

SPLUNK INC
Form 10-Q
June 09, 2015
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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 APRIL 30, 2015

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 001-35498

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

Delaware 86-1106510
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
250 Brannan Street
San Francisco, California 94107
(Address of principal executive offices)
(Zip Code)

(415) 848-8400
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES 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. (Check one):

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

There were 125,711,976 shares of the registrant’s Common Stock issued and outstanding as of June 3, 2015.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Splunk Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

	April 30, 2015	January 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$413,507	\$387,315
Investments, current portion	451,636	462,849
Accounts receivable, net	81,341	128,413
Prepaid expenses and other current assets	19,961	21,256
Total current assets	966,445	999,833
Investments, non-current	177,923	165,082
Property and equipment, net	62,315	50,374
Intangible assets, net	9,285	10,416
Goodwill	19,070	19,070
Other assets	4,957	3,016
Total assets	\$1,239,995	\$1,247,791
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$3,964	\$3,726
Accrued payroll and compensation	46,865	65,220
Accrued expenses and other liabilities	27,503	27,819
Deferred revenue, current portion	249,372	249,883
Total current liabilities	327,704	346,648
Deferred revenue, non-current	55,931	54,202
Other liabilities, non-current	42,266	33,620
Total non-current liabilities	98,197	87,822
Total liabilities	425,901	434,470
Commitments and contingencies (Note 3)		
Stockholders' equity		
Common stock: \$0.001 par value; 1,000,000,000 shares authorized; 125,336,202 shares issued and outstanding at April 30, 2015, and 123,538,492 shares issued and outstanding at January 31, 2015	125	123
Accumulated other comprehensive loss	(847	) (837
Additional paid-in capital	1,272,825	1,200,858
Accumulated deficit	(458,009	) (386,823
Total stockholders' equity	814,094	813,321
Total liabilities and stockholders' equity	\$1,239,995	\$1,247,791

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

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Splunk Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended April 30,	
	2015	2014
Revenues		
License	\$71,872	\$51,274
Maintenance and services	53,793	34,633
Total revenues	125,665	85,907
Cost of revenues (1)		
License	1,161	78
Maintenance and services	21,924	14,109
Total cost of revenues	23,085	14,187
Gross profit	102,580	71,720
Operating expenses (1)		
Research and development	44,698	29,742
Sales and marketing	101,989	71,078
General and administrative	26,872	21,003
Total operating expenses	173,559	121,823
Operating loss	(70,979)	(50,103)
Interest and other income (expense), net		
Interest income, net	360	130
Other income (expense), net	89	(220)
Total interest and other income (expense), net	449	(90)
Loss before income taxes	(70,530)	(50,193)
Income tax provision	656	562
Net loss	\$(71,186)	\$(50,755)
Basic and diluted net loss per share	\$(0.57)	\$(0.43)
Weighted-average shares used in computing basic and diluted net loss per share	124,548	117,290
(1) Amounts include stock-based compensation expense, as follows:		
Cost of revenues	\$6,532	\$3,806
Research and development	20,075	12,587
Sales and marketing	29,610	19,120
General and administrative	9,892	7,726

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

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Splunk Inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended April 30,	
	2015	2014
Net loss	\$ (71,186	) \$ (50,755
Other comprehensive income (loss)		
Net unrealized gain (loss) on investments	(25	) 6
Foreign currency translation adjustments	15	29
Total other comprehensive income (loss)	(10	) 35
Comprehensive loss	\$ (71,196	) \$ (50,720

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

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Splunk Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended April 30,	
	2015	2014
Cash flows from operating activities		
Net loss	\$(71,186	) \$(50,755
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	3,466	2,651
Amortization of investment premiums	361	—
Stock-based compensation	66,109	43,239
Deferred income taxes	(319	) (285
Excess tax benefits from employee stock plans	(466	) (479
Changes in operating assets and liabilities		
Accounts receivable, net	47,072	31,235
Prepaid expenses, other current and non-current assets	(327	) 524
Accounts payable	402	386
Accrued payroll and compensation	(18,355	) (13,757
Accrued expenses and other liabilities	640	4,461
Deferred revenue	1,218	1,691
Net cash provided by operating activities	28,615	18,911
Cash flows from investing activities		
Purchases of investments	(160,514	) (250,883
Maturities of investments	160,000	—
Purchases of property and equipment	(6,415	) (4,238
Other investment activities	(1,500) —
Net cash used in investing activities	(8,429	) (255,121
Cash flows from financing activities		
Proceeds from the exercise of stock options	5,366	5,836
Excess tax benefits from employee stock plans	466	479
Net cash provided by financing activities	5,832	6,315
Effect of exchange rate changes on cash and cash equivalents	174	189
Net increase (decrease) in cash and cash equivalents	26,192	(229,706
Cash and cash equivalents		
Beginning of period	387,315	897,453
End of period	\$413,507	\$667,747
Supplemental disclosures		
Cash paid for income taxes	\$489	\$482
Non-cash investing and financing activities		
Change in accrued purchases of property and equipment	647	1,239
Vesting of early exercised options	28	28
Change in capitalized construction costs related to build-to-suit lease	8,508	—

