

AKAMAI TECHNOLOGIES INC

Form 10-Q

November 09, 2006

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

**Form 10-Q**

(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, 2006**
- 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**

**Akamai Technologies, Inc.**  
*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (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

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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.

Large accelerated filer  Accelerated Filer  Non-accelerated Filer

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, par value \$0.01 per share, as of November 7, 2006: 156,428,630 shares.

**AKAMAI TECHNOLOGIES, INC.**

**FORM 10-Q**

**For the quarterly period ended September 30, 2006**

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****AKAMAI TECHNOLOGIES, INC.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
	<b>(In thousands, except share data)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 99,123	\$ 91,792
Marketable securities (including restricted securities of \$1,053 at September 30, 2006 and \$730 at December 31, 2005)	178,584	200,616
Accounts receivable, net of reserves of \$7,503 at September 30, 2006 and \$7,994 at December 31, 2005	67,375	52,162
Prepaid expenses and other current assets	14,386	10,428
Total current assets	359,468	354,998
Property and equipment, net	71,923	44,885
Marketable securities (including restricted securities of \$3,102 at September 30, 2006 and \$3,825 at December 31, 2005)	138,375	21,721
Goodwill	97,177	98,519
Other intangible assets, net	31,830	38,267
Deferred tax assets, net	324,353	328,308
Other assets	4,569	4,801
Total assets	\$ 1,027,695	\$ 891,499
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 19,926	\$ 16,022
Accrued expenses	53,396	38,449
Deferred revenue	7,049	5,656
Current portion of accrued restructuring	1,248	1,749
Total current liabilities	81,619	61,876
Accrued restructuring, net of current portion	868	1,844
Other liabilities	3,513	3,565
1% convertible senior notes	200,000	200,000
Total liabilities	286,000	267,285

## Commitments, contingencies and guarantees (Note 16)

## 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 at September 30, 2006 and December 31, 2005

Common stock, \$0.01 par value; 700,000,000 shares authorized; 156,223,608 shares issued and outstanding at September 30, 2006;

152,922,092 shares issued and outstanding at December 31, 2005

	1,562	1,529
Additional paid-in capital	3,953,477	3,880,985
Deferred stock compensation		(7,537)
Accumulated other comprehensive income, net	1,112	471
Accumulated deficit	(3,214,456)	(3,251,234)

Total stockholders' equity	741,695	624,214
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Total liabilities and stockholders' equity	\$ 1,027,695	\$ 891,499
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*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

**Table of Contents****AKAMAI TECHNOLOGIES, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>For the</b>		<b>For the</b>	
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>(In thousands, except per share data)</b>			
<b>Revenues:</b>				
Services	\$ 111,147	\$ 75,602	\$ 302,225	\$ 198,858
Software and software-related	348	111	744	1,600
<b>Total revenues</b>	<b>111,495</b>	<b>75,713</b>	<b>302,969</b>	<b>200,458</b>
<b>Costs and operating expenses:</b>				
Cost of revenues	24,984	15,295	65,495	39,571
Research and development	8,862	4,953	23,961	13,089
Sales and marketing	29,416	19,803	85,431	54,911
General and administrative	24,529	14,568	64,942	37,748
Amortization of other intangible assets	1,943	2,296	6,437	2,828
<b>Total costs and operating expenses</b>	<b>89,734</b>	<b>56,915</b>	<b>246,266</b>	<b>148,147</b>
<b>Income from operations</b>	<b>21,761</b>	<b>18,798</b>	<b>56,703</b>	<b>52,311</b>
Interest income	4,826	816	12,365	2,218
Interest expense	(856)	(1,383)	(2,401)	(4,568)
Loss on early extinguishment of debt		(1,370)		(1,370)
Other (expense) income, net	(448)	(63)	213	(712)
(Loss) gain on investments, net		(27)	259	(27)
<b>Income before provision (benefit) for income taxes</b>	<b>25,283</b>	<b>16,771</b>	<b>67,139</b>	<b>47,852</b>
Provision (benefit) for income taxes	11,264	(255,489)	30,361	(254,387)
<b>Net income</b>	<b>\$ 14,019</b>	<b>\$ 272,260</b>	<b>\$ 36,778</b>	<b>\$ 302,239</b>
<b>Net income per weighted average share:</b>				
Basic	\$ 0.09	\$ 1.96	\$ 0.24	\$ 2.29
Diluted	\$ 0.08	\$ 1.71	\$ 0.22	\$ 2.00
<b>Shares used in per weighted average share calculations:</b>				
Basic	155,739	139,204	154,753	132,125
Diluted	177,063	160,362	177,290	152,336

