

F5 NETWORKS INC
Form 10-Q
February 07, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2012

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 000-26041

F5 NETWORKS, INC.

(Exact name of registrant as specified in its charter)

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WASHINGTON
(State or other jurisdiction of
incorporation or organization)

91-1714307
(I.R.S. Employer
Identification No.)

401 Elliott Avenue West

Seattle, Washington 98119

(Address of principal executive offices and zip code)

(206) 272-5555

(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

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 (Do not check if a smaller reporting company)

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 February 1, 2013 was 78,590,957.

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F5 NETWORKS, INC.
QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended December 31, 2012

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****F5 NETWORKS, INC.****CONSOLIDATED BALANCE SHEETS**

(unaudited, in thousands)

	December 31, 2012	September 30, 2012
ASSETS		
Current assets		
Cash and cash equivalents	\$ 184,563	\$ 211,181
Short-term investments	333,174	320,970
Accounts receivable, net of allowances of \$3,309 and \$3,254	209,078	185,172
Inventories	18,723	17,410
Deferred tax assets	10,335	10,362
Other current assets	35,916	30,986
Total current assets	791,789	776,081
Property and equipment, net	62,026	59,604
Long-term investments	771,300	662,803
Deferred tax assets	36,234	35,478
Goodwill	348,239	348,239
Other assets, net	28,064	28,996
Total assets	\$ 2,037,652	\$ 1,911,201
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 32,221	\$ 27,026
Accrued liabilities	117,413	86,409
Deferred revenue	379,944	352,594
Total current liabilities	529,578	466,029
Other long-term liabilities	21,163	21,078
Deferred revenue, long-term	100,612	94,694
Total long-term liabilities	121,775	115,772
Commitments and contingencies (Note 5)		
Shareholders' equity		
Preferred stock, no par value; 10,000 shares authorized, no shares outstanding		
Common stock, no par value; 200,000 shares authorized, 78,574 and 78,715 shares issued and outstanding	315,039	326,922
Accumulated other comprehensive loss	(4,540)	(3,829)
Retained earnings	1,075,800	1,006,307
Total shareholders' equity	1,386,299	1,329,400

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Total liabilities and shareholders' equity	\$ 2,037,652	\$ 1,911,201
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The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**F5 NETWORKS, INC.****CONSOLIDATED INCOME STATEMENTS**

(unaudited, in thousands, except per share data)

	Three months ended December 31,	
	2012	2011
Net revenues		
Products	\$ 204,712	\$ 196,554
Services	160,739	125,878
Total	365,451	322,432
Cost of net revenues		
Products	31,792	33,200
Services	29,093	22,406
Total	60,885	55,606
Gross profit	304,566	266,826
Operating expenses		
Sales and marketing	122,268	106,238
Research and development	48,541	39,122
General and administrative	24,673	21,677
Total	195,482	167,037
Income from operations	109,084	99,789
Other income, net	1,550	1,861
Income before income taxes	110,634	101,650
Provision for income taxes	41,141	35,158
Net income	\$ 69,493	\$ 66,492
Net income per share basic	\$ 0.88	\$ 0.84
Weighted average shares basic	78,789	79,272
Net income per share diluted	\$ 0.88	\$ 0.83
Weighted average shares diluted	79,278	79,822

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

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F5 NETWORKS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands)

	Three months ended December 31,	
	2012	2011
Net income	\$ 69,493	\$ 66,492
Other comprehensive income:		
Foreign currency translation adjustment	(257)	(263)
Unrealized loss on securities, net of tax	(453)	(87)
Total other comprehensive income	(710)	(350)
Comprehensive income	\$ 68,783	\$ 66,142

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

Table of Contents**F5 NETWORKS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited, in thousands)

