

AKAMAI TECHNOLOGIES INC  
Form 10-Q  
November 10, 2014

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

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FORM 10-Q

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(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2014
- or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-27275

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Akamai Technologies, Inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

04-3432319  
(I.R.S. Employer  
Identification No.)

150 Broadway  
Cambridge, MA 02142  
(617) 444-3000  
(Address, Including Zip Code, and Telephone Number,  
Including Area Code, of Registrant's Principal Executive Offices)

8 Cambridge Center  
Cambridge, MA 02142  
(617) 444-3000  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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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 (the "Exchange Act") 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) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of the registrant’s common stock as of November 5, 2014: 177,993,964

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AKAMAI TECHNOLOGIES, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

AKAMAI TECHNOLOGIES, INC.  
CONSOLIDATED BALANCE SHEETS

(in thousands, expect share data)	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$214,339	\$333,891
Marketable securities	496,573	340,005
Accounts receivable, net of reserves of \$5,866 and \$3,703 at September 30, 2014 and December 31, 2013, respectively	326,747	271,988
Prepaid expenses and other current assets	90,173	62,096
Deferred income tax assets	24,844	21,734
Total current assets	1,152,676	1,029,714
Property and equipment, net	559,194	450,287
Marketable securities	850,847	573,026
Goodwill	1,049,047	757,368
Acquired intangible assets, net	140,815	77,429
Deferred income tax assets	2,530	2,325
Other assets	99,182	67,536
Total assets	\$3,854,291	\$2,957,685
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$74,801	\$73,710
Accrued expenses	173,985	150,385
Deferred revenue	50,582	36,952
Other current liabilities	2,233	2,119
Total current liabilities	301,601	263,166
Deferred revenue	3,647	3,199
Deferred income tax liabilities	25,099	4,737
Convertible senior notes	600,098	—
Other liabilities	75,466	57,152
Total liabilities	1,005,911	328,254
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized; 700,000 shares designated as Series A Junior Participating Preferred Stock; no shares issued or outstanding	—	—
Common stock, \$0.01 par value; 700,000,000 shares authorized; 182,119,856 shares issued and 178,194,979 shares outstanding at September 30, 2014 and 178,580,696 shares issued and outstanding at December 31, 2013	1,851	1,808
Additional paid-in capital	4,777,961	4,561,929
Accumulated other comprehensive loss	(9,545	) (2,091
Treasury stock, at cost, 3,924,877 shares at September 30, 2014 and no shares at December 31, 2013	(226,513	) —

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Accumulated deficit	(1,695,374	) (1,932,215	)
Total stockholders' equity	2,848,380	2,629,431	
Total liabilities and stockholders' equity	\$3,854,291	\$2,957,685	

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

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Table of ContentsAKAMAI TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue	\$498,042	\$395,790	\$1,427,579	\$1,141,942
Costs and operating expenses:				
Cost of revenue	158,812	132,039	447,742	377,136
Research and development	32,583	24,857	92,869	67,359
Sales and marketing	96,215	67,811	268,742	198,326
General and administrative	81,905	66,634	239,946	183,365
Amortization of acquired intangible assets	8,403	4,859	23,654	16,653
Restructuring (benefits) charges	(115	) 69	1,189	891
Total costs and operating expenses	377,803	296,269	1,074,142	843,730
Income from operations	120,239	99,521	353,437	298,212
Interest income	2,010	1,458	5,389	4,543
Interest expense	(4,482	) —	(10,939	) —
Other expense, net	(188	) (305	) (1,968	) (96
Income before provision for income taxes	117,579	100,674	345,919	302,659
Provision for income taxes	26,424	20,918	109,078	89,521
Net income	\$91,155	\$79,756	\$236,841	\$213,138
Net income per share:				
Basic	\$0.51	\$0.45	\$1.33	\$1.20
Diluted	\$0.50	\$0.44	\$1.31	\$1.17
Shares used in per share calculations:				
Basic	178,186	178,235	178,324	178,008
Diluted	180,955	181,922	181,278	181,623

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

Table of ContentsAKAMAI TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$91,155	\$79,756	\$236,841	\$213,138
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(10,763	) 2,950	(7,937	) (4,810
Change in unrealized (loss) gain on investments, net of income tax benefit (provision) of \$715, \$(1,532), \$324, and \$(629) for the three and nine months ended September 30, 2014 and 2013, respectively	(1,279	) 2,571	483	1,016
Other comprehensive (loss) income	(12,042	) 5,521	(7,454	) (3,794
Comprehensive income	\$79,113	\$85,277	\$229,387	\$209,344

