SPLUNK INC
Form 10-Q
December 10, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED OCTOBER 31, 2014

OR

o 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 (State or other jurisdiction of incorporation or organization)	86-1106510 (I.R.S. Employer 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 ý NO o

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 ý NO o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO ý

There were 121,262,760 shares of the registrant’s Common Stock issued and outstanding as of December 2, 2014.

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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)

	October 31, 2014	January 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	$329,553	$897,453
Investments, current portion	466,835	—
Accounts receivable, net	82,550	83,348
Prepaid expenses and other current assets	13,495	12,019
Total current assets	892,433	992,820
Investments, non-current	160,923	—
Property and equipment, net	43,236	15,505
Intangible assets, net	11,546	12,294
Goodwill	19,070	19,070
Other assets	2,000	642
Total assets	$1,129,208	$1,040,331
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$2,830	$2,079
Accrued payroll and compensation	48,481	43,876
Accrued expenses and other liabilities	23,461	12,743
Deferred revenue, current portion	180,131	149,156
Total current liabilities	254,903	207,854
Deferred revenue, non-current	49,146	43,165
Other liabilities, non-current	27,265	4,404
Total non-current liabilities	76,411	47,569
Total liabilities	331,314	255,423
Commitments and contingencies (Note 3)		
Stockholders' equity		
Common stock: $0.001 par value; 1,000,000,000 shares authorized; 120,932,143 shares issued and outstanding at October 31, 2014, and 116,099,516 shares issued and outstanding at January 31, 2014	121	116
Accumulated other comprehensive income (loss)	(205)	58
Additional paid-in capital	1,127,773	954,441
Accumulated deficit	(329,795)	(169,707)
Total stockholders' equity	797,894	784,908
Total liabilities and stockholders' equity	$1,129,208	$1,040,331

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 October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
Revenues				
License	$71,754	$50,873	$185,109	$130,230
Maintenance and services	44,275	27,760	118,374	72,483
Total revenues	116,029	78,633	303,483	202,713
Cost of revenues (1)				
License	535	84	685	229
Maintenance and services	17,045	10,441	46,153	24,398
Total cost of revenues	17,580	10,525	46,838	24,627
Gross profit	98,449	68,108	256,645	178,086
Operating expenses (1)				
Research and development	39,534	18,961	103,455	49,635
Sales and marketing	85,720	53,052	236,776	138,999
General and administrative	21,446	12,917	75,125	35,275
Total operating expenses	146,700	84,930	415,356	223,909
Operating loss	(48,251)	(16,822)	(158,711)	(45,823)
Interest and other income (expense), net				
Interest income, net	199	55	492	174
Other income (expense), net	(52)	(283)	(326)	(459)
Total interest and other income (expense), net	147	(228)	166	(285)
Loss before income taxes	(48,104)	(17,050)	(158,545)	(46,108)
Income tax provision (benefit)	447	(500)	1,543	269
Net loss	$(48,551)	$(16,550)	$(160,088)	$(46,377)
Basic and diluted net loss per share	$(0.40)	$(0.16)	$(1.35)	$(0.45)
Weighted-average shares used in computing basic and diluted net loss per share	120,331	106,008	118,895	104,063

(1) Amounts include stock-based compensation expense, as follows:

Cost of revenues	$4,039	$1,165	$11,653	$2,735
Research and development	15,352	4,405	41,517	10,995
Sales and marketing	21,075	5,947	61,458	15,425
General and administrative	7,770	2,815	36,357	6,969

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 October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
Net loss	$(48,551)	$(16,550)	$(160,088)	$(46,377)
Other comprehensive income (loss)				
Net unrealized loss on investments	(57)	—	(61)	—
Foreign currency translation adjustments	(190)	87	(202)	(21)
Total other comprehensive income (loss)	(247)	87	(263)	(21)
Comprehensive loss	$(48,798)	$(16,463)	$(160,351)	$(46,398)

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)

