and therefore the people who ultimately use and rely on those devices. Our business model, based on delivering high-quality solutions in high volume and at no cost to our users, enables us to rapidly acquire new users. Through our large user community, we are able to better understand the needs of our users, become a trusted provider of peace-of-mind software solutions, and thereby intelligently monetize our user base through premium products and value-added online services. Our solutions, which today range from desktop, laptop and mobile software to dynamic secure Internet search solutions, can be accessed and utilized with minimal effort and limited technical know-how from the user. In choosing our solutions, which can be downloaded from the Internet, users become part of a trusted global community that benefits from network effects such as the mutual protection and support of a large user base. Our sales and marketing activities benefit from word-of-mouth recommendations from our large user network to create a viral marketing effect, which is amplified by the speed and ease of use of our products and allows us to gain new customers at a low acquisition cost. This strategy has allowed us to grow our user base to approximately 177 million active users as of December 31, 2013.

We believe that our community of approximately 177 million active users is one of our most valuable assets. We establish a trusted relationship with our community through our solutions with the goal of driving greater user engagement. Community engagement provides important contributions to our product development initiatives, enables rapid response to online threats and assists in our customer support initiatives, enabling us to accurately deliver compelling products and online services that meet the evolving needs of our users. The contributions from our community lower our costs, enabling us to offer free and low-cost offerings that further build upon the value we can deliver. We believe further monetization of our user base through additional products and online services represents a significant market opportunity for us.

Our product portfolio targets the consumer and SMB markets across multiple devices and operating systems and includes Internet security, PC performance optimization, online backup, identity protection and family safety software. In addition, our online services, accessed primarily through our browser toolbar, provide dynamic secure search capabilities through agreements with leading Internet search providers. While a significant majority of our active users have been users of our free products and online services, we also offer products with premium functionality and enhanced customer support when customers purchase an annual or multi-year subscription.

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As of December 31, 2013, we had approximately 16 million subscription users and 68 million mobile users. We have been successful in growing our product portfolio over time through internal development and select acquisitions.

We employ a differentiated business model focused on monetizing and expanding our user base through (i) subscription revenue from the sale of premium products and (ii) platform-derived revenue from value-add online services that are free to our users. While users often download our subscription solutions directly from our websites, we also utilize resellers and distributors globally, including CNET, Ingram Micro and Wal-Mart. In 2013, 84.5% of our revenue was generated online, with the remainder generated through resellers and distributors. Today, we derive substantially all of our platform-derived revenue through these agreements with leading Internet search providers. In addition, we have entered into agreements with companies such as Google, Yahoo!, Facebook and Samsung that may support our efforts to increase our brand awareness and user penetration. Our success has been built on our innovative, proven and self-reinforcing business model, which leverages our large and engaged user base, low-cost Internet-based distribution and cost-effective research and development.

We were founded in 1991 as a consumer-focused IT security company. While we have increased the breadth of our solutions over the years, we remain focused on our core mission of delivering products and services to make our digital lives easier to secure, simpler to navigate and more enjoyable to experience.

Our development and business milestones since 2010 include:

In 2010, we entered into a new search agreement with Google, replacing Yahoo! as our primary search provider.

In 2011, we acquired iMedix (also known as Visionize), a leading provider of toolbars for web browsers, DroidSecurity, a developer of cloud-based mobile security solutions, which enabled us to enter the mobile security market, TuneUp, a leading provider of PC optimization software, and Bsecure, a provider of applications for cloud-based management of information technology. We also acquired a non-controlling minority stake in Scene (also known as Ookla), which we divested in 2013. We launched AVG Mobilation for Android, as well as the first security solution for tablet devices.

In 2012, we acquired OpenInstall, which provides a cloud-based software installation platform, and Crossloop, which provides software applications for desktop sharing and connecting computer users with service providers. We also acquired the assets and liabilities of our Australian distributor.

In 2012 we renewed our search agreement with Google on a non-exclusive basis. We subsequently signed additional search agreements with Yahoo!, Seznam and Yandex.

In January 2013, we acquired substantially all of the assets and liabilities of Angle Labs, a mobile application developer based in the United States. This was a technology acquisition focused on monetization which also brought two million users.

In May 2013, we acquired certain assets and liabilities of PrivacyChoice LLC (PrivacyChoice), a technology company based in the United States that has developed and provides privacy-related online services used by consumers and businesses. We expect data privacy for consumers and SMBs to be important markets, and this acquisition was intended to complement our current product portfolio with privacy products and key personnel who designed the products.

In June 2013, we acquired certain assets and liabilities from LPI Level Platforms Inc. (LPI), a remote monitoring and management software company based in Canada. This acquisition was a technology and sales distribution acquisition designed to increase our penetration in the SMB market as well as providing access to a larger size of small businesses 1,000 seats or less.

In September 2013, we acquired certain assets from Swedish company ASR Technologies AB, Alma Orucevic-Alagic and Amir Alagic (collectively ASR). This is a file management technology primarily focused on mobile.

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Other than the initial start-up capital provided by our founder, we did not raise equity financing for our operations until our IPO and we have not raised equity financing since our IPO, as our net cash provided by operations has historically been sufficient to fund our growth. We currently expect to retain future earnings, if any, to finance the growth and development of our business and to provide additional liquidity. See the section titled "Item 8 Financial Information A. Consolidated Statements and Other Financial Information Dividend Policy" in this Annual Report.

Our business model

We believe our business model affords us a significant competitive advantage. Driven by an agile, adaptable and talented workforce, our business model leverages our large and engaged user base, low-cost Internet-based distribution and cost-effective research and development. Benefiting from viral marketing, user-generated product feedback and community support, we strive to continuously improve product quality and user experience and add new users at a low cost of acquisition. This, in turn, improves our monetization potential and allows for incremental investment in product innovation and marketing for future growth. These business model characteristics drive scalable growth, robust operating margins and strong cash flow generation.

Key components of our business model are:

Easy-to-use, high-quality free and premium products. Our business model is built on high-quality products that can be deployed or accessed with minimal effort, while providing a compelling and robust user experience. We focus on developing products that spread virally, that are highly sticky and ultimately drive increased user engagement with our platform. We provide no- or low-cost solutions to facilitate rapid user adoption. We then seek to up-sell or cross-sell to our users once our products have brought them into our user community. Even if users do not purchase our premium products, they are able to download and install our free solutions, expanding our user base and our monetization potential over time.

Monetization and expansion of our user base through value-added free online services. We continuously seek to develop new, free online services that allow us to monetize and expand our user base. Since March 2008, we have deployed our dynamic secure search solution to our online community as part of a value-added service enabling secure search of the Internet. While our dynamic secure search is free to our users, we generate revenue through agreements with search providers to which we direct search queries to generate search results. We acquired iMedix, a leading toolbar provider, to enhance our technical capabilities in this area and to expand our market reach to additional distribution channels including in 2012 distribution of standalone Linkscanner with search outside of our security user base. We decided to undertake a controlled exit from third party search activities at the end of 2013 and we anticipate that this exit will be completed by the end of 2014.

Online business model with cost-effective marketing and low customer acquisition cost. Our business benefits from cost-effective marketing through the use of online distribution channels that provided 84.5% of our revenue in 2013. We are actively seeking to increase the proportion of sales through these channels. By leveraging our large user base and high customer satisfaction, we are able to achieve powerful viral marketing at low cost. We intend to develop our brand further. Our large user base, coupled with low customer acquisition costs, results in a scalable, high-margin business model that is strengthened as our user base grows.

Proven track record of execution, monetization and innovation. As one of the largest software vendors employing a free-to-pay model, we have a proven track record of execution over two decades. Whether through organic development or technology acquisitions, we continue to add products and online services that simplify, optimize and secure our users' Internet experience, while delivering operating leverage. In particular, we have completed several acquisitions, including TuneUp, Exploit Prevention Labs and Sana Security, which we rapidly integrated successfully into our product portfolio. This enabled us to leverage our large user base to quickly adopt these solutions as part of the AVG product portfolio, thereby driving greater revenue from these products.

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Brand awareness through our reseller networks. We also distribute through resellers and distributors, which we refer to as our reseller network. The end-sellers of our solutions in this reseller network vary from large retail stores, such as Wal-Mart, to small individual retailers, both online and offline. This reseller network forms a part of our brand marketing strategy and generates the majority of our small business sales. We believe that our presence among retailers contributes to consumer awareness of our brand. This, in turn, allows us to penetrate the smaller small and medium sized business sector, a group we are increasing our focus on with our SaaS products.

Expansion into mobile. Since 2011 we have increasingly sought to develop our products into the mobile market, specifically represented by smartphones and tablets. Our initial focus has been on the Android platform by distribution of security products. We have acquired 68 million users as of December 31, 2013. We intend to continue to expand into this market via additional peace of mind products. We are working to provide a fully connected solution across both mobile and PC platforms and will make a step in this direction with the release of AVG Zen in 2014.

Large and growing user base driving tangible benefits. The size and growth of our user base and the amount of information generated by our users increase the value of our offerings and drive tangible business results. We seek to drive greater user engagement with our solutions by delivering peace of mind and, over the long term, building a relationship based on trust. We believe this is critical to building a user base that can be monetized effectively. As our users are actively engaging with each other, they provide a first level of community support as well as real-time product feedback that contributes to product innovation. Our business model has enabled us to build a user base of approximately 177 million active users as of December 31, 2013.

Our business model of platform monetization enables us to target multiple end markets as we broaden our products and online services, including endpoint security software and secure search. Our continued investment in developing a talented, agile and adaptable workforce supports our business model. Taken together, these elements enable revenue and user base growth at relatively low cost and also allow us to acquire, maintain and support customers at low overall operating and acquisition costs while leveraging multiple, large, high-growth product markets.

Our solutions

Our solutions, encompassing software and online services, include security, PC optimization, online privacy, cloud-based desktop management, mobile security, content filtering, online backup, remote monitoring and other products on various desktop and mobile operating systems. While our AVG AntiVirus Free Edition is provided free of charge to our users, the majority of our products are provided for a fee on a subscription basis. Our software products are currently available in various languages, used in over 185 countries around the world and sold under software license agreements. They are generally sold and downloaded over the Internet or sold as packaged products through multi-tiered distribution channels. These software license agreements generally include product maintenance, which provides technical services to our customers over the license period and regular updates of the software solutions purchased.

We have historically leveraged our security products and technology to grow our user base. As the threat landscape has evolved from viruses to more sophisticated and multi-faceted computer attacks, we have developed a broad suite of security and IT management solutions that protect against viruses, trojan horses, malware, suspicious code and other threats, and offer a layered approach to threat detection, including behavioral monitoring, signature-based threat detection and real-time threat detection with our LinkScanner technology. We have continued to evolve our portfolio of solutions to address not only security threats but also other online applications that are increasingly relevant to our large and growing user base, including applications dedicated to protecting consumer privacy, and enhancing system

performance.