	Three months ended December 31,	
	2012	2011
Operating activities		
Net income	\$ 69,493	\$ 66,492
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized loss on disposition of assets and investments	26	579
Stock-based compensation	26,710	22,123
Provisions for doubtful accounts and sales returns	349	415
Depreciation and amortization	9,934	5,822
Deferred income taxes	(1,265)	(598)
Changes in operating assets and liabilities:		
Accounts receivable	(24,256)	(22,601)
Inventories	(1,313)	(344)
Other current assets	(4,979)	(3,879)
Other assets	428	562
Accounts payable and accrued liabilities	36,411	26,576
Deferred revenue	33,268	36,732
Net cash provided by operating activities	144,806	131,879
Investing activities		
Purchases of investments	(313,114)	(262,499)
Maturities of investments	165,193	199,102
Sales of investments	23,020	1,886
Increase in restricted cash	(728)	(3)
Purchases of property and equipment	(7,788)	(5,857)
Net cash used in investing activities	(133,417)	(67,371)
Financing activities		
Excess tax benefit from stock-based compensation	503	1,399
Proceeds from the exercise of stock options and purchases of stock under employee stock purchase plan	11,583	9,577
Repurchase of common stock	(50,000)	(34,473)
Net cash used in financing activities	(37,914)	(23,497)
Net (decrease) increase in cash and cash equivalents	(26,525)	41,011
Effect of exchange rate changes on cash and cash equivalents	(93)	(307)
Cash and cash equivalents, beginning of period	211,181	216,784
Cash and cash equivalents, end of period	\$ 184,563	\$ 257,488

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

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F5 NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Summary of Significant Accounting Policies

Description of Business

F5 Networks, Inc. (the Company) provides products and services to help companies manage their Internet Protocol (IP) traffic and file storage infrastructure efficiently and securely. The Company's application delivery networking products improve the performance, availability and security of applications on Internet-based networks. Internet traffic between network-based applications and clients passes through these devices where the content is inspected to ensure that it is safe and modified as necessary to ensure that it is delivered securely and in a way that optimizes the performance of both the network and the applications. The Company's storage virtualization products simplify and reduce the cost of managing files and file storage devices, and ensure fast, secure, easy access to files for users and applications. With the purchase of Traffix Communication Systems Ltd. (Traffix Systems) in February 2012, the Company acquired a line of Diameter signaling products that enable full connectivity, enhanced scalability, and comprehensive control for telecommunications operators. These products enable operators to control their signaling networks effectively in the migration to next-generation networks and in future expansion of their subscriber bases and service portfolios. The Company also offers a broad range of services that include consulting, training, maintenance and other technical support services.

Basis of Presentation

The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, the unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for their fair statement in conformity with accounting principles generally accepted in the United States of America. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted in accordance with the rules and regulations of the Securities and Exchange Commission. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

Certain prior year amounts, specifically relating to cash flows in connection with the disposition of investments, have been reclassified from sales of investments to maturities of investments to conform to the current year presentation in the Consolidated Statement of Cash Flows. There was no change to the net cash used in investing activities as a result of this reclassification. This reclassification did not affect total revenue, operating income or net income.

Revenue Recognition

The Company sells products through distributors, resellers, and directly to end users. Revenue is recognized provided that all of the following criteria have been met:

Persuasive evidence of an arrangement exists. Evidence of an arrangement generally consists of a purchase order issued pursuant to the terms and conditions of a distributor, reseller or end user agreement.

Delivery has occurred. The Company uses shipping or related documents, or written evidence of customer acceptance, when applicable, to verify delivery or completion of any performance terms.

The sales price is fixed or determinable. The Company assesses whether the sales price is fixed or determinable based on payment terms associated with the transaction and whether the sales price is subject to refund or adjustment.

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Collectability is reasonably assured. The Company assesses collectability primarily based on the creditworthiness of the customer as determined by credit checks and related analysis, as well as the Customer's payment history. Revenue from the sale of products is generally recognized when the product has been shipped and the customer is obligated to pay for the product. When rights of return are present and the Company cannot estimate returns, revenue is re