	Nine Months Ended October 31,	
	2014	2013
Cash flows from operating activities		
Net loss	$(160,088)	$(46,377)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	8,968	4,500
Amortization of investment premiums	452	—
Stock-based compensation	150,985	36,124
Deferred income taxes	(793)	(1,188)
Excess tax benefits from employee stock plans	(1,108)	(539)
Impairment of long-lived asset	—	2,128
Changes in operating assets and liabilities		
Accounts receivable, net	798	9,953
Prepaid expenses, other current and non-current assets	(2,041)	366
Accounts payable	1,045	267
Accrued payroll and compensation	4,605	2,532
Accrued expenses and other liabilities	12,673	5,220
Deferred revenue	36,956	26,433
Net cash provided by operating activities	52,452	39,419
Cash flows from investing activities		
Purchases of investments	(691,277)	—
Maturities of investments	63,000	—
Acquisitions, net of cash acquired	(2,500)	(8,958)
Purchases of property and equipment	(11,200)	(7,265)
Net cash used in investing activities	(641,977)	(16,223)
Cash flows from financing activities		
Proceeds from the exercise of stock options	12,805	18,865
Excess tax benefits from employee stock plans	1,108	539
Proceeds from employee stock purchase plans	8,355	6,076
Taxes paid related to net share settlement of equity awards	—	(2,752)
Payment related to build-to-suit lease obligation	(523)	—
Net cash provided by financing activities	21,745	22,728
Effect of exchange rate changes on cash and cash equivalents	(120)	32
Net increase (decrease) in cash and cash equivalents	(567,900)	45,956
Cash and cash equivalents		
Beginning of period	897,453	305,939
End of period	$329,553	$351,895
Supplemental disclosures		
Cash paid for income taxes	$877	$297
Non-cash investing and financing activities		
Accrued purchases of property and equipment	477	856
Vesting of early exercised options	84	83
Capitalized construction costs related to build-to-suit lease	23,085	—

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 2015 or fiscal year 2015, for example, refer to the fiscal year ending January 31, 2015.

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, 2014 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, 2014, filed with the SEC on March 31, 2014. 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, 2014 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 2015.

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 revenue 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. The effective date will be the first quarter of fiscal year 2018 using one of two retrospective application methods. We have not determined the potential effects on our condensed consolidated financial statements.

In July 2013, the FASB determined that an unrecognized tax benefit should be presented as a reduction of a deferred tax asset for a net operating loss ("NOL") carryforward or other tax credit carryforward when settlement in this manner is available under applicable tax law. This guidance is effective for our interim and annual periods beginning February 1, 2014. The adoption of this guidance did not have an impact on our condensed consolidated financial statements.

Use of Estimates

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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 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 or nine months ended October 31, 2014 and 2013. All assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenues and expenses are translated at the average exchange rate during the period. Equity transactions are translated using historical exchange rates.

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 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.

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.

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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 October 31, 2014 and January 31, 2014 (in thousands):

	October 31, 2014				January 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Money market funds	$317,713	$—	$—	$317,713	$864,012	$—	$—	$864,012
U.S. treasury securities	$—	$627,758	$—	$627,758	$—	$—	$—	$—
Reported as:								
Assets:								
Cash and cash equivalents				$317,713				$864,012
Investments, current portion				466,835				—
Investments, non-current				160,923				—
Total				$945,471				$864,012

We invested in U.S. treasury securities during the nine months ended October 31, 2014, which we have classified as available-for-sale securities. The following table presents our available-for-sale investments as of October 31, 2014 (in thousands):

	October 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents:				
U.S. treasury securities	$—	$—	$—	$—
Investments, current portion:				
U.S. treasury securities	466,899	62	(126)	466,835
Investments, non-current:				
U.S. treasury securities	160,916	121	(114)	160,923
Total available-for-sale investments	$627,815	$183	$(240)	$627,758

As of October 31, 2014, we did not consider any of our investments to be other-than-temporarily impaired.