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Consumer solutions

Our product portfolio includes the following solutions:

Products

Anti-Virus suite

Functionalities

Prevents receiving or unintentionally spreading viruses and other threats

Protects from spyware, adware, rootkits and fake anti-virus

Scans files for viruses before downloading and sharing

Checks links exchanged on social networks for viruses

Checks web pages in real time with AVG LinkScanner

Securely deletes files from disk to prevent recovery using the File Shredder

Internet Security suite

Includes the following additional features in addition to the Anti-Virus suite:

Provides firewall and identity protection

Blocks spam emails

Checks for viruses on downloaded executable binaries from the Internet

Advises on applications slowing the PC

Accelerates download speed of video and executable binaries from selected sites

Encrypts and password-protects private files

Premium Security suite

Includes the following additional features in addition to the Internet Security suite:

Identity theft and misuse surveillance and alerts

Optimizes PC performance

Provides security for Android smartphone devices

Anti-Virus Security FREE
(Android)

Security software for Android smartphones and tablets

Checks apps, web content and SMS for malware before downloading

Theft protection enabling users to locate lost devices using GPS and remote access when lost or stolen to lock device or wipe content

Backup feature protecting contacts, call logs, bookmarks, messages and applications

Performance management enabling users to close unused apps, manage battery consumption, data usage, and device storage

Privacy controls enabling users to wipe data on the device, and the SD card, and to perform full factory reset

Mobile AntiVirus
Security PRO

Provides all of the features of AntiVirus Security FREE, and adds:

Extension of theft protection to secretly capture photographs of unauthorized users of the phone and to lock the phone with a password if the SIM card is replaced

Password protection for sensitive applications

Backup feature extended to applications installed on the phone

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Products

Functionalities

AVG AntiVirus for Mac

Prevents receiving or unintentionally spreading viruses and other threats

Protects from spyware, adware, and fake anti-virus

Allows files to be scanned automatically or on-demand

AVG Threatlabs

Provides safety rating for websites

Family Safety (PC & Mobile)

Unique logins and accounts for every child

Blocks, warns and monitors Internet content

Tracks and filters social media activity

Schedules or limits PC games and Internet access

Sends reports and updates about children's online activity

Remote control from any web-enabled device

TuneUp Utilities and AVG PC
Tuneup

Fixes registry problems that cause freezing and crashing

Optimizes Internet settings and connection for speed

File recovery after accidental deletion

File shredder and disk wiper to permanently erase files

Improves disk speed

Manages battery life by enabling control over the power consumption on the computer

Provides one click access to turn off WiFi and Bluetooth.

Frees up disk space through the discovery of cached, temporary, oversized and duplicate files

AVG Cleaner for Mac	Frees up disk space through the discovery of cached, temporary and duplicate files
AVG Memory & Cache Cleaner for Android	Frees up disk space through the discovery of cached, and temporary files, as well as history, and call / SMS logs
AVG Uninstaller for Android	Reduces battery usage and frees up storage space by ranking apps on the device by frequency of use, percentage of total battery consumption, and WiFi/3G data used, and storage space consumed
AVG PrivacyFix	Provides easy access to privacy controls on Facebook, Google, and LinkedIn and explains the importance of each
	Allows control over WiFi settings to prevent unauthorized tracking on mobile devices
AVG Image Shrink and Share for Android	Saves bandwidth by compressing images before they are transmitted from the phone
AVG AlarmClock for Android	Allows setting of wake up notifications on Android, with multiple options for dismissing and snoozing the alarm, as well as several options for sounds
AVG StopWatch for Android	Allows use of the phone as a stopwatch

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Products

AVG Volume Manager for Android

AndroZip File Manager Free / Pro (Android)

Andro Task Manager Free / Pro (Android)

Do Not Track

Functionalities

Allows control of all volume settings on the phone and of audio alerts

Provides ability to compress files on android devices, and gives a file system navigator for the phone

Provides ability to kill running tasks on an Android phone

Provides information on ad networks, social buttons and web analytics services that may track the user

Enables user to block online tracking

Incorporates both passive and active protection

We offer consumers four security suites, one of which provides free basic protection for Internet surfing, searching and social networking. Paid suites provide more extensive protection and other additional features:

		Anti-Virus			
		Free Edition	Anti-Virus	Internet Security	Premium Security
Consumer suites	Description	2014	2014	2014	2014
<i>Core Protection</i>					
Anti-Virus, Anti-Spyware, Anti-Rootkit	Prevents infection and spread of viruses, worms, Trojan horses, spyware and malware				
Social Networking Protection	Automatically checks links exchanged on social networks for threats				
LinkScanner	Instantaneous, real-time scanning of web pages visited for threats				
<i>Chatting and Downloading</i>					
Shield for safe chatting	Protects against infections when exchanging files using chat services				

Online Shield for safe
downloading

Checks for viruses when downloading,
sharing or exchanging files

Support

Expert technical support

24 hour/day technical support is offered
through telephone, chat and FAQ

Receive priority updates

Automatically receives more frequent
updates for latest threats

Shopping and Banking

Identity Protection

Protects personal information

Firewall

Keeps hackers out of the network

Anti-Spam

Blocks spam and scam emails

Network Safety

Intrusion Detection

Protects from remote attacks when connected
to networks

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		Anti-Virus			
		Free Edition	Anti-Virus	Internet Security	Premium Security
Consumer suites	Description	2014	2014	2014	2014
<i>Performance</i>					
System Tools	Allows management of start-up applications, PC monitoring and Internet browser plug-ins				
Quick Tune	Optimizes PC performance				
Identity Alert	Protects from identity theft and surveillance misuse				
<i>Privacy</i>					
File Shredder	Securely deletes files from disk to prevent recovery				
Data Safe	Encrypts and password protects private files				

Business solutions

AVG CloudCare. Our SMB security platform is called AVG CloudCare. AVG CloudCare simplifies IT management by allowing cloud services and devices to be remotely managed from any web browser or Android and iOS mobile device applications. IT providers can manage multiple customers from a single cloud dashboard, activate services with a single click, generate a variety of reports, view real-time alerts to problems, and drag and drop documents to easily create new centralized policies.

AVG CloudCare Products include:

Products	Functionalities
AVG Remote IT	Reduces the need for on-site visits with built in Remote Access providing one click connection to the device
AVG Anti-Virus	Provides multilayer protection which detects, blocks, and removes viruses and malware from PCs and Servers
AVG Content Filtering	Helps customers increase productivity with flexible, real-time content filtering that limits access to a choice of over 60 categories representing millions of sites; policy driven options include time scheduling, whitelist, local admin and detailed reporting history
AVG Online Backup	Protects customer data against hardware failure, loss and theft using highly secure, fully encrypted services that offer both cloud and local server backup options
AVG Email Security	

Helps customers enjoy a more secure and productive email service with
cloud-hosted anti-spam, archiving, continuity and encryption services

An integrated SaaS billing program provides customer flexibility with options for pay-as-you-go monthly billing and pre-paid yearly subscriptions.

AVG Managed Workplace. Our SMB cloud-based remote monitoring and IT management platform is called AVG Managed Workplace. AVG Managed Workplace allows our IT partners to view and access their customers' entire network environment, including computers, security systems, telecommunications equipment, printing and imaging assets, cloud services, mobile devices and more.

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AVG Managed Workplace has the following key functionalities:

Products	Functionalities
Automation on Demand	Allows user to assign tasks to any devices or groups and run any executable process on a schedule or by alert based on the customer's library or AVG's extensive automation library
Monitoring & Alerting	Allows deep fully automated monitoring and alerting of health, availability and performance of infrastructure and services to streamline operations
Remote Control & Remote Tools	Uses lightning-fast connections to any Windows or network device and extensive remote management tools to fix problems without opening ports or firewalls
Mobile Device Management	Monitors and manages all major smartphones and tablets to solve security, configuration and end-of-life concerns for clients
Network Audits	Identifies pain points and security gaps for prospects and clients with fully automated built-in Network Audits
Asset Management	Provides accurate, detailed and automatic discovery and monitoring of all network devices and applications with persistent state management
Managed Print Services	Allows customers to discover, monitor and remotely manage network printers and imaging devices, including detailed supplies and page count data to drive any managed print offering
Network Operating Center (NOC) and Help Desk Services	Provides integrated white label NOC and Help Desk services to let Managed Services Providers seamlessly extend service offerings and add scalability

Customer support

Customer support forms an integral part of our solution offering and is a key driver of customer satisfaction and loyalty.

Our users have access to agent support channels as well as online resources, including documentation, FAQs, video tutorials and the user community in the free AVG user forum. In addition, our Facebook page and Twitter feed, with over 2.4 million Facebook fans and over 159,000 Twitter followers as of December 2013, have become support forums for both free and subscription users, as well as alternative ways to disseminate important threat information to our user base.

In addition to these resources, for some issues our users are able to access expert technical support free of charge via toll-free phone numbers in the United States and United Kingdom, which operates 24 hours a day.

We include expert technical support for all of our paid subscribers as part of the product suite subscription fee. We offer support to our subscription users with a broad range of pre-sales and post-sales services through the Internet, telephone, chat, email and remote connection for more complex cases and in a variety of languages. We have thirteen call centers, one in the Czech Republic, four in the Philippines, two in India, and one each in Australia, Canada, France, Poland, the United Kingdom and the United States. The call centers in the Philippines, India, Australia, Canada and Poland are outsourced. We operate the remaining call centers. As of December 31, 2013, we had 66

employees and 371 contractors in our own and outsourced call centers. All services operated directly by AVG or by our outsourcing partners are available 24 hours a day.

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Technology

Our technology platform is designed to create simple and secure Internet experiences for our user base. We design our software to be modular, allowing us to integrate new technologies quickly into our product suites and minimize the additional use of system resources as we add new functionalities. We also design our software architecture specifically for consumers and small businesses, which we believe provides a superior foundation for developing solutions for our customers than does architecture designed for larger enterprises. See Item 5. Operating and Financial Review and Prospects C. Research and Development, Patents and Licenses, Etc.

Security technology

Our security products utilize multiple protection layer architecture where each layer provides additional protection. We believe that by adding layers we strengthen our solutions' capabilities to protect users. Depending on the product and license type, we enable additional security layers for the benefit of the user, so not all of our security layers are available in all our products. For example, the free version, of our product has fewer protection layers than the paid version.

The protection layers we offer include:

Protection against known malicious computer programs. This layer of protection scans for malicious computer programs previously identified by the AVG security lab.

Protection against known malicious computer program families (heuristic analysis). This layer of protection identifies malicious computer programs based on common attributes associated with a known family of malicious programs.

Protection against unknown malicious computer programs (behavior analysis). This layer of protection identifies malicious computer programs based on what they do, even if the AVG security lab has not seen such programs before.

Protection against web exploits. This layer of protection identifies web exploits by searching for known exploit codes previously seen on web pages and common attributes associated with known exploit families.

Protection against known malicious or phishing web address. This layer of protection identifies web addresses that are known to serve malicious code or to use phishing attacks.

Protection against network attacks. This layer of protection inspects incoming and outgoing network communication to identify computer programs connecting to remote servers or remote connections asking to connect to the computer.

The above protection layers are offered to our users via multiple components in our products, such as Anti-virus, Anti-spyware, Anti-Rootkit, Online Shield, LinkScanner, email protection, Anti-spam, Identity protection, firewall,

IM and P2P protection.

Non-security technology

We have a systems infrastructure that is built and proven to scale to a massive user base. This infrastructure enables product downloads, product updates that are distributed multiple times per day, and the collection of threat data from user machines to assist us in continually tuning our threat protection algorithms and heuristics as well as improving our products' quality.

SMB technology

By coupling powerful security, IT management and automation features with the ability to collect, collate and provide alerts regarding the information needed to quickly identify and address issues across the customer network, together AVG CloudCare and AVG Managed Workplace provide end-to-end visibility into all network connected devices, applications and technologies impacting the end user experience.

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AVG CloudCare is an advanced cloud-based platform designed for IT partners to remotely deploy, manage, monitor, remediate and report on various security and IT management services such AntiVirus, Online Backup, Content filtering, Remote Access and Email Security Services.

AVG Managed Workplace is also a cloud-based IT service platform designed for IT partners to remotely monitor and manage any type of physical or virtual networked device. Managed Workplace s employs multiple network discovery protocols, providing network visibility and unified management of the IT infrastructure for network devices, printers, servers, workstations, mobile devices, applications, networks and cloud, while also providing ease of use, security and control.

Marketing and sales

Brand

We continue to develop our brand, marketing messages and visual identification in order to provide a coherent and unified user experience that supports our future growth.