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





**Table of Contents****AKAMAI TECHNOLOGIES, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>For the Nine Months Ended September 30, 2006                  2005 (In thousands)</b>	
Cash flows from operating activities:		
Net income	\$ 36,778	\$ 302,239
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,782	16,199
Amortization of deferred financing costs	631	807
Stock-based compensation	34,776	2,267
Excess tax benefits from stock-based compensation	(19,601)	
Change in deferred tax assets, net, including release of deferred tax asset valuation allowance		(255,187)
Utilization of tax net operating loss carryforward	29,096	
Provision for doubtful accounts	433	1,020
Non-cash portion of loss on early extinguishment of debt		481
(Gain) loss on investments, disposal of property and equipment and foreign currency, net	(557)	707
Changes in operating assets and liabilities:		
Accounts receivable	(13,998)	(10,792)
Prepaid expenses and other current assets	(4,814)	1,418
Accounts payable, accrued expenses and other current liabilities	18,518	(3,786)
Deferred revenue	1,102	1,700
Accrued restructuring	(1,506)	(1,401)
Other non-current assets and liabilities	(243)	(547)
Net cash provided by operating activities	109,397	55,125
Cash flows from investing activities:		
Purchases of property and equipment	(37,808)	(21,119)
Capitalization of internal-use software costs	(9,044)	(6,936)
Purchases of short and long-term available for sale securities	(279,707)	(32,619)
Proceeds from sales and maturities of short and long-term available for sale securities	185,233	52,965
Cash acquired in business acquisition, net		1,717
Decrease in restricted investments held for security deposits	400	202
Net cash used in investing activities	(140,926)	(5,790)
Cash flows from financing activities:		
Payments on capital leases		(398)
Excess tax benefits from stock-based compensation	19,601	
Payments on repurchase of 5 1/2% convertible subordinated notes		(56,614)

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Proceeds from the issuance of common stock under stock option and employee stock purchase plans	18,651	7,721
Net cash provided by (used in) financing activities	38,252	(49,291)
Effects of exchange rate changes on cash and cash equivalents	608	(1,278)
Net increase (decrease) in cash and cash equivalents	7,331	(1,234)
Cash and cash equivalents at beginning of period	91,792	35,318
Cash and cash equivalents at end of period	\$ 99,123	\$ 34,084
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 1,004	\$ 4,702
Cash paid for income taxes	2,115	606
Non-cash financing and investing activities:		
Capitalization of stock-based compensation, net of impairments	\$ 2,792	\$
Acquisition of equipment through capital leases		586
Common stock and vested stock options issued and accrued transaction costs for acquisition of a business		131,211
Value of deferred compensation recorded for issuance of deferred stock units		930

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

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**AKAMAI TECHNOLOGIES, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**1. Nature of Business, Basis of Presentation and Principles of Consolidation**

Akamai Technologies, Inc. ( Akamai or the Company ) provides services for accelerating and improving the delivery of content and applications over the Internet. Akamai s globally distributed platform comprises more than 21,000 servers in more than 900 networks in approximately 70 countries. The Company was incorporated in Delaware in 1998 and is headquartered in Cambridge, Massachusetts. Akamai currently operates in one business segment: providing services for accelerating and improving delivery of content and applications over the Internet.

The accompanying interim condensed consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. The accompanying condensed consolidated financial statements include the accounts of Akamai and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. Certain information and footnote disclosures normally included in the Company s annual consolidated financial statements have been condensed or omitted. Accordingly, these condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in Akamai s Annual Report on Form 10-K for the year ended December 31, 2005.

The results of operations presented in this Quarterly Report on Form 10-Q are not necessarily indicative of the results that may be expected for future periods. In the opinion of management, these unaudited condensed consolidated financial statements include all adjustments and accruals, consisting only of normal recurring adjustments, that are necessary for a fair statement of the results as of and for the three and nine month periods ended September 30, 2006 and 2005.

**2. New Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 ( FIN No. 48 ). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN No. 48 prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. FIN No. 48 will be effective for the Company beginning in 2007. Management is currently evaluating the potential impact of FIN No. 48 on the Company s financial position and results of operations.

In September 2006, the Securities and Exchange Commission ( SEC ) released Staff Accounting Bulletin No. 108 ( SAB 108 ). SAB 108 expresses the SEC staff s views regarding the process of quantifying financial statement misstatements. These interpretations were issued to address diversity in practice and the potential under current practice for the build up of improper amounts on the balance sheet. SAB 108 expresses the SEC staff s view that a registrant s materiality evaluation of an identified unadjusted error should quantify the effects of the error on each financial statement and related financial statement disclosures and that prior year misstatements should be considered in quantifying misstatements in current year financial statements. SAB 108 also states that correcting prior year financial statements for immaterial errors would not require previously filed reports to be amended. Such correction

may be made the next time the registrant