The contractual maturities of our investments are as follows (in thousands):

	October 31, 2014
Due within one year	$466,835
Due within one to two years	160,923
Total	$627,758

Investments with maturities of less than 12 months from the balance sheet date are classified as current assets, which are available for use to fund current operations. Investments with maturities greater than 12 months from the balance sheet date are classified as long-term assets.

(3) Commitments and Contingencies

Office Lease Commitments

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We lease our office spaces under non-cancelable leases with rent expense recognized on a straight-line basis over the lease term. Rent expense was $2.6 million and $1.9 million for the three months ended October 31, 2014 and 2013, respectively, and $7.5 million and $4.3 million for the nine months ended October 31, 2014 and 2013, respectively.

On April 29, 2014, we entered into an office lease (the "Lease") for approximately 182,000 square feet located at 270 Brannan Street, San Francisco, California (the "Premises"). The Premises will be allocated to approximately 95,000 square feet of rentable space (the "Initial Premises") which we expect to occupy in January 2016 and approximately 87,000 square feet of rentable space (the "Must-Take Premises"), which we expect to occupy one year thereafter. The Initial Premises and the Must-Take Premises each have a term of 84 months, subject to the completion of certain pre-occupancy improvements by our landlord. Our total obligation for the base rent is approximately $92.0 million. On May 13, 2014, we entered into an irrevocable, standby letter of credit with Silicon Valley Bank for $6.0 million to serve as a security deposit for the Lease.

As a result of our involvement during the construction period, whereby we have certain indemnification obligations related to the construction, we are considered for accounting purposes only, the owner of the construction project under build-to-suit lease accounting. We have recorded estimated project construction costs incurred by the landlord as an asset and a corresponding long term liability in “Property and equipment, net” and “Other liabilities, non-current” respectively, on our condensed consolidated balance sheets. We will increase the asset and corresponding long term liability as additional building costs are incurred by the landlord during the construction period. Once the landlord completes the construction of the Initial Premises, which is estimated to be in January 2016, we will evaluate the Lease in order to determine whether or not the Lease meets the criteria for “sale-leaseback” treatment.

The following summarizes our contractual commitments and obligations as of October 31, 2014:

	Payments Due by Period*				
	Total	Less Than 1 year	1-3 years	3-5 years	More Than 5 years
	(in thousands)				
Office lease obligations	$148,884	$9,582	$37,200	$41,804	$60,298

*We entered into a sublease agreement on November 16, 2012 for a portion of our office space in the United Kingdom, and the future sublease rental income of $0.9 million has been included as an offset to our future minimum rental payments.

Legal Proceedings

We are subject to certain routine legal proceedings, as well as demands and claims that arise in the normal course of our business. We make a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impact of negotiations, estimated settlements, legal rulings, advice of legal counsel and other information and events pertaining to a particular matter. In our opinion, resolution of any pending claims (either individually or in the aggregate) is not expected to have a material adverse impact on our consolidated results of operations, cash flows or financial position, nor is it possible to provide an estimated amount of any such loss. However, depending on the nature and timing of any such dispute, an unfavorable resolution of a matter could materially affect our future results of operations or cash flows, or both, in a particular quarter.

Indemnification Arrangements

During the ordinary course of business, we may indemnify, hold harmless and agree to reimburse for losses suffered or incurred, our customers, vendors, and each of their affiliates for certain intellectual property infringement and other claims by third parties with respect to our products and services, in connection with our commercial license arrangements or related to general business dealings with those parties.

As permitted under Delaware law, we have entered into indemnification agreements with our officers, directors and certain employees, indemnifying them for certain events or occurrences while they serve as our officers or directors or those of our direct and indirect subsidiaries.

To date, there have not been any costs incurred in connection with such indemnification obligations; therefore, there is no accrual of such amounts at October 31, 2014. We are unable to estimate the maximum potential impact of these indemnifications on our future results of operations.