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

Table of ContentsAKAMAI TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	For the Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$236,841	\$213,138
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	179,643	134,455
Stock-based compensation	84,800	72,211
Provision for doubtful accounts	1,517	889
Excess tax benefits from stock-based compensation	(23,958)	(18,152)
Provision for deferred income taxes	10,622	—
Amortization of debt discount and issuance costs	10,939	—
Loss (gain) from disposal of property and equipment	325	(15)
Loss on investments	393	—
Change in fair value of contingent consideration	300	—
Gain from divestiture of a business	—	(1,188)
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts receivable	(50,213)	(51,321)
Prepaid expenses and other current assets	(22,346)	(9,266)
Accounts payable and accrued expenses	36,876	43,730
Deferred revenue	7,688	10,991
Other current liabilities	(703)	32
Other non-current assets and liabilities	(10,195)	(3,328)
Net cash provided by operating activities	462,529	392,176
Cash flows from investing activities:		
Cash paid for acquired businesses, net of cash acquired	(386,532)	(27,420)
Purchases of property and equipment	(142,466)	(142,567)
Capitalization of internal-use software development costs	(83,841)	(55,171)
Purchases of short- and long-term marketable securities	(1,068,198)	(403,556)
Proceeds from sales of short- and long-term marketable securities	354,313	79,207
Proceeds from maturities of short- and long-term marketable securities	277,109	265,495
Proceeds from the sale of property and equipment	802	761
Other non-current assets and liabilities	6,420	(3,320)
Net cash used in investing activities	(1,042,393)	(286,571)
Cash flows from financing activities:		
Proceeds from the issuance of convertible senior notes, net of issuance costs	678,735	—
Proceeds from the issuance of warrants related to convertible senior notes	77,970	—
Purchase of note hedge related to convertible senior notes	(101,292)	—
Repayment of acquired debt and capital leases	(17,862)	—
Payment of contingent consideration related to acquired business	(1,575)	—
Proceeds related to the issuance of common stock under stock plans	75,361	54,418
Excess tax benefits from stock-based compensation	23,958	18,152
Employee taxes paid related to net share settlement of stock-based awards	(43,205)	(28,559)
Repurchases of common stock	(226,513)	(112,408)
Net cash provided by (used in) financing activities	465,577	(68,397)



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Effects of exchange rate changes on cash and cash equivalents	(5,265	) (4,182	)
Net (decrease) increase in cash and cash equivalents	(119,552	) 33,026	
Cash and cash equivalents at beginning of period	333,891	201,989	
Cash and cash equivalents at end of period	\$214,339	\$235,015	

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Table of ContentsAKAMAI TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS, continued

(in thousands)	For the Nine Months Ended September 30,	
	2014	2013
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 117,723	\$ 44,191
Non-cash financing and investing activities:		
Purchases of property and equipment and capitalization of internal-use software development costs included in accounts payable and accrued expenses	40,131	12,630
Capitalization of stock-based compensation	11,577	9,252
Convertible note receivable received for divestiture of a business	—	18,882

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

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AKAMAI TECHNOLOGIES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business and Basis of Presentation

Akamai Technologies, Inc. (the “Company”) provides cloud services for delivering, optimizing and securing online content and business applications. The Company's globally distributed platform comprises more than 160,000 servers in over 1,200 networks in over 90 countries. The Company was incorporated in Delaware in 1998 and is headquartered in Cambridge, Massachusetts. The Company currently operates in one industry segment: providing services for accelerating, improving and securing the delivery of content and applications over the Internet.

The accompanying interim consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. These financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in the accompanying financial statements.

Certain information and footnote disclosures normally included in the Company’s annual audited consolidated financial statements and accompanying notes have been condensed in, or omitted from these interim financial statements. Accordingly, the unaudited consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company’s annual report on Form 10-K for the year ended December 31, 2013, filed with the Securities and Exchange Commission on March 3, 2014.

The results of operations presented in this quarterly report on Form 10-Q are not necessarily indicative of the results of operations that may be expected for any future periods. In the opinion of management, these unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, that are necessary for a fair statement of the results of all interim periods reported herein.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued updated guidance and disclosure requirements for recognizing revenue. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for the Company on January 1, 2017 and may be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is evaluating the potential impact of adopting this new accounting guidance.

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2. Fair Value