Online marketing optimization group

Our web lab manages our online customer acquisition and retention and active user base monetization activities. It is a core part of our overall distribution and marketing strategies. The web lab focuses on converting visitors to our websites to become either free or subscription users and it then works to maximize the lifetime value of these customers. It also drives some traffic to our websites through a range of activities including paid search and search engine optimization. Specifically, the web lab optimizes the effectiveness of our web marketing through initiatives that include: evaluating customer behavior; testing and optimizing website configurations, pricing and merchandizing to maximize conversion rates and order values; monetizing our free and paid user bases through targeted up-sell and cross-sell campaigns; monitoring the competitive landscape in order to maintain competitiveness and product differentiation; and helping to drive brand awareness and product visibility in our key markets. Given our focus on increasing web traffic and revenue, we expect our web lab to become an area of increasing importance in the future.

Other channel marketing

In addition to our web lab activities, our marketing operations are supported by a dedicated general marketing team as well as a social media team. Our general marketing team focuses on developing and sustaining a strategic, appealing and differentiated positioning for our solutions through driving brand awareness and product visibility in our key markets. Key activities of our general marketing team include branding, customer insights, social media, segment and product marketing activities and channel marketing.

Sales

We sell most of our products either directly through our website (84.5% of revenue including search agreements in 2013) or indirectly through resellers and distributors (15.5% of revenue in 2013). The majority of our SMB sales are undertaken through resellers and distributors and we expect this trend to continue. We also sell products through other direct and indirect distribution channels such as software development kit, or SDK, arrangements with other software developers.

In the United States and Canada, we sell boxed AVG software through our distribution network to retail stores such as Wal-Mart, Best Buy, Office Depot, Office Max and Staples. We believe that our retail presence helps generate brand

awareness for our solutions as well as revenue.

In addition to direct sales and sales through resellers and distributors, we sell to software developers through SDK arrangements, under which we provide the security component for software produced by those developers.

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Platform revenue

Search contracts

In September 2010, we signed a contract with Google for search and advertising services, through which we generate revenue whenever our users use our browser toolbar which may be installed along with some of our products and which carries out searches through the Google search engine.

In November 2012, we renewed our search agreement with Google on a non-exclusive basis for a two-year term, which at the end of the first year could have been terminated by either party on 60-days notice, but neither party exercised this option. We then signed a search agreement with Yahoo! in December 2012, and have subsequently signed search agreements with Seznam and Yandex, which diversified our revenue.

At the end of 2011, we began distributing our secure search solution through third parties. This business, which involves distributing our stand-alone secure search solution in the download and installation process for other company's products, was negatively impacted by the Google guideline changes of February 2013, which subsequently led to our decision to make a controlled exit from the third party search distribution business. The Google guideline changes, primarily the requirement for a customer to opt in to accept the AVG secure search solution, have also impacted our organic base and we expect that revenue stream to decline in 2014.

Platform diversification

We have sought to deliver additional value from our active user base by indirect monetization or receiving payments from third parties for activities undertaken by our user base but for which the user does not pay directly. As we seek to develop this revenue stream we are looking at additional ways to monetize outside of the search business.

Mobile revenues

We are seeking to expand outside of the PC market and to monetize the growing mobile market. Our focus to date has been to acquire mobile users and we are now seeking to continue to attract users and then monetize. With a number of our new products most specifically AVG Zen to be launched in early 2014 where we are seeking to connect both PC and mobile devices across platforms and drive user growth, retention and revenue growth.

Acquisitions

Technology acquisitions

We have also added functionality to our product offering through strategic acquisitions and integration of complementary technologies. We intend to continue expanding and developing our products through targeted acquisitions.

Our key technology acquisitions since January 2011 include:

DroidSecurity. In January 2011, we acquired DroidSecurity, an Israel-based developer of cloud-based mobile security solutions.

iMedix. In May 2011, we acquired iMedix Web Technologies, an Israel-based developer of a platform for the creation, management and monitoring of toolbar applications.

TuneUp. In August 2011, we acquired TuneUp, a Germany-based developer of intelligent software tools that enable users to get optimal use of their operating systems and programs.

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Bsecure. In November 2011, we acquired substantially all of the assets of Bsecure Solutions, a provider based in the United States of application service offerings featuring Internet filtering and/or cloud-based management of information technology solutions.

Scene. In November 2011, we also acquired a non-controlling minority stake in Scene, a technology company based in the United States that provides network performance solutions complementary to AVG's performance optimization offerings. In addition, we executed a commercial agreement with Scene pursuant to which Scene will exclusively promote our products in certain product categories. Our acquisition agreement provided Scene with an option to repurchase our non-controlling minority stake, which was exercised during 2013.

OpenInstall. In January 2012, we acquired OpenInstall, Inc., a technology company based in the United States that provides a cloud-based software installation platform that allows for more efficient distribution of software products, provides related analytics and is complementary to AVG's secure search, performance optimization and other software offerings.

In addition, we entered into employment agreements with certain employees who were former shareholders of OpenInstall.

Crossloop. In July 2012, we acquired the assets of Crossloop, Inc., a Delaware corporation engaged in the business of offering software applications for desktop sharing and connecting computer users with service providers.

Angle Labs. In January 2013, we acquired substantially all of the assets and liabilities of Angle Labs, a mobile application developer based in the United States. This was a technology acquisition focused on indirect mobile monetization which also brought two million users.

Privacy Choice. In May 2013, we acquired certain assets and liabilities of PrivacyChoice, a technology company based in the United States that has developed and provides privacy-related online services used by consumers and businesses. This acquisition was intended to complement our current product portfolio with a privacy application and allow us to retain the team that designed it, as we view data privacy for consumers and SMBs as an important future market.

LPI Level Platforms. In June 2013 we acquired the business of LPI Level Platforms, a remote monitoring and management software company based in Canada. This acquisition was a technology and sales distribution acquisition designed to increase our penetration in the SMB market as well as provide access to this businesses.

ASR Technologies AB. In September 2013, we acquired certain assets related to a file management technology, primarily focused on mobile, from Swedish company ASR Technologies AB, Alma Orucevic-Alagic and Amir Alagic (collectively "ASR").

Marketing and sales acquisitions

We plan to add additional channels and sales capabilities through strategic acquisitions, and, as part of our expansion strategy, expect to focus on acquiring distributors in our most active and profitable markets.

Our sales and marketing acquisitions since 2011 include:

AVG Distribution Switzerland AG. In October 2011, we acquired AVG Distribution Switzerland AG, or AVG DACH, one of our resellers in Germany, Austria and Switzerland, based in Switzerland.

Avalanche. In October 2012, we acquired certain assets and liabilities and the on-going distribution activities for AVG products in the Australian and Pacific region from AVG (AU/NZ) PTY LTD, Avalanche Technology Group Pty Ltd and Coreen Investments Pty Ltd, or collectively, Avalanche

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Government legislation and regulation

Background

The laws and regulations applicable to us, in particular laws relating to doing business on the Internet, consumer protection and information and communication technology, or ICT, are evolving rapidly. In some cases, it is not possible to ascertain with certainty how existing laws will apply in the online context, where laws have not kept pace with technological change and do not contemplate or adequately address certain unique issues raised by the Internet and ICT (e.g., laws relating to intellectual property, sales and other taxes, and data protection and privacy).

To date, we have earned a majority of our revenue in Europe and the United States. However, our revenue in jurisdictions outside of Europe and the United States, both in an aggregate amount and as a percentage of our overall revenue, may grow in the future. Each jurisdiction has unique regulatory bodies and levels of oversight. While over time there may be a convergence in certain regulatory areas relevant to our business, we anticipate that individual jurisdictions will still continue to exercise substantial independent influence over laws and regulations affecting our industries. The summary set forth below, while focusing on the European Union and the United States, is not intended to imply that regulation outside of these areas is not important to our business. Rather, we have found the issues that we present here to be generally applicable across jurisdictions, although the precise terminology and manner in which they are addressed may differ from jurisdiction to jurisdiction. We have an overall international compliance program established to achieve a high level of compliance with the regulations of the individual jurisdictions in which we have operations as well as the broader international regulatory framework.

EU regulatory environment

Applicable law

We are subject to specific laws and regulations with respect to the processing of personal data and information, including user, customer, contractor, partner, supplier data and employee data, in many jurisdictions in which we operate. Data protection laws within the European Union is principally derived from Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and information and on the free movement of such data (hereinafter referred to as the EU Data Protection Directive). We are subject to certain national data protection legislation in certain member states of the European Union, which implement the EU Data Protection Directive. We are a data controller in relation to most personal data collected and processed by us. We do not generally process any sensitive personal data.

Key legal obligations

The principles under applicable data protection laws in the European Union require us to ensure, among other things, the following:

Lawfulness. This requires, for example, that we must not process data in breach of any other law and we must satisfy certain fair processing conditions in order to process personal data.

Fairness. This requires, for example, that we provide users with a fair processing notice so that we are transparent about the purposes for which data is processed.

Notification. We are required to register/notify as a data controller, if processing personal data in the context of an establishment in a member state.

Proportionality. This requires, for example, that we must ensure that user data is only processed if and to the extent such processing is proportional in relation to the purposes of providing services to users.

Data quality/accuracy. This requires, for example, that we ensure that inaccurate data is corrected.

Data retention. This requires, for example, that we only retain data for so long as is necessary, whether to comply with applicable laws or to provide services to the user.

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Data security. This requires, for example, that we implement appropriate technical and organizational measures to guard against unauthorized or unlawful processing of personal data and against loss or destruction of, or damage to, personal data.

Data transfers. This requires, for example, that we do not transfer data outside the European Economic Area to jurisdictions which do not ensure an adequate level of protection of personal data, without taking certain steps e.g., implementation of model contractual clauses, obtaining data subject consent or carrying out an adequacy assessment).

Data subject rights. This requires, for example, that we respond to subject access requests from data subjects, to provide information about the nature and scope of processing undertaken.

A summary of the steps taken by us to ensure compliance with the above requirements are set out below, together with further details of personal data and online commerce laws and regulations in the European Union:

EU Data Protection Regulatory Framework. The European Commission originally published proposals to revise the European data protection regulatory framework on January 25, 2012 and has received to a large number of proposed amendments through the legislative process. Under the latest proposals, the EU Data Protection Directive (Directive 95/46/EC) would be replaced with a general data protection Regulation (together with a Directive which sets out rules on protecting personal data processed to prevent, investigate or prosecute criminal offences and related matters). Debate continues on this proposed regulation with no clarity at this time of the implementation timetable. We believe it is unlikely to become law before mid to late 2016 at the earliest. The Regulation would replace the current data protection authority notification requirements with an obligation to conduct a data protection impact assessment for risky processing operations, and includes stronger requirements for consent and data breach notification and restrictions on the collection and use of sensitive personal data, as well as stricter enforcement (including, in some circumstances, the power to impose fines of up to 5% of annual worldwide turnover). It also introduces the concepts of privacy by design and a strengthened right to erasure of data. The Regulation will be directly applicable across the EU, harmonizing data protection laws and regulations among EU member states. However, the Regulation's more stringent requirements on privacy user notifications and profiling, for example, might present implementation and compliance challenges in the online and information technology fields. The Regulation does not replace the e-Privacy Directive (2002/58/EC - amended 2009/136/EC), discussed below.

2009 EU e-Privacy Directive. In addition to the EU Data Protection Directive, Directive 2002/58/EC concerning the processing of personal data and the protection of privacy in the electronic communications sector (as amended in 2009 Directive 2009/136/EC), or the e-Privacy Directive, obliges member states to introduce certain national laws regulating privacy in the electronic communications sector. Pursuant to the requirements of the e-Privacy Directive, companies must, among other things, obtain consent to store information or access information already stored, on a user's terminal equipment (e.g., computer or mobile device). These requirements predominantly regulate the use by website owners and application providers of cookies and similar technologies. Prior to providing such consent, users must receive clear and comprehensive information in accordance with the EU Data Protection Directive about the access and storage of information. Certain exemptions to these requirements on which we rely are available for

technical storage or access for the sole purpose of carrying out the transmission of a communication over an electronic communications network or as strictly necessary to provide a service explicitly requested by the user. Our privacy policy and fair processing notices inform users about our practices, and we routinely monitor our compliance with this legislative and regulatory framework.