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(4) Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. These assets are depreciated and amortized using the straight-line method over their estimated useful lives. Property and equipment consisted of the following (in thousands):

	As of October 31, 2014	January 31, 2014
Computer equipment and software	$26,478	$20,451
Furniture and fixtures	7,156	5,364
Leasehold improvements	9,660	7,128
Construction in progress (1)	23,085	—
	66,379	32,943
Less: accumulated depreciation and amortization	(23,143)	(17,438)
Property and equipment, net	$43,236	$15,505

(1) This relates to the capitalization of construction costs in connection with our build-to-suit lease obligation, where we are considered the owner of the asset, for accounting purposes only, during the construction period. There is a corresponding long-term liability for this obligation on our condensed consolidated balance sheets under "Other liabilities, non-current." Refer to Note 3 "Commitments and Contingencies" for details.

Depreciation and amortization expense on Property and Equipment, net was $2.0 million and $3.6 million for the three months ended October 31, 2014 and 2013, respectively, and $5.7 million and $6.5 million for the nine months ended October 31, 2014 and 2013, respectively. Included in depreciation and amortization expense on Property and Equipment, net during the three and nine months ended October 31, 2013 was a $2.1 million impairment charge of a long-lived asset for previously capitalized software development costs for our Splunk Storm product as a result of our decision to make Splunk Storm available to customers at no cost.

(5) Acquisitions, Goodwill and Intangible Assets

BugSense

On September 25, 2013, we acquired BugSense, a privately-held Delaware corporation, which developed and offered as a service an analytics solution for machine data generated by mobile devices. This acquisition has been accounted for as a business combination. The purchase price of $9.0 million paid in cash was allocated as follows: $4.7 million to identifiable intangible assets, $0.7 million to net deferred tax liability recorded and $0.7 million to net liabilities assumed, and the excess $5.7 million of the purchase price over the fair value of net assets acquired was recorded as goodwill allocated to our one operating segment. Goodwill is primarily attributable to our ability to further improve the overall performance of our mobile data gathering capabilities, expand our visibility into machine data generated by mobile devices and the value of acquired personnel. This goodwill is not deductible for U.S. income tax purposes. Pro forma results of operations of the acquired business have not been presented as we do not consider the results to have a material effect during any of the periods presented on our Condensed Consolidated Statement of Operations.

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands, except Useful Life):

	Fair value	Useful Life (months)

Developed technology	$2,940	36
Customer relationships	1,460	36
Other acquired intangible assets	330	24
Total intangible assets subject to amortization	$4,730	

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Cloudmeter

On December 6, 2013, we acquired Cloudmeter, a privately-held Delaware corporation, which developed technology that enables users to capture machine data directly from network traffic. This acquisition has been accounted for as a business combination. The purchase price of $21.0 million paid in cash was allocated as follows: $8.5 million to identifiable intangible assets, $0.6 million to net deferred tax liability recorded and $0.2 million to net liabilities assumed, and the excess $13.3 million of the purchase price over the fair value of net assets acquired was recorded as goodwill allocated to our one operating segment. Goodwill is primarily attributable to enhancing the ability of our customers to analyze machine data directly from their networks and correlate it with other machine-generated data to gain insights across our core use cases in application and infrastructure management, IT operations, security and business analytics. This goodwill is not deductible for U.S. income tax purposes. Pro forma results of operations of the acquired business have not been presented as we do not consider the results to have a material effect on any of the periods presented in our Consolidated Statements of Operations.

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands, except Useful Life):

	Fair value	Useful Life (months)
Developed technology	$7,330	48
In-process research and development	500	Indefinite
Customer relationships	160	36
Other acquired intangible assets	480	24-36
Total intangible assets subject to amortization	$8,470	

Intangible Assets

Intangible assets subject to amortization obtained from acquisitions as of October 31, 2014 are as follows (in thousands, except Useful Life):

	Gross Fair Value	Accumulated Amortization	Net Book Value	Weighted Average Remaining Useful Life (months)
Developed technology	$12,770	$(2,742)	$10,028	34
Customer relationships	1,620	(576)	1,044	23
Other acquired intangible assets	810	(336)	474	20
Total intangible assets subject to amortization	$15,200	$(3,654)	$11,546	

Additionally, we recognized $0.5 million in expense related to the change in net realizable value of in-process research and development obtained upon the acquisition of Cloudmeter during the three months ended October 31, 2014.