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Description of the Business and Significant Accounting Policies

Business

Splunk Inc. ("we," "us," "our") provides innovative software products that enable organizations to gain real-time operational intelligence by harnessing the value of their data. Our products enable users to collect, index, search, explore, monitor and analyze data regardless of format or source. Our products address large and diverse data sets, commonly referred to as big data, and are specifically tailored for machine-generated data. Machine data is produced by nearly every software application and electronic device and contains a definitive, time-stamped record of various activities, such as transactions, customer and user activities and security threats. Our products help users derive new insights from machine data that can be used to, among other things, improve service levels, reduce operational costs, mitigate security risks, demonstrate and maintain compliance, and drive better business decisions. We were incorporated in California in October 2003 and reincorporated in Delaware in May 2006.

Fiscal Year

Our fiscal year ends on January 31. References to fiscal 2016 or fiscal year 2016, for example, refer to the fiscal year ending January 31, 2016.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet data as of January 31, 2015 was derived from audited financial statements, but does not include all disclosures required by GAAP. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Annual Report on Form 10-K for the fiscal year ended January 31, 2015, filed with the SEC on March 31, 2015. There have been no changes in the significant accounting policies from those that were disclosed in the audited consolidated financial statements for the fiscal year ended January 31, 2015 included in the Annual Report on Form 10-K.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to state fairly the financial position, results of operations, comprehensive loss and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year 2016.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of 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. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenues and cash flows arising from

customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In April 2015, the FASB proposed a one-year deferral in the effective date of the new standard. In accordance with the deferral, the effective date applicable to us will be the first quarter of fiscal 2019. We have not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our condensed consolidated financial statements and related disclosures.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods covered by the

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financial statements and accompanying notes. In particular, we make estimates with respect to the fair value of multiple elements in revenue recognition, uncollectible accounts receivable, the assessment of the useful life and recoverability of long-lived assets (property and equipment, goodwill and identified intangibles), stock-based compensation expense, the fair value of assets acquired and liabilities assumed for business combinations, income taxes and contingencies. Actual results could differ from those estimates.

Segments

We operate our business as one operating segment: the development and marketing of software products that enable our customers to gain real-time operational intelligence by harnessing the value of their data. Our chief operating decision maker is our Chief Executive Officer, who reviews financial information presented on a consolidated basis for purposes of making operating decisions, assessing financial performance and allocating resources.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of Splunk Inc. and its direct and indirect wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

Foreign Currency

The functional currency of our foreign subsidiaries is the respective local currency. Translation adjustments arising from the use of differing exchange rates from period to period are included in Accumulated Other Comprehensive Loss within Stockholders' Equity. Foreign currency transaction gains and losses are included in Other Income (Expense), Net and were not material for the three months ended April 30, 2015 and 2014. All assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date. All of our revenues are generated in U.S. dollars. Our expenses are generally denominated in the currencies in which our operations are located and are translated at the average exchange rate during the period. Equity and property, plant and equipment related transactions are translated using historical exchange rates.

Foreign Currency Contracts

In the first quarter of fiscal 2016, we began to use foreign currency forward contracts as a part of our strategy to manage exposure related to foreign currency denominated monetary assets and liabilities. These contracts typically have maturities of one month. They are not designated as cash flow or fair value hedges under ASC Topic 815, Derivatives and Hedging. These contracts hedge assets and liabilities that are denominated in foreign currencies and are carried at fair value as either assets or liabilities on the condensed consolidated balance sheets with changes in the fair value recorded to Other income (expense), net in the condensed consolidated statement of operations.

Investments

We determine the appropriate classification of our investments at the time of purchase and reevaluate such determination at each balance sheet date. Securities are classified as available-for-sale and are carried at fair value, with the change in unrealized gains and losses, net of tax, reported as a separate component on the consolidated statements of comprehensive income (loss). Fair value is determined based on quoted market rates when observable or utilizing data points that are observable, such as quoted prices, interest rates and yield curves. Declines in fair value judged to be other-than-temporary on securities available for sale are included as a component of investment income. In order to determine whether a decline in value is other-than-temporary, we evaluate, among other factors, the duration and extent to which the fair value has been less than the carrying value and our intent and ability to retain the

investment for a period of time sufficient to allow for any anticipated recovery in fair value. The cost of securities sold is based on the specific-identification method. Interest on securities classified as available-for-sale is included as a component of interest income.

(2) Investments and Fair Value Measurements

The carrying amounts of certain of our financial instruments including cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short-term maturities.

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Assets and liabilities recorded at fair value in the financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels that are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets or liabilities are as follows:

Level 1—Observable inputs, such as quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the asset or liability.

The following table sets forth the fair value of our financial assets and liabilities that were measured on a recurring basis as of April 30, 2015 and January 31, 2015 (in thousands):

	April 30, 2015				January 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Money market funds	\$404,858	\$—	\$					