Mobile apps and smart devices. The EU Article 29 Data Protection Working Party published an opinion on March 15, 2013 that provides key recommendations for mobile app developers, app owners, app stores, device and Operating System manufacturers and other parties on how to comply with the EU Data Protection Directive and the e-Privacy Directive. The key recommendations from this opinion

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are that in most cases, data controllers will have to rely on individuals' consent as a legal basis for the processing of their personal data, and that consent needs to be obtained before the app starts to retrieve or place information. In addition, individuals must have the opportunity, when uninstalling apps, to have their personal data deleted where possible. See mobile privacy below for details of our response to these emerging requirements.

EU Consumer Rights Directive. The EU Consumer Rights Directive, which requires EU member states to adopt laws, regulations and administrative provisions necessary to comply with this directive, will be effective in June 2014 and requires us to make it clear to online consumers of our subscription products if we are selling an automatic renewal subscription service and obtain the consumer's express consent to automatic renewal (rather than getting consent via pre-populated tick boxes). If we do not obtain the online consumer's express consent in advance, the consumer will be entitled to reimbursement of any automatic renewal subscription fees paid. This directive also regulates many other aspects of online commerce, such as provision of information to consumers and refund requirements, which regulation could also result in requirements to modify certain of our business practices.

EU Cyber-security Strategy. In February 2013 the European Commission launched a cyber-security strategy for the European Union. This strategy aims to increase preparedness for security incidents such as hacking or technical failures. The most important part of the strategy is a proposed draft Directive on Network and Information Security (the draft Directive). The draft Directive introduces an obligation for operators of critical network infrastructure (such as infrastructure used for banking, transportation, energy, online payments and e-commerce), providers of information society services (e.g. Internet service providers, search engines, cloud computing providers) and public administrations to implement appropriate security measures and to report security incidents which have a significant impact on the security of core services to a competent authority, which may in turn require notification of members of the public. The requirement to report incidents could require us to disclose information which is commercially sensitive to the competent authorities.

U.S. regulatory environment

Applicable law

Although the United States does not have a comprehensive federal data protection law, every business in the United States is subject to privacy laws at the federal and/or state level. These privacy laws and other privacy requirements are actively enforced by federal and state authorities, and are also enforced via class action lawsuits and privacy-related litigation.

The first challenge that any business faces in the United States is to identify the privacy laws that apply to its business operations. There are a multitude of federal and state privacy laws. Some privacy laws focus on particular industries, such as: (i) healthcare privacy rules under the Health Insurance Portability and Accountability Act and comparable state laws; (ii) financial services privacy rules under the Gramm-Leach-Bliley Act and comparable state laws; and (iii) telecommunications privacy rules for customer proprietary network information under the Telecommunications Act of 1996.

Some privacy laws focus on particular activities, such as: (i) the Fair Credit Reporting Act that applies to companies that gather and share certain data about consumers for credit and other specified purposes; (ii) the Children's Online Privacy Protection Act that applies to companies that engage in online collections of personal information about

children under 13; and (iii) the Electronic Communications Privacy Act and comparable state laws that generally apply to, among other activities, the interception of wire, oral, or electronic communications, and access to certain stored communications.

Some privacy laws focus on particular data types, such as certain laws in California and Massachusetts, and a large number of other states have data security and breach notification requirements that apply to Social Security Numbers, bank account numbers, credit card numbers, health information, and a broad range of other sensitive data fields.

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In the U.S., 2013 was defined by high-profile data breaches at retailers Target and Neiman Marcus, which prompted enforcement agencies and law makers to take action. Numerous state attorneys general are currently investigating the issue. Meanwhile, both houses of Congress continue to propose privacy and cybersecurity-related legislation.

Key legal obligations

A summary of the steps taken by us to ensure compliance with the above requirements are set out below, together with further details of personal information and online commerce laws and regulations in the United States:

Federal Trade Commission: The U.S. Federal Trade Commission, or FTC, has continued to exercise authority over privacy protections generally, using its existing authority over unfair and deceptive practices and other public proceedings to apply greater restrictions on the collection and use of personally identifiable and other information relating to consumers.

The FTC issued guidelines in 2012 entitled *Protecting consumer privacy in an era of rapid change* recommendations for business and policymakers which set forth best practices for businesses to protect the privacy of American consumers and give them greater control over the collection and use of their personal data.

In 2013, the FTC entered into consent agreements with CBR Systems, TRENDnet and Compete Inc., after finding that those companies had failed to employ adequate security measures for the protection of personal information. The FTC also initiated an enforcement action, *FTC v. Wyndham Hotels*, alleging that the hotel chain failed to take reasonable and appropriate measures to secure its customers' personal information in violation of the FTC Act's prohibition against unfair business practices. Also, in January 2014, the FTC announced settlements with twelve companies for falsely claiming compliance with U.S.-EU safe harbor, which allows U.S. companies to obtain personal data regarding EU citizens as long as the companies certify their adherence to certain privacy standards. We operate with technical and organizational security measures to comply with ISO27001 controls in order to mitigate risks associated with appropriate management of certain personal information.

Mobile privacy. Early in 2012 The White House proposed a blueprint for a *Consumer Privacy Bill of Rights* which could lead to legislation or voluntary industry standards that would require the adoption of additional security measures or prevent retention or use of certain data. This proposal has yet to make substantive progress and no legislation has been enacted up as of March 2014.

From this blueprint, in July 2013 the National Telecommunications & Information Agency (NTIA) developed and issued a draft *Code of Conduct* which provides advice as to good practices for the development of a short form privacy notice for mobile devices.

In February 2014, the FTC hosted a Mobile Device Tracking Workshop, which follows the previous year's guidance relating to mobile app development suggesting regulation in this area is increasingly likely. This guidance from the FTC, in tandem with advice from other agencies, specifically seeks to impose rules on app developers including requirements to improve the transparency for the user through use of privacy short form and enhanced notices.

We are developing a short form privacy notice and have carried out consumer testing. We expect to complete the notice during the summer of 2014.

California State Attorney General. California continues to be the state with the most prolific approach to privacy legislation, with two of three bills enacted in 2013 becoming effective as of 2014, including *Do Not Track* and *Breach notification*. The children's right to be forgotten bill, also enacted in 2013, is set to become effective in 2015. We

actively monitor the legislation emerging from each state's Attorney General's Office to ensure compliance.

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Our data protection compliance program

We have implemented certain policies and procedures to address data protection and privacy matters and ensure compliance across the business. We maintain an online privacy policy, which describes, among other things, the categories of data collected, the purposes for which data are collected and how to access and rectify personal data and information held by us. Users can contact us with requests related to that data by dedicated email or online/by voice via our Customer Services department. As part of our purchase and installation process, we notify users about how user data is handled by providing such users with our privacy policy and fair processing notices, which provide information about our data privacy policies. To further enhance our ability to comply with the various data privacy laws and regulations, we regularly review our policies and we provide education and training to our employees. In addition we have implemented information security policies, procedures and training for our employees (and have a privacy director on our staff). We have established a staff portal with access to privacy materials and training. We provide all staff training on privacy and data protection. We have also established a privacy committee composed of members of senior management and employees from functions across the Company, including research and development, product management, investor relations, marketing and sales, legal and security, which provides an information, discussion and awareness platform to help us stay abreast of the trends and developments in the data privacy area. This committee helps govern our privacy program and facilitates communication and compliance on data privacy issues throughout our Company as part of oversight of the compliance program.

Legal proceedings and regulatory matters

Previously, we filed voluntary self-disclosures with OFAC and the BIS, in connection with the inadvertent sale or provision of licenses for use of our software products to a small number of users (relative to our active and subscription user bases) in Cuba, Iran, North Korea, Sudan and Syria. over a period of five years before our initial public offering. We implemented a remediation plan that included terminating access to licenses and blocking updates and upgrades of our products to all users with a geographic Internet protocol (GEOIP) address in Cuba, Iran, North Korea, Sudan or Syria. The matters were closed without the imposition of any fines or penalties on us. In December 2011, we received a cautionary letter from OFAC and in September 2013, we received a warning letter from BIS.

For additional information regarding legal proceedings, see “Litigation contingencies” described in note 19 to our consolidated financial statements included in this Annual Report.

In addition, we are from time to time subject to certain claims and party to certain legal proceedings incidental to the normal course of our business. In view of the inherent difficulty of predicting the outcome of legal matters, we cannot state with confidence what the eventual outcome of these pending matters will be, what the timing of the ultimate resolution of these matters will be or what the eventual loss, fines or penalties related to each pending matter may be. We believe that we have made adequate reserves related to the costs anticipated to be incurred in connection with these various claims and legal proceedings and believe that liabilities related to such claims and proceedings should not have, in the aggregate, a material adverse effect on our business, financial condition or results of operations.

Competition

We face significant competition in all aspects of our business. The market for consumer and small business software is fragmented and highly competitive. Barriers to entry are low, so to be effective our solutions will have to provide functionality and quality at a compelling cost relative to our competitors, among other elements. The market for consumer and small business security and associated software solutions is rapidly evolving.

Our main competitors fall into the following categories:

vendors with freemium pricing like our own, such as Avast!, Avira, PC Tools (which was acquired by Symantec), Carbonite and Dropbox;

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traditional vendors such as Intel Security (formerly McAfee, which was acquired by Intel Corporation), Symantec and Trend Micro (which primarily provide software solutions, including security software, for large enterprises) and Eset, Kaspersky Labs, Panda Software, Sophos, Rising, Kingsoft, Check Point and F-Secure (which offer more customized and segment-focused products);

vendors offering PC optimization products, such as UniBlue;

secure search toolbar providers;

SMB SaaS players such as Kaseya and Solarwinds;

vendors offering applications specifically addressing mobile users, particularly in the area of security, such as Lookout Inc.;

large corporations offering a wide variety of products, only a few of which compete with ours, such as Microsoft, Google, which introduced free security software solutions, Apple, which offers cloud-based data protection, Qihoo, Tencent and Facebook.

We believe the principal competitive factors in our markets can be categorized as set forth below:

product ease of use;

size and ease of installation;

new features and functionality;

product interoperability and reliability;

integration with third-party applications or web user interfaces;

pace of innovation and product roadmap;

extent of active user base;

user trust and overall community engagement;

brand awareness;

price of products and online services;

ability to develop and sustain partner relationships ;

strength of customer service organization;

customer support and training;

ability to scale operations; and

size and financial stability of operations.

C. ORGANIZATIONAL STRUCTURE

A list of our subsidiaries, including name, country of incorporation or residence and breakdown of ownership interest and voting power is provided in Item 19. Exhibits Exhibit 8.1. , which is incorporated herein by reference.

D. PROPERTY, PLANT AND EQUIPMENT

Our principal registered office is located in Amsterdam, the Netherlands. We lease office space for our offices in Amsterdam and for our regional facilities, in Brno and Prague, in the Czech Republic; in San Francisco, California, Fort Walton Beach, Florida, Roswell, Georgia, and Newton, North Carolina, in the United States; Beijing in China; Nicosia in Cyprus; Anglet in France; Tel Aviv in Israel; Ottawa, in Canada; Baar in Switzerland; Melbourne in Australia; and Lincoln in the United Kingdom. Our leases expire at various times during the current and coming years. In 2014, we expect to terminate our lease on our office in Nicosia.

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We believe that our current facilities are suitable and adequate to meet our current needs and that suitable additional or substitute space will be available as needed to accommodate expansion of our operations. In addition to the leasehold improvements, office, furniture and equipment at the above office locations, the balance of our property and equipment comprises computer equipment and vehicles.

Due to organizational reorganizations, we ceased using our leased office spaces in Darmstadt and Munich in Germany. The lease term of these office spaces will end in 2022 and 2014, respectively. The leased office space in Darmstadt is partially sublet.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**A. OPERATING RESULTS****Revenue generation**

We generate revenue principally by selling our premium products to consumers and by monetizing our active user base through online services, as described in detail under Item 4. Information on the Company B. Business Overview.