The expected future amortization expense for acquired intangible assets as of October 31, 2014 is as follows (in thousands):

Fiscal Period:	
Remaining three months of fiscal 2015	$1,130
Fiscal 2016	4,462
Fiscal 2017	3,802

Fiscal 2018	2,152
Total amortization expense	$11,546

(6) Debt Financing Facilities

On May 9, 2013 we entered into a Loan Agreement with Silicon Valley Bank. The agreement provides for a revolving line of credit facility, which expires May 9, 2015. Under the agreement, we are able to borrow up to $25 million. Interest on any drawdown under the revolving line of credit accrues either at the prime rate (3.25% in October 2014) or the LIBOR rate

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plus 2.75%. As of October 31, 2014, we had no balance outstanding under this agreement. The agreement contains customary financial covenants and other affirmative and negative covenants. We were in compliance with all covenants as of October 31, 2014.

(7) Stock Compensation Plans

The following table summarizes the stock option and restricted stock unit ("RSU") award activity during the nine months ended October 31, 2014:

		Options Outstanding				RSUs Outstanding
	Shares Available for Grant	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (1) (in thousands)	Shares
Balances as of January 31, 2014	5,918,773	11,094,438	$4.84	6.42	$ 800,933	9,993,688
Additional Shares Authorized	5,804,975					
Options granted	(40,000)	40,000	88.64			
Options exercised	—	(3,348,239)	3.82			
Options forfeited and expired	284,912	(284,912)	6.64			
RSUs granted	(2,829,729)					2,829,729
RSUs vested						(1,268,114)
RSUs forfeited	864,807					(864,807)
Balances as of October 31, 2014	10,003,738	7,501,287	$5.67	5.93	$ 454,089	10,690,496
Vested and expected to vest		7,493,476	$5.65	5.93	$ 453,748	10,288,688
Exercisable as of October 31, 2014		4,845,252	$3.37	5.23	$ 303,867	

(1) The intrinsic value is calculated as the difference between the exercise price of the underlying stock option award and the closing market price of our common stock as of October 31, 2014.

During fiscal 2015, we began requiring that employees sell a portion of the shares that they receive upon the vesting of RSUs in order to cover any required withholding taxes, rather than our previous approach of net share settlement.

During the nine months ended October 31, 2014, $1.1 million of tax benefits have been realized from exercised stock options. At October 31, 2014, there was a total unrecognized compensation cost of $11.0 million related to these stock options, adjusted for estimated forfeitures, which is expected to be recognized over a weighted-average period of 1.13 years. At October 31, 2014, total unrecognized compensation cost was $466.2 million related to RSUs, adjusted for estimated forfeitures, which is expected to be recognized over the next 2.99 years.

The total intrinsic value of options exercised during the nine months ended October 31, 2014 was $219.8 million. The weighted-average grant date fair value of RSUs granted was $59.34 per share for the nine months ended October 31, 2014.

(8) Geographic Information

Revenues

Revenues by geography are based on the shipping address of the customer. The following table presents our revenues by geographic region for the periods presented (in thousands):

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	Three Months Ended October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
United States	$91,190	$61,844	$231,895	$159,599
International	24,839	16,789	71,588	43,114
Total revenues	$116,029	$78,633	$303,483	$202,713

Other than the United States, no other individual country exceeded 10% of total revenues during any of the periods presented. At October 31, 2014, there was one channel partner that represented approximately 32% of total accounts receivable and approximately 17% and 14% of total revenues during the three months and nine months ended October 31, 2014, respectively. The accounts receivable and revenues from this channel partner is comprised of a number of customer transactions, none of which were individually greater than 10% of total accounts receivable at October 31, 2014 or total revenues for the three months or nine months ended October 31, 2014. At January 31, 2014, no customer or channel partner represented greater than 10% of total accounts receivable.

