

AKAMAI TECHNOLOGIES INC
Form 10-Q
November 09, 2010
Table of Contents

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, 2010

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)

Edgar Filing: AKAMAI TECHNOLOGIES INC - Form 10-Q

Delaware
(State or other jurisdiction of

04-3432319
(I.R.S. Employer

incorporation or organization)

8 Cambridge Center

Identification Number)

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

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

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
(Do not check if a smaller

Smaller reporting company

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 4, 2010: 182,341,910 shares.

Table of Contents

AKAMAI TECHNOLOGIES, INC.

FORM 10-Q

For the quarterly period ended September 30, 2010

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1.	3
<u>Financial Statements (unaudited)</u>	
<u>Consolidated Balance Sheets at September 30, 2010 and December 31, 2009</u>	3
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2010 and 2009</u>	4
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009</u>	5
<u>Notes to Unaudited Consolidated Financial Statements</u>	6
Item 2.	21
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
Item 3.	37
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	
Item 4.	38
<u>Controls and Procedures</u>	
<u>PART II. OTHER INFORMATION</u>	
Item 1.	40
<u>Legal Proceedings</u>	
Item 1A.	40
<u>Risk Factors</u>	
Item 2.	51
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
Item 6.	51
<u>Exhibits</u>	
<u>SIGNATURES</u>	52
<u>EXHIBIT INDEX</u>	53

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

	September 30, 2010	December 31, 2009
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 197,567	\$ 181,305
Marketable securities (including restricted securities of \$602 at September 30, 2010 and December 31, 2009)	410,029	385,436
Accounts receivable, net of reserves of \$7,331 and \$10,579 at September 30, 2010 and December 31, 2009, respectively	158,115	154,269
Prepaid expenses and other current assets	76,439	31,649
Deferred income tax assets	13,658	8,514
Total current assets	855,808	761,173
Property and equipment, net	239,508	182,404
Marketable securities (including restricted securities of \$28 at September 30, 2010 and \$36 at December 31, 2009)	582,609	494,743
Goodwill	452,950	441,347
Other intangible assets, net	66,723	76,273
Deferred income tax assets	52,969	127,154
Other assets	12,185	4,416
Total assets	\$ 2,262,752	\$ 2,087,510
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 29,649	\$ 23,997
Accrued expenses and other current liabilities	84,338	68,566
Deferred revenue	27,790	34,184
Accrued restructuring	768	791
1% convertible senior notes	58,620	199,755
Total current liabilities	201,165	327,293
Other liabilities	25,423	18,818
Deferred revenue	2,017	2,677
Total liabilities	228,605	348,788

Edgar Filing: AKAMAI TECHNOLOGIES INC - Form 10-Q

Commitments, contingencies and guarantees (Note 15)		
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; 187,668,680 shares issued and 182,448,439 shares outstanding at September 30, 2010 and 174,575,502 shares issued and 171,248,356 outstanding at December 31, 2009	1,877	1,746
Additional paid-in capital	4,852,133	4,615,774
Accumulated other comprehensive income (loss)	(5,389)	(10,682)
Treasury stock, at cost, 5,220,241 shares at September 30, 2010 and 3,327,146 shares at December 31, 2009	(131,369)	(66,301)
Accumulated deficit	(2,683,105)	(2,801,815)
Total stockholders' equity	2,034,147	1,738,722
Total liabilities and stockholders' equity	\$ 2,262,752	\$ 2,087,510

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

Table of Contents

AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2010	2009	2010	2009
	(In thousands, except per share amounts)			
Revenues	\$ 253,551	\$ 206,500	\$ 738,898	\$ 621,468
Costs and operating expenses:				
Cost of revenues	77,812	61,987	217,126	182,358
Research and development	14,235	10,904	40,991	31,138
Sales and marketing	55,603	44,106	160,474	127,813
General and administrative	42,729	34,655	125,986	105,867
Amortization of other intangible assets	4,130	4,103	12,390	12,580
Restructuring charge				454
Total costs and operating expenses	194,509	155,755	556,967	460,210
Income from operations	59,042	50,745	181,931	161,258
Interest income	2,809	3,434	9,321	12,233
Interest expense	(222)	(710)	(1,549)	(2,130)
Other (expense) income, net	(1,366)	(659)	(1,319)	659
Gain on investments, net	49	83	297	643
Loss on early extinguishment of debt			(294)	
Income before provision for income taxes	60,312	52,893	188,387	172,663
Provision for income taxes	20,603	20,148	69,677	66,830
Net income	\$ 39,709	\$ 32,745	\$ 118,710	\$ 105,833
Net income per weighted average share:				
Basic	\$ 0.22	\$ 0.19	\$ 0.68	\$ 0.62
Diluted	\$ 0.21	\$ 0.18	\$ 0.63	\$ 0.57
Shares used in per share calculations:				
Basic	181,457	171,686	175,292	171,588
Diluted	191,271	188,273	190,254	188,671

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

Table of Contents

AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Nine Months Ended September 30, 2010 2009 (In thousands)	
Cash flows from operating activities:		
Net income	\$ 118,710	\$ 105,833
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	104,113	89,921
Stock-based compensation expense	57,973	41,999
Provision for deferred income taxes, net	66,898	61,784
Amortization of deferred financing costs	457	630
Provision for doubtful accounts	2,107	4,261
Excess tax benefits from stock-based compensation	(22,379)	(1,371)
Gains on investments and disposal of property and equipment, net	(223)	(367)
Non-cash portion of loss on early extinguishment of debt	294	
Gain on divestiture of certain assets		(1,062)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(6,342)	3,895
Prepaid expenses and other current assets	(41,393)	(10,727)
Accounts payable, accrued expenses and other current liabilities	20,573	(3,437)
Deferred revenue	(7,126)	2,261
Accrued restructuring	(167)	(1,022)
Other non-current assets and liabilities	(1,399)	6,945
 Net cash provided by operating activities	 292,096	 299,543
Cash flows from investing activities:		
Cash paid for acquisition of business, net of cash acquired	(12,210)	(5,779)
Purchases of property and equipment	(119,591)	(58,455)
Capitalization of internal-use software costs	(23,754)	(20,448)
Purchases of short- and long-term marketable securities	(900,087)	