The sources of our revenue are geographically diversified. In 2013, the Americas represented 55.6% of our total revenue, compared to 56.9% in 2012 and 60.0% in 2011. In 2013, Europe, Middle East and Africa (EMEA) represented 37.8% of our total revenue, compared to 37.7% in 2012 and 34.9% in 2011. The balance of our total revenue was attributable to other geographic regions.

The following table summarizes the growth in our subscription revenue and our platform-derived revenue for the years ended December 31, 2011, 2012 and 2013:

	Year ended December 31,		
	2011	2012	2013
	(in thousands of U.S. dollars, except for percentages)		
Revenue by type:			
Subscription revenue	\$ 175,654	\$ 196,858	\$ 250,839
Platform-derived revenue	\$ 96,738	\$ 159,108	\$ 156,274
Total revenue	\$ 272,392	\$ 355,966	\$ 407,113
Percentage of total revenue by type:			
Subscription revenue	64.5%	55.3%	61.6%
Platform-derived revenue	35.5%	44.7%	38.4%
Total revenue	100.0%	100.0%	100.0%

Subscription revenue

The primary component of our subscription revenue is derived from the sale of premium products and online services. Payments are made upfront for the ability to access our premium products or online services, usually for a term of one

or two years. These solutions include end market products offerings in security, PC performance optimization and online services, among others. Our premium products and solutions include additional features as well as maintenance and support services (including the right to receive unspecified future upgrades/enhancements of our products, when and if available) during the fixed term of the license. Subscription revenue is generated from the sale of fixed-term software license arrangements, which are generally sold and downloaded over the Internet or sold as packaged products through multi-tiered distribution channels. This

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subscription revenue is recognized ratably over the term of the related license agreement. Due to the upfront nature of the cash payments for these products, the majority of this subscription revenue is released from deferred revenue on the balance sheet.

To a lesser extent, the Company also sells perpetual software licenses. The perpetual license agreements include free maintenance and support services (which include the right to bug fixes, but exclude the right to receive unspecified upgrades/enhancements of the Company's product on a when-and-if-available basis), for which vendor-specific objective evidence of the fair value of undelivered elements does not exist. The Company recognizes all revenue from perpetual license agreements ratably over the expected term for providing maintenance and support services.

We also sell through our reseller network. The sales through our reseller network are undertaken by intermediaries and we offer these intermediaries a discount on our products. As a result, we receive less revenue per customer from sales through our reseller network than we do through our online channel. We largely recognize revenue for products sold through our reseller network on a sell-through basis, and to a lesser extent, upon order based on the intermediaries right of return.

Growth in our subscription revenue will largely depend on our ability to sell premium versions of our software products to new users as well as our ability to sell new and additional solutions and upgrades to our existing users. This growth will also depend on our continued ability to develop new solutions for our customers.

Platform-derived revenue

To date, our platform-derived revenue consists primarily of revenue generated via our dynamic secure search solution and to a lesser extent, revenue shares from third-party advertisers and the sale of threat analysis data. While the searches conducted by users via our dynamic secure search solution are free to our users, we receive a proportion of the revenue generated by search providers from our users' search activity. This platform-derived revenue is recognized at the time the service is provided.

We have used our dynamic secure search solution to generate revenue through our search agreements with multiple providers, the most significant of which are Google and Yahoo!. In exchange for directing our active users' search queries to search providers, we earn a percentage of the search revenue generated by such search providers. Our platform segment has historically been predominantly dependent on revenue generated by a single search results provider. However, during 2013 we successfully implemented our strategy to diversify and de-risk our platform-derived revenue stream. In the first quarter of 2013 we recommenced distribution of a Yahoo! powered secure search solution, also following the change in Google's guidelines for search distribution that came into effect on February 1 2013 requiring search users to opt-in to receiving our secure search solution. Revenue derived from Google represented 28% of our revenue in 2013, compared to 44% in 2012. Our revenue generated by Yahoo! accounted for 9% of our revenue in 2013 compared to none in 2012.

During 2013 we announced a partnership with Yandex to distribute a secure search solution powered by their search results. Yandex is Russia's most popular search engine, making it one of only a few examples where a local player is dominating the domestic search market. Yandex also operates in Turkey, where it launched a search engine and a range of other web-based services in 2011, as well as in Ukraine, Kazakhstan and Belarus. This supplemented the agreements concluded during 2012 with Google, Yahoo! and Seznam. Our two-year non-exclusive search contract with Google became effective on December 1, 2012. The agreement included an option at the end of the first year, allowing either party to terminate for convenience upon 60 days' notice which was not invoked. Our agreement with Yahoo! is a three-year non-exclusive search partnership and software distribution contract effective from January 1, 2013. Our diversification strategy applies at a user level whereby for example, a user will either have his or her

searches directed to Yahoo! exclusively or Google exclusively. Where we send traffic is based on customer lifetime value which is influenced by not only revenue per search (itself influenced by the quality of the ad network we are using) but also by the acceptance of our search offering and the length of time a search user utilizes our secure search solution (influenced by type of offer, search experience and strong brand identification).

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We intend to continue to explore opportunities with search providers and search aggregators in order to further embed diversification within this revenue stream. In addition we continue to develop enhancements to our secure search solution, allowing us to prolong user lifetime. Growth in our platform-derived revenue will depend on our ability to effectively monetize and expand our user base through additional online services, greater user engagement and extending overall lifetimes of our products.

During 2013, we continued our monetization initiatives by offering services to users outside of our organic user base through partnerships whereby our secure search solution is included with third-party application downloads. However, in November 2013 we announced our decision to exit the third party search distribution business as a result of continued and increasing competitive pressure, combined with the manner of distribution and nature of potential partners' products often conflicting with our brand position. We expect to complete our exit from this business during 2014.

During 2013 we successfully began indirect monetization of our mobile user base through third-party advertising from which we collected a revenue share. Although mobile revenue was de minimis in 2013, as we continue to grow our mobile user base and optimize such advertising programs, we expect that this will represent an increasing share of our platform-derived revenue stream over time, though we expect that it will still represent a immaterial share of overall revenue in 2014.

Growth in our platform-derived revenue will depend on our ability to effectively monetize and expand our user base through additional online services, greater user engagement and extended overall lifetimes of our products. Our diversification strategy allowed us to successfully mitigate some of the impact of guideline changes from our search providers during 2013; however, we may not be able to mitigate certain unknown or unanticipated guideline changes (both at the search provider and browser level) in the future.

Key metrics

We monitor a number of metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions. We also provide certain other metrics that we believe may be helpful to investors in understanding the business.

Active, subscription, and stand-alone secure search users

We measure the number of active users as those that (i) have downloaded and installed our free software on a PC and have connected to our server at least twice, including at least once in the preceding 30-day period, (ii) represent a unique mobile device, which has installed one or more of our mobile applications, from which at least one application has contacted our server twice in the preceding 30-day period (with at least 24 hours between the first and second contact), (iii) have a valid subscription license for our software solutions or (iv) represent a unique device using our secure search solution that has made at least one secure search in the preceding 30-day period. Subscription users are active users who subscribe to our premium products and online services, the primary component of our subscription revenue. We include in the number of free users those with trial licenses and licenses distributed for promotional purposes. We believe that our methodology for counting our user base is more conservative than methodologies used by other software companies, some of which count users with less frequent interaction.

We believe that the number of active users is currently the most accurate depiction of our user engagement and that active users are the most likely users of the new products and cloud-based services we intend to offer in the future. The active user metric is calculated on a per device basis, so in some cases, a single user may use multiple devices, which may increase this number, while in other cases multiple people may use a single device, which may decrease

this number.

Our number of subscription users equals our number of eligible license sales multiplied by the numbers of devices protected per license. If the license is sold through our web-based channel, subscription users are counted

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at the time of purchase. If the license is sold through a retail channel, all subscription users under a license are counted the first time any installation under that license occurs. For example, if a user purchases a three-device license and protects only two devices, this would be counted as three users for our subscription user calculation. We seek to apply this method consistently as we exclude unlicensed or unauthorized devices of abusing users (those users who are protecting more devices than authorized under their license) from our user base calculations. We also exclude illegal users (those who use false or illicit license keys), even though we still incur costs to support these users and provide them with updates because we believe they form an important part of our viral marketing strategy. Subscription users are counted as such for the entirety of their valid license period, irrespective of their connectivity to our servers. They are converted to free users upon the expiration of the license, unless the license is renewed.

	For the year ended December 31,		
	2011	2012	2013
		(unaudited)	
Active users at period end (in millions)	108	146	177
Average active users ⁽¹⁾ (in millions)	103	127	161
Subscription users ⁽¹⁾ at period end (in millions)	15	15	16
Average subscription users	14	15	16

(1) In this Annual Report, unless otherwise indicated, active user and subscription user numbers have been rounded to the nearest million. Active users as of December 31, 2013, included approximately 68 million users of our mobile products.

In 2014 we expect to refine the definition of active users in relation to users of our mobile products such that it will represent a unique mobile device that has installed one or more of our mobile applications, from which at least one application has contacted our server once (rather than twice) in the preceding 30-day period. If this change had been implemented as of December 31, 2013 active user numbers at that date would have been 180 million instead of 177 million, of which users of our mobile products would have been 71 million instead of 68 million.

We recognize that potential flaws in our user metrics may exist and we will continue to assess opportunities to improve our methodology of calculating these metrics. We may choose in the future to further alter this calculation methodology beyond the change already planned for 2014 to reflect changing circumstances or additional information. In addition, the evolution of our product portfolio, both in 2014 and beyond, may necessitate revisions in our user count methodology that are not possible to quantify currently. With our product development activities seeking to connect both PC and mobile devices across platforms in the consumer market and the planned further expansion of our SMB SaaS offering, we may in the future further revise our user count methodologies. See Item 3. Key Information D. Risk Factors. Accurately measuring the number and retention of our active and subscription users is difficult.

Revenue per average active user

Revenue per average active user is defined as total revenue divided by the average number of active users in that period. We monitor revenue per average active user because we believe it reflects whether we have been successful in our strategies to increase the combined platform and subscription revenue from each user. We monitor total revenue per average active user, because each active user provides opportunities for us to realize both platform and subscription revenue through our platform monetization initiatives, such as our dynamic secure search solution, and through our multiple product strategy of up-selling and cross-selling our expanding set of premium products and

online services to all of our users. We monitor revenue per average active user to assist us in making strategic decisions primarily in three ways:

seeking to optimize the revenue per user we currently receive from our existing user base in order to increase our revenue per average active user in the near term, including by optimizing the monetization methods used with different user base segments;

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determining whether to invest in increasing the size of different user base segments to the extent that we have current opportunities to monetize them; and

determining whether to invest in increasing the size of different user base segments to the extent that we have identified opportunities to monetize them in the future.

As a result, revenue per average active user represents the outcome of our strategic priorities and may vary across periods depending on the extent to which we are pursuing each of the strategies described above.

	For the year ended December 31,		
	2011	2012	2013
	(in thousands of U.S. dollars, except for user data and per user data)		
Total revenue	\$ 272,392	\$ 355,966	407,113
Active users at period end (in millions)	108	146	177
Average active users (in millions)	103	127	161
Revenue per average active user	\$ 2.65	\$ 2.80	\$ 2.53

During 2013 we experienced an expected reduction in our revenue per average active user, due to our successful acquisition of mobile users which monetize at a significantly lower level than our historic PC users, a trend we expect to continue in the near future as our mobile growth is expected to out-pace our PC growth. Excluding mobile active users, our revenue per average active user would have increased from \$3.27 in 2012 to \$3.54 in 2013, an increase of approximately 8%, and from \$2.76 in 2011 to \$3.27 in 2012, an increase of approximately 18%.

Subscription revenue per average subscriber

Subscription revenue per average subscriber is defined as subscription revenue divided by the average number of subscription users in the period.