Property and Equipment

The following table presents our property and equipment by geographic region for the periods presented (in thousands):

	As of October 31, 2014	January 31, 2014
United States	$39,789	$14,005
International	3,447	1,500
Total property and equipment, net	$43,236	$15,505

Other than the United States, no other country represented 10% or more of our total property and equipment as of October 31, 2014 or January 31, 2014.

(9) Income Taxes

For the three months ended October 31, 2014 and 2013, we recorded $0.4 million in income tax expense and $0.5 million in income tax benefit, respectively. The increase in income tax expense was primarily due to an increase in taxable income in our international jurisdictions and state franchise tax, as well as the absence of a partial release of the valuation allowance as a result of a prior year acquisition. For the nine months ended October 31, 2014 and 2013, we recorded $1.5 million and $0.3 million in income tax expense, respectively. The increase was primarily due to an increase in taxable income in our international jurisdictions and state franchise tax, as well as the absence of a partial release of the valuation allowance as a result of a prior year acquisition.

There were no material changes to our unrecognized tax benefits in the nine months ended October 31, 2014, and we do not expect to have any significant changes to unrecognized tax benefits through the end of the fiscal year. Because of our history of tax losses, all years remain open to tax audit.

(10) Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period, less the weighted-average unvested common stock subject to repurchase or forfeiture. Diluted net loss per share is computed by giving effect to all potential shares of common stock, including preferred stock, stock options, RSUs and warrants, to the extent dilutive.

The following table sets forth the computation of historical basic and diluted net loss per share (in thousands, except per share data):

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	Three Months Ended October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
Numerator:				
Net loss	$(48,551)	$(16,550)	$(160,088)	$(46,377)
Denominator:				
Weighted-average common shares outstanding	120,365	106,079	118,938	104,144
Less: Weighted-average unvested common shares subject to repurchase or forfeiture	(34)	(71)	(43)	(81)
Weighted-average shares used to compute net loss per share, basic and diluted	120,331	106,008	118,895	104,063
Net loss per share, basic and diluted	$(0.40)	$(0.16)	$(1.35)	$(0.45)

Since we were in a net loss position for all periods presented, basic net loss per share is the same as diluted net loss per share for all periods as the inclusion of all potential common shares outstanding would have been anti-dilutive. Potentially dilutive securities that were not included in the diluted per share calculations because they would be anti-dilutive were as follows (in thousands):

	As of October 31,	
	2014	2013
Shares subject to outstanding common stock options	7,501	13,191
Shares subject to outstanding RSUs	10,690	4,316
Employee stock purchase plan	368	296
Total	18,559	17,803

(11) Related Party Transactions

Certain members of our board of directors ("Board") serve on the board of directors of and/or are executive officers of, and, in some cases, are investors in, companies that are customers or vendors of ours. Certain of our executive officers also serve on the board of directors of companies that are customers or vendors of ours. We believe the transactions between these companies and us were carried out on terms that are consistent with similar transactions with our other similarly situated customers or vendors. We recognized revenues from sales to these companies of $0.8 million and $0.6 million for the three months ended October 31, 2014 and 2013, respectively, and $2.3 million and $1.8 million for the nine months ended October 31, 2014 and 2013, respectively. We also recorded $0.5 million and $0.3 million in expenses related to purchases from these companies during the three months ended October 31, 2014 and 2013, respectively, and $1.4 million and $0.9 million for the nine months ended October 31, 2014 and 2013, respectively. We had $6.9 million and $0 of accounts receivable from these companies as of October 31, 2014 and January 31, 2014, respectively. There were no accounts payable to these companies as of October 31, 2014 or January 31, 2014.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Statements that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements are often identified by the use of words such as, but not limited to, “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “project,” “seek,” “should,” “target,” “will,” “would” and similar expressions or va intended to identify forward-looking statements. Such statements include, but are not limited to, statements concerning our market opportunity, our future financial and operating results; our planned investments, particularly in our product development efforts; our planned expansion of our sales and marketing organization; our growth and integration strategies; our continued efforts to market and sell both domestically and internationally; our expectations about seasonal trends; our expectations regarding our revenues mix; use of non-GAAP financial measures; our expectations regarding our operating expenses, including changes in research and development, sales and marketing, and general and administrative expenses; sufficiency of cash to meet cash needs for at

