Engine Capital Delivers Letter To Carbonite Board Of Directors

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Engine Capital LP →
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NEW YORK, Dec. 23, 2014 /PRNewswire/ -- Engine Capital LP (together with its affiliates, "Engine"), a large shareholder of Carbonite, Inc. (NASDAQ: CARB), with ownership of approximately 2.5% of the outstanding shares of the Company, today announced that it has delivered a letter to the Company's Board of Directors.

The full text of Engine's letter follows:

December 23, 2014

Members of the Board of Directors
c/o David Friend, Executive Chairman
Carbonite, Inc.
177 Huntington Avenue
Boston, Massachusetts 02115

Dear Board Members:

As you know, Engine Capital LP, together with its affiliates ("Engine" or "we"), owns approximately 2.5% of the outstanding shares of Carbonite, Inc. ("Carbonite" or "CARB" or the "Company"). We enjoyed our conversation with new CEO Mohamed Ali and director Chuck Kane this past Friday. We understand that you are now engaged in a strategic review to determine whether the Company should initiate a sale process, including exploring a transaction with j2 Global, Inc. ("j2"), who offered earlier this month to acquire the Company for $15.00 per share in cash (the "j2 Offer"). As part of this strategic review, we understand that Mr. Ali will be sharing his views on the Company's strategy, business plan and financial projections during an upcoming Board meeting and that the Board will in turn provide this information to the Company's financial advisor, who will be performing a valuation analysis. During our call, we raised a number of serious concerns that we have decided to publicly disclose for the benefit of other shareholders who may also wish to share their views with the Board.

1. Financial Projections – Management's five year financial projections are likely to figure prominently in determining how the Board responds to the j2 Offer. We are concerned that a new CEO may be incentivized to present overly aggressive projections in order to keep the Company independent. To keep management "honest", we request that the Compensation Committee set the annual and long-term incentive programs for the management team based on these projections <u>for the next five years</u>. It would be our expectation that the Compensation Committee not reset these targets if they are missed during the 5-year projection period. There should not be two sets of projections – an overly aggressive one designed to frustrate a sale of the Company and another one to compensate management.
2. Formation of a Special Committee – We request that the Board establish a special committee composed of non-management directors in light of the potential conflicts of interest of the two management directors. While we understand that Mr. Ali and Mr. Friend would present to the special committee as part of management, it is important for the other Board members to be able to discuss the situation without management present. This is simply a corporate governance best practice.
3. Recent Sale of Shares by the CFO – We believe that the significant sale of CARB shares by the CFO the day following the j2 Offer is indicative of his view of Carbonite's standalone value. While we understand that this sale took place via an automatic plan set up prior to the j2 Offer, this plan still required the executive to enter a threshold price above which a sale could take place. While we are not privy to the exact threshold price, we know that 50,000 shares were sold at $14.80. This clearly indicates that the CFO thought that a price around $14.80 was not a bad price to sell a significant amount of shares and is an indication of the CFO's view of the value of this business on a standalone basis. This is an important data point for the Board to consider as it considers the present value of the Company. Given that the CEO has been at the Company for less than two weeks, we assume that the financial projections will be built primarily by the CFO. <u>We hope that it is not lost on the Board that the person most familiar with the numbers and who is preparing the projections that will be used to assess the attractiveness of the $15 per share offer just sold a significant amount of shares below $15 per share.</u>
4. Higher Offer - j2's market capitalization increased by more than $200 million the day of its proposal to acquire Carbonite. That should be an indication to the Board that j2 could significantly increase its offer for the Company. As an illustration, if the parties "split the difference" and j2 was willing to transfer $100 million of value to Carbonite's shareholders, j2 could pay north of $18 per share for Carbonite. This, of course, is a theoretical exercise.

The only way to know the maximum price j2 is willing to pay for the Company is to negotiate with them. It would be meaningless to reject a $15 per share offer when the final number could be substantially higher. We believe that you have a duty to explore this path. We also warn you not to reject the j2 Offer for tactical reasons as this would be playing with fire with other people's money. <u>Only after you engage in good-faith negotiations with j2 and other potential acquirers will you be in a position to know the maximum price shareholders could receive in a negotiated transaction, and only then can you make a truly informed decision.</u> The way to create leverage is not by tactically rejecting the j2 Offer, but instead by publicly announcing the initiation of a sale process and engaging with potential bidders.

5. Positive Outlook – Based on a recent public interview of David Maffei, a VP of Carbonite, we understand that the Company is doing extremely well and its growth prospects are accelerating. In particular, we were impressed by his comments regarding the number of active channel partners and the bookings growth ("… up to 5400-5500 active channel partners today, up 55%, and bookings in business in the channel up nearly 100% year over year …"). The Board should not attempt to use this to justify continuing as a standalone company. Instead, the Company should share this information with j2 and other potential bidders in furtherance of extracting the highest possible price.

We hope that the Company will do the right thing and take the required steps to maximize value for all shareholders. We must, however, reserve our rights to take whatever actions in the future we believe may be required to protect the best interests of shareholders.

Very truly yours,

Arnaud Ajdler
Managing Partner
Engine Capital LP

ABOUT ENGINE CAPITAL

Engine Capital is a value-oriented special situations fund that invests both actively and passively in companies undergoing change.

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