	Year ended December 31,		
	2011	2012	2013
	(in thousands of U.S. dollars, except for user data and per user data)		
Subscription revenue	\$ 175,654	\$ 196,858	\$ 250,839
Subscribers (in millions)	15	15	16
Average subscribers (in millions)	14	15	16
Subscription revenue per average subscriber	\$ 12.39	\$ 13.09	\$ 15.90

Subscription revenue per average subscriber increased by 21% from 2012 to 2013, principally as a result of increased revenue from our PC optimization products and an increase in the proportion of active users that use multiple products. We have not historically recognized users with a valid subscription license to our AVG-branded PC optimization product as unique subscribers because the primary channel for subscription sales of this product is through our existing user base. If we had recognized users of our AVG-branded PC optimization product as subscribers as of December 31, 2013 our subscribers would have been 1.5 million higher as compared with 0.9 million higher as of December 31, 2012, although we estimate that 58% of these users subscribed to other products in our subscription base, as compared to 45% as of December 31, 2012, and thus did not represent unique subscribers.

Future growth in this metric will be dependent on the expansion of our premium products portfolio to drive revenue from cross-selling into the same user base. In addition user segment mix may drive variances in this metric, with licenses sold in the SMB sector generally involving higher discounts due to the nature of multi-seat licenses sold through multi-tiered distribution channels.

Table of Contents***Search volume and platform-derived revenue per thousand searches***

	Year ended December 31,		
	2011	2012	2013
	(in thousands of U.S. dollars, except for search volume data and per thousand searches data)		
Platform-derived revenue	\$ 96,738	\$ 159,108	\$ 156,274
Search volume (in millions)	4,091	7,202	6,712
Platform-derived revenue per thousand searches	\$ 24	\$ 22	\$ 23

Search volume is defined as by the number of searches in thousands conducted by our active users using secure search functionality in our products, including toolbars, and our secure search web pages. We do not include DNS-error-page-related searches in calculating search volumes due to their distorting impact. We consider the search volume to be the primary driver of platform-derived revenue as search volume provides us with the opportunity to earn money from our arrangements with search engine companies. Searches are the initial step in the monetization process, with the final step being the generation of platform-derived revenue as reported in our financial statements, and hence it is search volume that is measured in considering the drivers of platform-derived revenue.

Platform-derived revenue per thousand searches, or RPM, is defined as platform-derived revenue divided by search volume in thousands.

Search volume decreased in 2012 to 2013, primarily due to an AVG product-strategy decision to cause clicked-on links to open in a new tab as opposed to replacing the search result page, which has the consequence of reducing search volumes, but increasing the net contribution per search. As a consequence, platform-derived revenue per thousand searches increased from 2012 to 2013.

Search volume increased from 2011 to 2012 as a consequence of a significant growth in our active users using PC products and in engagement with our secure search functionality by those users. Platform-derived revenue per thousand searches decreased from 2011 to 2012, primarily as a consequence of a change in the geographical mix during a period of significant growth in search volumes.

The level of platform-derived revenue per thousand searches is dependent on a number of different factors that may affect the revenue share we receive from our search partners. These include the geographical mix of users using our secure search tools, the nature of the searches they make and how they respond to advertising offers as well as the quality and coverage of advertising provided by our search partners. The geographical mix of searches is an important variable as some regions, for example the U.S., have a comparatively more developed online advertising market, resulting in greater coverage and quality of advertising offered through our search partners. This leads to comparatively higher absolute revenue through our revenue share arrangements.

Non-GAAP measures

In addition to financial measures calculated in accordance with U.S. GAAP, we use a number of financial measures that are not calculated in accordance with U.S. GAAP. These non-GAAP measures provide additional information on the performance or liquidity of our business and so we believe are useful for investors.

Adjusted net income, free cash flow and their related ratios are non-GAAP measures and should not be considered alternatives to the applicable U.S. GAAP measures. In particular, adjusted net income and free cash flow, and their related ratios, should not be considered as measurements of our financial performance or liquidity under U.S. GAAP, as alternatives to income, operating income or any other performance measures derived in accordance with U.S. GAAP or as alternatives to cash flow from operating activities as a measure of our liquidity.

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Adjusted net income and free cash flow are measures of financial performance and liquidity, respectively, and have limitations as analytical tools, and should not be considered in isolation from, or as substitutes for, analysis of our results of operations, including our operating income and cash flows, as reported under U.S. GAAP. We provide these non-GAAP financial measures because we believe that such measures provide important supplemental information to management and investors about the Company's core operating results and liquidity, primarily because the non-GAAP financial measures exclude certain expenses and other amounts that management does not consider to be indicative of the Company's core operating results or business outlook or liquidity. Management uses these non-GAAP financial measures, in addition to the corresponding U.S. GAAP financial measures, in evaluating the Company's operating performance, in planning and forecasting future periods, in making decisions regarding business operations and allocation of resources, and in comparing the Company's performance against its historical performance. Some of the limitations of adjusted net income and free cash flow and their related ratios as measures are:

they do not reflect our cash expenditure or future requirements for capital expenditure or contractual commitments, nor do they reflect the actual cash contributions received from customers;

they do not reflect changes in, or cash requirements for, our working capital needs;

although amortization and share-based compensation are non-cash charges, the assets being amortized will often have to be replaced in the future and such measures do not reflect any cash requirements for such replacements; and

other companies in our industry may calculate these measures differently than we do, limiting their usefulness as comparative measures.

Because of these limitations, investors should rely on our consolidated financial statements prepared in accordance with U.S. GAAP and treat our adjusted net income and free cash flow as supplemental information only.

Adjusted net income

Adjusted net income is defined as net income for the period, adding back: share-based payments; acquisition-related intangible asset amortization expense; benefit (provision) for income taxes and deducting from adjusted profit before taxes the impact of a normalized tax rate; and other one-off charges.

Adjusted net income as disclosed in this Annual Report reflects an adjustment to normalize tax as stated above, since the Company's profit and loss tax charge varies from period to period and has shown significant variations from its cash tax charge. In particular, the Company's entry into an innovation tax regime in the Netherlands resulted in a significant tax credit in June 2011, which reverses over subsequent periods. In order to remove the period to period impact of these variations, the Company has used an estimated normalized tax rate in its historic non-GAAP financial reporting and future projections, to better reflect the core operational changes in the business. During 2013 we updated the normalized tax rate to 12.5%, as compared to 14% applied in 2012 and 2011. The normalized tax rate of approximately 12.5% is based on an estimate of the Company's future cash tax rate as well as its recent cash and income statement tax charges. The tax rate reflected on the income statement for 2012 and 2013 was respectively on average approximately 19.4% and 38.0% and the tax paid reflected on the cash flow statement in 2012 and 2013 was approximately respectively 15.2% and 15.6%.

In the year ended December 31, 2013, we recorded add-backs to adjusted net income totaling \$11.2 million (net of tax \$9.7 million). This included \$3.6 million in charges associated with the rationalization of the Company's global operations, including \$1.7 million costs in relation to the program announced in the fourth quarter of 2012, principally focusing on the absorption of activities from our TuneUp operation within other AVG entities. In December 2013 the Company commenced a program to further streamline our business focus and resource allocation, in particular following our November announcement of our decision to make a controlled exit from the business of distributing our secure search solution through third parties. This led to a

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charge of \$1.4 million in the year ended December 31, 2013. In addition we incurred severance and other restructuring costs of \$0.5 following our acquisition of the business of LPI Level Platforms. We incurred \$3.2 million costs in respect of a class action litigation relating to the design, sale and marketing of our AVG PC TuneUp software including a net settlement of \$1.5 million (gross liability of \$2.5 million less \$1.0 million contribution from the Australian based former provider of the software), and \$1.6 million in legal fees associated with the negotiation of the settlement. We additionally recognized \$2.6 million of accelerated amortization of deferred financing costs due to the full voluntary repayment and termination of our long-term debt facility entered into on March 15, 2011 and originally due to mature on March 15, 2016. Also in the year ended December 31 2013, we further incurred \$1.8 million in acquisition related charges, including \$1.6 million in respect of PrivacyChoice LLC and \$0.2 million related to ASR Technologies AB.

In the year ended December 31, 2012, we recorded add-backs to adjusted net income of totaling \$7.2 million (net of tax \$6.2 million). In December 2012 the Company undertook a program to rationalize our global operations, including our TuneUp operation and headcount reductions in various locations. The purpose of this program was to reduce overhead costs in order to redirect spending to research and development in 2013. This led to a charge of \$5.1 million in the year ended December 31, 2012. In addition we recorded a charge of \$2.1 million in acquisition-related charges related to our acquisition in 2011 of the mobile platform company, Droid. We believe these charges should be excluded from adjusted net income as they do not reflect the ongoing costs of operations of the Company.

In the year ended December 31, 2011, we made an adjustment to adjusted net income \$3.7 million (net of tax \$3.2 million) related to the settlement of pre-existing relationships with a reseller on purchase of a reseller based in Germany which serviced the Germany, Austria and Switzerland region, or the DACH reseller. In total, we paid \$9.1 million for the DACH reseller including an amount of \$3.7 million that was ultimately determined to be in connection with the settlement of pre-existing relationships between the parties, separate from the acquisition. We believe that the amount attributable to settling the pre-existing relationships of \$3.7 million (net of tax \$3.2 million) should be excluded from adjusted net income.

In evaluating adjusted net income, the Company may incur future expenses similar to the adjustments reflected below. For example, while share-based compensation is a component of cost of revenue and operating expenses, the impact to our consolidated financial statements compared to other companies can vary significantly due to such factors as assumed life of the options and assumed volatility of our ordinary shares. Our presentation of adjusted net income should not be construed as an inference that our future results will be unaffected by amortization, share-based compensation or any unusual items. Furthermore, we may in future periods make additional adjustments to the definition of adjusted net income to reduce the impact of any unusual or distortive items.

The following table presents a reconciliation of adjusted net income to net income for each of the periods indicated.

	Year ended December 31,		
	2011	2012	2013
	(in thousands of U.S. dollars)		
Adjusted net income:			
Net income	\$ 100,432	\$ 45,817	\$ 63,714
Add back: Share-based compensation	6,396	16,183	8,928
Add back: Acquisition amortization ⁽¹⁾	4,466	8,215	12,271
Add back: Adjustments for other items, net of tax ⁽²⁾	3,673	7,213	11,218

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Add back: Income tax provision (benefit)	(49,260)	11,141	39,006
Adjusted profit before taxes	65,707	88,569	135,137
Less: Tax effect ⁽³⁾	(9,199)	(12,400)	(16,892)
Adjusted net income	\$ 56,508	\$ 76,169	\$ 118,245

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- (1) Includes amortization of acquired intangibles.
- (2) Other adjustments between GAAP and non-U.S. GAAP measures for the twelve months ended December 31, 2013 comprise \$2.6 million of accelerated amortization of deferred financing costs due to the full voluntary repayment and termination of long-term debt, \$3.2 million in charges associated with a litigation settlement, \$3.6 million in charges associated with the rationalization of the Company's global operations, including integrating the business acquired from LPI Level Platforms Inc., and \$1.8 million in acquisition related charges primarily relating to the PrivacyChoice integration. For the twelve months ended December 31, 2012 the Company recorded \$5.1 million in charges associated with the rationalization of the Company's global operations and \$2.1 million in acquisition related charges. In the fourth quarter of 2011 the Company recorded an adjustment of \$3.7 million related to acquisition-related charges.
- (3) Adjusted for impact of normalized tax rate of 12.5% in the twelve months ended December 31, 2013 and 14% in 2012 and 2011. The normalized tax rate of 12.5% is based on an estimate of our future cash tax rate as well as our recent cash and income statement tax charges.

The following table presents the changes between 2011 and 2012, and between 2012 and 2013, in adjusted net income.