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least the next 12 months; exposure to interest rate changes; inflation; anticipated income tax rates; our expectations regarding our leases; and our expected capital expenditures, cash flows and liquidity.

These statements are based on the beliefs and assumptions of our management based on information currently available to us. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled “Risk Factors” included under Part II, Item 1A below. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances that occur after the date of this report.

Overview

Splunk 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. Outside of an organization's traditional IT and security infrastructure, every processor-based system, including HVAC controllers, smart electrical meters, GPS devices and radio-frequency identification tags, and many consumer-oriented systems, such as mobile devices, automobiles and medical devices that contain embedded electronic devices, are also continuously generating machine data.

We believe the market for software that provides operational intelligence presents a substantial opportunity as data grows in volume and diversity, creating new risks, opportunities and challenges for organizations. Since our inception, we have invested a substantial amount of resources developing our products and technology to address this market, specifically with respect to machine data.

Our products are designed to accelerate return-on-investment for our customers. They generally do not require customization, long deployment cycles or extensive professional services commonly associated with traditional enterprise software applications. Users can simply download and install the software, typically in a matter of hours, to connect to their relevant machine data sources. Alternatively, they can sign up for our Splunk Cloud service and avoid the need to provision, deploy and manage internal infrastructure. They can also provision a computing instance on Amazon Web Services and use Splunk Enterprise as an Amazon Machine Image. We also offer support, training and professional services to our customers to assist in the deployment of our software.

For Splunk Enterprise, we base our license fees on the estimated daily data indexing capacity our customers require. Prospective customers can download a trial version of our software that provides a full set of features but limited data indexing capacity. Following the 60-day trial period, prospective customers can purchase a license for our product or continue using our product with reduced features and limited data indexing capacity. We primarily license our software under perpetual licenses whereby we generally recognize the license fee portion of these arrangements upfront. As a result, the timing of when we enter into large perpetual licenses may lead to fluctuations in our revenues and operating results because our expenses are largely fixed in the short-term. Additionally, we license our software under term licenses which are generally recognized ratably over the contract term. From time to time, we also enter into transactions that are designed to enable broad adoption of our software within an enterprise, referred to as enterprise adoption agreements. These agreements typically include provisions that require revenue deferral and recognition over time.

Splunk Cloud delivers the core functionalities of Splunk Enterprise as a scalable, reliable cloud service. During fiscal 2014, we introduced the first version of our product now known as Hunk: Splunk Analytics for Hadoop and NoSQL Data Stores, which is a software product that enables exploration, analysis and visualization of data in Hadoop and NoSQL. During the third quarter of fiscal 2015, we introduced Splunk MINT Express, the first new product from our acquisition of BugSense, which enables customers to gain greater operational intelligence from mobile apps. We intend to continue investing for long-term growth. We have invested and expect to continue to invest heavily in our product development efforts to deliver additional compelling features, address customer needs and enable solutions that can address new end markets. In addition, we expect to continue to aggressively expand our sales and marketing organizations to market and sell our software both in the United States and internationally.

Our goal is to make our software the platform for delivering operational intelligence and real-time business insights from machine data. The key elements of our growth strategy are to:

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- Extend our technological capabilities.
- Continue to expand our direct and indirect sales organization, including our channel relationships, to acquire new customers.
- Further penetrate our existing customer base and drive enterprise-wide adoption.
- Build premium apps on our core platforms that enable organizations to realize additional value from our software and to use our products in different ways.
- Grow our user communities and partner ecosystem to increase awareness of our brand, target new use cases, drive operational leverage and deliver more targeted, higher value solutions.
- Continue to deliver a rich developer environment to enable rapid development of enterprise applications that leverage machine data and the Splunk platform.