	Year ended December 31,			Change 2011 vs. 2012		Change 2012 vs. 2013	
	2011	2012	2013	In dollars	Percentage	In dollars	Percentage
(unaudited, in thousands of U.S. dollars, except for percentages)							
Adjusted net income	\$ 56,508	\$ 76,169	\$ 118,245	\$ 19,661	34.8%	\$ 42,076	55.2%
Percentage of total revenue	20.7%	21.4%	29.0%				

In 2013 adjusted net income increased compared to 2012 primarily due to cost management actions, that led to an improvement in margins at the operating income level; adjusted operating income increased by \$27.9 million or 25%, compared to a \$51.1 million, or 14%, increase in revenue. This was supplemented by a \$15.6 million saving in other income (expense), principally due to the restructuring of our long term debt.

In 2012 adjusted net income increased compared to 2011 primarily due to the growth in revenue, which more than offset increased expenditure and investment in new areas such as mobile, as well as an increased interest charge.

The normalized tax rate of 12.5% (14% in 2012 and 2011) is based on an estimate of our future cash tax rate as well as our recent cash and income statement tax charges.

Free cash flow

Free cash flow is defined as net cash provided by operating activities less capital expenditures, which we define as payments for property and equipment and intangible assets. We disclose free cash flow in this Annual Report because we view free cash flow as an additional measure of liquidity that is indicative of the level of cash available for other purposes, including, but not limited to, further investment in the business, acquisitions, debt repayments, or share repurchases.

In evaluating free cash flow, you should be aware that levels of both cash generation and capital expenditures may change in the future. Our presentation of free cash flow should not be construed as an inference that our future results will be unaffected by these expenses or any unusual or non-recurring items.

We use free cash flow as a measure of liquidity and not as a performance measure. Free cash flow reflects interest paid on external debt and as a consequence its use to measure the operating performance of the business is significantly affected by the capital structure of the Company. Reductions in the level of external debt in 2012 and 2013 resulted in significant reductions in the level of interest payments and as such a significant contributor to the increase in free cash flow over that period. Similarly, any future increase in borrowing would have an adverse impact on the level of free cash flow as a consequence of the increased interest payments.

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The following table presents a reconciliation of free cash flow to net cash provided by operating activities, the most comparable U.S. GAAP measure, for each of the periods indicated.

	Year ended December 31,		
	2011	2012	2013
	(in thousands of U.S. dollars)		
Net cash provided by operating activities	\$ 82,911	\$ 119,306	\$ 145,204
Less: Payments for property and equipment and intangible assets	(11,373)	(17,914)	(16,726)
Free cash flow	\$ 71,538	\$ 101,392	\$ 128,478

The following table presents the changes in free cash flow between 2013 versus 2012 and 2012 versus 2011.

	Year ended December 31			Change 2011 vs. 2012		Change 2012 vs. 2013	
	2011	2012	2013	In dollars	Percentage	In dollars	Percentage
Free cash flow	\$ 71,538	\$ 101,392	\$ 128,479	\$ 29,854	41.7%	\$ 27,087	26.7%

In 2013, free cash flow increased by \$27.1 million compared to 2012 reflecting an increase in cash from operating activities of \$25.9 million or 21.7% combined with lower capital expenditure, which at \$16.7 million was \$1.2 million lower than in 2012

The increase in free cash flow from 2012 to 2013 was principally driven by growth of \$40.2 million in subscription bookings and by a reduction of \$11.9 million in interest paid, partially offset by increased cost of revenue and operating costs of \$23.3 million as noted in the section *Key factors affecting our performance* below.

There were no unusual movements in working capital during the period and our capital expenditure decreased by \$1.2 million compared to 2012 due to prudent cost management.

In 2012, free cash flow increased by \$29.9 million compared to 2011 reflecting an increase of \$36.4 million or 43.9% in cash from operating activities partially offset by an increase in capital expenditure, which at \$17.9 million was \$6.5 million higher than in 2011

The increase in free cash flow from 2011 to 2012 was principally a consequence of increased sales, driven by growth in platform-derived revenues and subscription bookings, partially offset by spending on activities to drive those bookings and investment in areas such as mobile, together with an increase in interest paid.

Key factors affecting our performance

The following discussion highlights the key factors we believe affect our results of operations.

Growth of our product portfolio

A key driver of our future growth is our ability to cross-sell products into our user base. Our acquisition of TuneUp Software GmbH, and the subsequent growth of our PC optimization software revenue stream, is a clear example of successfully growing our product portfolio. During 2013 we have experienced growth of the number of applications per subscription user, which we intend to grow in the coming periods through internal product developments such as

AVG Zen and also inorganically through acquisitions.

Growth of our user base

Growth of our user base is a primary driver of our revenue. Growth in our subscription user base is a key driver of our subscription revenue and growth in our active user base, along with search volume, drives platform-derived revenue.

Table of Contents*Active users*

The primary driver of growth of our active user base has been increasing user awareness of our solutions and the AVG brand, which we promote through key mobile application stores, online viral marketing, including word-of-mouth advertising, blogs and other media referrals. In addition, periodic enhancements and functionality additions made to our free solutions also contribute to overall active user base growth. This has allowed us to grow our active base of mobile users by 160% from 26 million as of December 31, 2012 to 68 million as of December 31, 2013. Growth of our active user base also reflects our general strategy toward localization, i.e., producing versions of our products in local languages and in some cases adapted for specific markets. If these various strategies do not work and we are not able to grow our active user base over the long term, our business and profitability could be adversely affected.

Subscription users

Subscription users are those who subscribe to premium products, the primary component of subscription revenue. Growth in our subscription user base is driven by increasing user awareness of our premium products and brand, leading to both greater numbers of visits to our website and increasing traffic to our web-based distribution platform, which generates direct sales (i.e., without an upgrade from the free product). Enhancements and functionality additions to our premium solutions (as compared with our free product) have contributed to the growth of our subscription user base, particularly as those solutions have evolved to more comprehensive software suites. The growth of our active user base has also contributed to growth of our subscription user base by increasing the pool of users who may potentially upgrade to our premium solutions (and are accordingly converted into subscription users). As with direct sales, this dynamic is driven by the enhancements and additional functionality of our premium solutions. If users do not recognize the value of our premium solutions, or do not find our solutions compelling relative to the cost of these solutions, they may choose to utilize our free solutions. If users choose not to purchase or renew access to our premium solutions and we experience a significant decline in our subscription user base, our revenue and profitability may suffer.

User retention

One element affecting the growth and stability of our user base is our ability to retain existing users, which is influenced by a variety of factors. For example, our ability to retain both subscription users and active users is affected by the frequency with which our users replace their personal computers, as free trial versions of antivirus and other software are typically preinstalled on new personal computers. Personal computer lifetime creates an interesting dynamic for us, since while potentially decreasing opportunities for growth in our antivirus and other software categories it generates increasing demand for our PC Optimization software. Users at mobile devices have lower retention rates than those using personal computers, also by virtue of the lower average lifetime of a mobile handset. In addition, due to our limited ability to track users based on personally identifiable information, even if existing users continue using our products on new personal computers, it historically has appeared to us as the loss of an existing customer and the addition of a new customer. Assessment of retention of free users is particularly difficult as we have historically collected little or no identifiable information on these users. User retention also depends on the mix of products sold to consumers versus small businesses, as different user types have different retention characteristics. Another factor affecting subscription user retention is the extent to which we invest in various marketing and customer loyalty programs, such as discounted pricing for renewals and two-year subscriptions, as well as the cross-selling of products within our user base. We may adjust our pricing strategy from time to time with the objective of increasing our revenue per average active user, which may cause decreases in our subscription renewal rates even if it increases overall revenue. For example, we may reduce discounts given to renewing users, which could increase overall revenue if the increase in revenue from each renewing user is not fully offset by the decrease in revenue caused by the resulting decline in renewal rates. Since 2011 we have successfully implemented and optimized an auto-renewal

strategy for subscription users (an opt-in or opt-out option selected by the user at the time of purchase to automatically renew the relevant subscription and to charge the user's pre-designated debit or credit card) where possible and permitted by law to increase our retention of subscription users. Approximately 76% of subscription users purchasing a license online in 2013

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opted for auto-renewal (compared to 71% in 2012 and 43% in 2011). In the fourth quarter of 2013 we saw the first material maturation of expiring PC Optimization licenses originally purchased with an auto-renewal. As we have successfully demonstrated with our auto-renewal strategy for our anti-virus products in the last three years, we will seek to optimize the auto-renewal strategy for PC Optimization users which represents a strong growth opportunity in the coming periods. However, certain proposed regulations in the European Union and the United States may not allow for auto-renewal in the future, which may result in a lower renewal rate by our existing subscription users. See

Item 3. Key Information D.Risk Factors Regulation of the Internet and the lack of certainty regarding application of existing laws to the Internet could substantially harm our operating results and business and Item 3. Key Information D.Risk Factors A significant percentage of our total revenue comes from purchases of subscriptions to our premium products, which must by their terms be renewed by our users to remain in force.

Platform monetization of our active user base

We expect the continuing impact of Google's guideline changes will lead to a material decrease in 2014 in platform revenue we derive from the use of our secure search solution within our own user base, which, due to its organic nature, represents a high quality margin monetization route. Combined with our November 2013 announcement of our decision to make a controlled exit from our business focusing on the distribution of our secure search solution through third-party application partnerships, we expect platform-derived revenue will represent a decreasing percentage of our overall revenue in the near term.

However, monetization of our active user base through platform-derived revenue in addition to subscription revenue remains a key element of our overall performance and strategy, driven by our ability to provide new premium products and online services that generate subscription and platform-derived revenue. Our subscription revenue includes the sale of premium products and solutions, including our premium Internet Suite, PC optimization software, parental control software, and system optimization among others. The primary component of platform-derived revenue is from search agreements, whereby we deliver user Internet search requests submitted into our dynamic secure search solution to our search providers. In 2014 we also seek to increase the contribution from indirect monetization of our mobile user base, through our partnerships with mobile advertising networks, although we do not expect this to be material in the near term.

Platform-derived revenue from our secure search solution is dependent upon the volume of Internet searches conducted. We have formed a number of strategic alliances and agreements that allow us to market and cross-sell products and online services to our active users. If we are not able to provide additional products and online services that enable us to further monetize our platform, grow the number of users who use our dynamic secure search solution, or continue and extend key agreements that provide a substantial portion of our platform-derived revenue our revenue and profitability could be adversely affected. Further we continue to develop enhancements to our secure search solution, allowing us to prolong user engagement and lifetime. If we are not able to provide such enhancements our revenue and profitability could be adversely affected.

Similarly, successful indirect monetization of our mobile user base will depend on our ability to successfully optimize in-application advertisements and promotions, and the continuing expansion of our mobile user base.

Searches conducted

The substantial majority of our platform-derived business to date and expected for the near term is based on secure Internet searches. When users install our toolbar or various other applications, we provide them with our dynamic secure Internet search functionality. Except for DNS-error-page-related queries, which are sent to Yahoo!, we establish a primary search provider for a particular geography based on maximization of customer lifetime value per

offer of our secure search solution. Thus our platform-derived revenue from search is diversified across search providers comprised of Yahoo!, Google, Seznam and Yandex.

A search engine's advertisers pay the search engine a fee each time a user clicks on one of the advertisers' ads displayed on the search engine's sponsored links. We receive a percentage of that fee, which we recognize

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as platform-derived revenue. This is dependent on the fees the search engine receives from the click-through of a user. The fees per click are based on a variety of factors that are beyond our control and our revenue and profitability may be harmed if these factors do not move in our favor. Our platform-derived revenue may therefore be affected by both factors we can influence, such as the number of toolbar installations and engagement with the toolbar driving search volumes, but also by factors beyond our control, such as individual user behaviors in choosing to click on advertisement links as well as the fees earned by the search provider for each click on an advertisement link, which in turn affects our share of those fees. If we are not able to grow the aggregate number of clicks or searches, the conversion of search queries to click-throughs, or the lifetime value of a search user, our platform-derived revenue may be impacted.

Security demand and awareness

Our free Internet security software serves as our primary customer acquisition vehicle, across both personal computers and mobile devices. Internet users view security software as a prerequisite for a secure, safe Internet experience.

The size of our user base, and consequently our result of operations, are influenced by general growth in the consumer and small business security market, broader interest in security software and changes in the awareness among consumers and small businesses as to the need for Internet security. The growing use and popularity of the Internet has led to increased demand for Internet security solutions, including our products. In addition, newsworthy events involving or predicting harm caused by significant and extensive breaches of Internet security cause demand for our products to increase. As cybercrime has increased in both frequency and sophistication, our users have demanded more comprehensive Internet security solutions. We believe that as online activity and the interconnectivity of devices continues to increase, the security requirements of our users will also increase.

Online marketing and distribution

Our business model benefits our profitability by facilitating and encouraging viral marketing and soliciting product development ideas from our active users, which can reduce operating expenses. In particular, our model helps to limit the growth in our sales and marketing and customer acquisition expenses.

From 2011 to 2013, our revenue was increasingly derived from our own online channels, including sales of our software solutions through our own web-based distribution platform and our platform-derived revenue, as opposed to our reseller network (which includes offline sales and sales through third-party distributors (whether in retail stores or on the Internet)). Growth in our web-based distribution has had the effect of increasing the percentage contribution of our sales to our overall profitability by eliminating costs incurred with respect to third-party distributors and lowering our own cost of sales. Over the near term, we expect revenue from our reseller network to increase as a percentage of total revenue due to the expected contraction in platform-derived revenue combined with the impact of our 2013 acquisition of the business of LPI Level Platforms and our further investment into the expansion of our SMB SaaS offerings, sales of which are principally made through our channel partners.

The following table summarizes our revenue by distribution channel for each of the years ended December 31, 2011, 2012 and 2013:

Year ended December 31,		
2011	2012	2013
(in thousands of U.S. dollars)		

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Reseller network	\$ 68,246	\$ 64,307	\$ 63,155
Web-based and platform-derived	204,146	291,659	343,958
Total	\$ 272,392	\$ 355,966	\$ 407,113

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Our reporting currency is the U.S. dollar, notwithstanding that we are organized under the laws of the Netherlands. In 2013, 56% of our revenue was generated in U.S. dollars, while 19% was generated in euros, 13% in British pounds sterling and 4% in Czech crowns. In addition, in 2013, we incurred 52% of our cost in U.S. dollar, 15% in euros, 5% in British pounds sterling and 19% in Czech crowns. We are exposed to translational risk resulting from the retranslation of the results of subsidiaries with functional currencies other than the U.S. dollar, in particular our Czech, Israeli, Euro-functional and U.K. subsidiaries. In 2013, the effect of this exposure in Other comprehensive income was a loss of \$4.3 million.

The Company enters into foreign exchange contracts to economically hedge transactional exposures between the U.S. dollar and British pound sterling, Czech crown, Israeli shekel, Canadian and Australian dollar and the euro, reducing some of our exposure but not eliminating it.

Effective tax rate

Through May 31, 2011, our effective tax rate was mainly determined by the nominal corporate tax rate of 10% in Cyprus and a relatively low corporate tax rate in the Czech Republic. On June 1, 2011, we entered into an innovation tax regime in the Netherlands and recognized tax benefits (deferred tax assets) which significantly impacted our effective tax rate. As a result, we received a credit, or a benefit to our income statement of \$56.3 million in June 2011, and then an offsetting charge of \$8.0 million in 2011, \$13.6 million in 2012 and \$13.1 million in 2013. As a result, our effective tax rate was (96.3)% in 2011, 19.4% in 2012 and 38.0% in 2013.

The primary reason for the increase in tax expense for the year ended December 31, 2013 is due to the deferred tax asset for deferred revenue. Deferred tax assets are measured using the enacted tax rates expected to apply to taxable income in the periods in which the deferred taxes are expected to be settled or realized. As a result of the centralization of all intellectual property in the Netherlands during 2013 and alignment of the intercompany transfer pricing methodology, the enacted tax rates used for realization of the deferred tax assets decreased significantly. By undertaking these new intercompany transfer arrangements, resulting in a different deferred revenue allocation, we have incurred an increase in the effective tax rate in 2013, but expect a lower effective tax rate in subsequent years. The effective Dutch tax rate is expected to be significantly lower than the statutory tax rate in the Netherlands primarily as a result of the innovation box tax regime in the Netherlands and as a consequence of a tax ruling relating to the relocating of our e-commerce operations in the Netherlands beginning January 1, 2014.

As of June 1, 2011, we reorganized our operating model by centralizing the ownership of certain intangible intellectual property rights (and the future development of those rights) in the Netherlands. In addition, as of January, 2014, we relocated our Cypriot e-commerce entity to the Netherlands and obtained a special deduction which will result in an expected cash tax rate of 11.25% over the following ten years. As a result of these group tax restructurings our future effective tax rate will mainly be determined by the innovation box tax regime in the Netherlands and the effective corporate tax rate of AVG e-commerce distribution entity of 11.25% in the Netherlands.

Effective January 1, 2007, and as further amended on January 1, 2010, Dutch corporate tax legislation provides for a specific tax benefit for income generated by the exploitation of technology that results, among other things, from research and development activities, generally referred to as the innovation box. On May 31, 2011, we entered into an agreement with the Dutch tax authorities regarding the application of this regime to AVG, which was updated on November 30, 2012. The agreement confirms the application of the tax incentive to the Dutch operations, and establishes the methodology to be used to determine our income from the technology. In addition, this agreement confirms the amount of depreciation deduction that we may take each year and also confirms the tax deductible

depreciation of the intellectual property rights centralized in the Netherlands which have an agreed tax base increased to fair market value as per June 1, 2011, and tax deductibility of certain related expenses, including interest expenses. As a result, income attributable to certain research and development

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activities is subject to an effective tax rate of 5%, in lieu of the Dutch statutory corporate income tax rate of 25%. Our effective tax rate is subject to the uncertainties described under Item 3. Key Information D. Risk Factors Challenges by various tax authorities to our international structure may, if successful, increase our effective tax rate and adversely affect our earnings and Item 3. Key Information D. Risk Factors Changes in international or national tax laws and regulations or in the channels in which we distribute our solutions may adversely affect our business and reported results .

Cost of revenue

Cost of revenue consists of fees paid to third parties that distribute our search solutions, customer support, costs of electronic downloads, commissions to payment providers, amortization of purchased technology, costs of packaging and license fees for technologies implemented into our products. Following the acquisition of the business of LPI Level Platforms, cost of revenue also includes the cost associated with our network operating center, providing outsourced network monitoring and management to small and medium sized businesses. Following our November 2013 announcement of our decision to make a controlled exit from the third-party distribution of our search solutions we expect cost of revenue to decrease in dollar terms in the future, providing improved gross profit margins across our combined subscription and platform-derived revenue streams.

Operating expenses

We classify our operating expenses into three categories: research and development, sales and marketing and general and administration. These categories correspond to different functional groups within our Company.

Our operating expenses primarily consist of personnel costs, marketing costs, professional service fees, contract research and development costs and depreciation and amortization costs. Personnel costs for each category of operating expenses include salaries, bonuses, social and health insurance, other employee benefits and share-based compensation for personnel in that category, as well as an allocation of our facilities costs. We allocate share-based compensation expense resulting from the amortization of the fair value of options. We allocate overhead, such as rent, computer and other technology costs, to each expense category based on worldwide headcount in that category.

Research and development

Research and development expense primarily consists of personnel costs for our product development, product management employees and fees to our contract development vendors. We have devoted our development initiatives primarily to expanding our product line, building out a larger product management organization and increasing the functionality and enhancing the ease of use of our solutions. Our primary research and development operations are in the Czech Republic, where we are able to take advantage of strong technical talent. Technology acquisitions have seen us increase our development base in Israel, Canada and in the United States. We have also increased our investment in our innovation center in Amsterdam since 2011. We expect to increase our research and development expense on a dollar basis, and as a percentage share of revenues over the near term as we pursue our transition into product development principally in cloud-based offerings to consumers, SMBs, and mobile.

Sales and marketing

Sales and marketing expense primarily consists of personnel costs for our sales, marketing, business development and sales operation support employees and executives; the cost of marketing programs such as online lead generation; promotional events and webinars; sales commissions payable to third parties that refer customers to us; and the cost of business development programs. We also include the distribution of updates for our free product in this category, on

the basis of this representing a customer acquisition expense for us. During 2013 we generated significant annualized savings from the closure of our local operations in Germany supporting TuneUp. In the near term we expect to realize savings associated with redirecting the sales effort to support

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distribution of our secure search solution to third parties, but to a lesser extent. Such savings will contribute to growing investment in our sales efforts to support our service offerings to small and mediums sized businesses and the development of partnerships with mobile network operators, particularly in the United States, but also in Europe and in Australasia, to increase brand awareness, product adoption and user growth. In the near term we expect to increase our sales and marketing expense on a dollar basis, but generate margin expansion from a decrease in sales and marketing spend as a proportion of revenue.

General and administration

General and administration expense primarily consists of personnel costs for our executive, information technology, finance, legal, human resources, corporate development and administrative personnel, as well as legal, accounting and other professional service fees, other corporate expenses, merger and acquisition costs that are charged to the profit and loss account and depreciation and amortization. In the coming year we expect a decrease in general and administrative expense as a percentage of revenue and on a dollar basis, reflecting principally the continued optimization of our global operations rationalization program, while maintaining our investments in our public company infrastructure.

Income tax expense

Income tax expense consists of the taxes we pay in several countries on our taxable income as well as deferred tax with respect to timing differences relating to our deferred revenue. For further information on the breakdown of our income tax components, see our consolidated financial statements included in this Annual Report beginning on page F-1.

Results of operations

The following table summarizes our consolidated results of operations for the years ended December 31, 2011, 2012 and 2013:

	Year ended December 31,		
	2011	2012	2013
	(in thousands of U.S. dollars)		
Statement of Comprehensive Income Data and Other Key Metrics:			
Revenue:			
Subscription	\$ 175,654	\$ 196,858	\$ 250,839
Platform-derived	96,738	159,108	156,274
Total revenue	272,392	355,966	407,113
Cost of revenue: ⁽¹⁾			
Subscription	(23,374)	(27,064)	(30,028)
Platform-derived	(7,849)	(27,320)	(38,817)
Total cost of revenue	(31,223)	(54,384)	(68,845)
Gross profit	241,169	301,582	338,268

Operating expenses: ⁽¹⁾			
Research and development	(35,008)	(55,485)	(60,885)
Sales and marketing	(76,933)	(92,198)	(96,382)
General and administrative	(60,710)	(73,491)	(70,902)
Total operating expenses	(172,651)	(221,174)	(228,169)
Operating income	68,518	80,408	110,099
Other income (expense), net	(17,104)	(22,939)	(7,379)
Income before income taxes and loss from investment in equity affiliate	51,414	57,469	102,720
Income tax (provision) benefit	49,260	(11,141)	(39,006)
Loss from investment in equity affiliate	(242)	(511)	
Net income	100,432	45,817	63,714

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	Year ended December 31,		
	2011	2012	2013
	(in thousands of U.S. dollars)		
Other operating metrics:			
Adjusted net income (non-GAAP) ⁽²⁾	56,508	76,169	118,245
Net cash provided by operating activities	82,911	119,306	145,204
Net cash used in investing activities	(69,544)	(30,242)	(39,755)
Net cash used in financing activities	(15,329)	(100,325)	(114,295)
Free cash flow (non-GAAP) ⁽³⁾	\$ 71,538	\$ 101,392	\$ 128,478

- (1) We have recognized employee share-based compensation in the consolidated statements of comprehensive income as follows:

	Year ended December 31,		
	2011	2012	2013
	(in thousands of U.S. dollars)		
Cost of revenue	\$ 21	\$	\$ 40
Research and development	1,116	1,652	1,013
Sales and marketing	949	2,036	1,172
General and administrative			