We believe the factors that will influence our ability to achieve our goals include, among other things, our ability to deliver additional functionality; acquire new customers across geographies and industries; cultivate incremental sales from our existing customers by driving increased use of our software within organizations; provide additional solutions that leverage our core machine data engine to help organizations understand and realize the value of their machine data in specific end markets and use cases; add additional OEM and strategic relationships to enable new sales channels for our software as well as extend our integration with third party products; and help software developers leverage the functionality of our machine data engine through software development kits ("SDKs") and application programming interfaces ("APIs").

For the three months ended October 31, 2014 and 2013, our total revenues were $116.0 million and $78.6 million, respectively, representing year-over-year growth of approximately 48%. For the three months ended October 31, 2014 and 2013, approximately 21% of our total revenues were derived from customers located outside the United States. Our customers and end-users represent the public sector and a wide variety of industries, including financial services, manufacturing, retail and technology, among others. As of October 31, 2014, we had over 8,400 customers.

For the three months ended October 31, 2014 and 2013, our GAAP operating loss was $48.3 million and $16.8 million, respectively. Our non-GAAP operating income was $2.7 million and $0.9 million for the three months ended October 31, 2014 and 2013, respectively.

For the three months ended October 31, 2014 and 2013, our GAAP net loss was $48.6 million and $16.6 million, respectively. Our non-GAAP net income was $2.4 million and $0.4 million for the three months ended October 31, 2014 and 2013, respectively.

Our quarterly results reflect seasonality in the sale of our products and services. Historically, a pattern of increased license sales in the fourth fiscal quarter as a result of industry buying patterns has positively impacted sales activity in that period, which can result in lower sequential revenues in the following first fiscal quarter. Our gross margins and operating losses have been affected by these historical trends because the majority of our expenses are relatively fixed in the short-term. The majority of our expenses are personnel-related and include salaries, stock-based compensation, benefits and incentive-based compensation plan expenses. As a result, we have not experienced significant seasonal fluctuations in the timing of expenses from period to period.

Non-GAAP Financial Results

To supplement our condensed consolidated financial statements, which are prepared and presented in accordance with GAAP, we provide investors with certain non-GAAP financial measures, including non-GAAP gross margin, non-GAAP operating income (loss), non-GAAP operating margin, non-GAAP net income (loss) and non-GAAP net income (loss) per share (collectively the “non-GAAP financial measures”). These non-GAAP financial measures exclude all or a combination of the following (as reflected in the following reconciliation tables): stock-based compensation expense, employer payroll tax expense related to employee stock plans, amortization of acquired intangible assets, ground lease expense related to a build-to-suit lease obligation, impairment of a long-lived asset, acquisition-related costs and the partial release of the valuation allowance due to acquisition. In addition, non-GAAP financial measures include free cash flow, which represents cash from operations less purchases of property and equipment. The presentation of the non-GAAP financial measures is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. We

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use these non-GAAP financial measures for financial and operational decision-making purposes and as a means to evaluate period-to-period comparisons. We believe that these non-GAAP financial measures provide useful information about our operating results, enhance the overall understanding of past financial performance and future prospects and allow for greater transparency with respect to key metrics used by our management in its financial and operational decision making. In addition, these non-GAAP financial measures facilitate comparisons to competitors' operating results.

We exclude stock-based compensation expense because it is non-cash in nature and excluding this expense provides meaningful supplemental information regarding our operational performance. In particular, because of varying available valuation methodologies, subjective assumptions and the variety of award types that companies can use under FASB ASC Topic 718, we believe that providing non-GAAP financial measures that exclude this expense allows investors the ability to make more meaningful comparisons between our operating results and those of other companies. We exclude employer payroll tax expense related to employee stock plans in order for investors to see the full effect that excluding that stock-based compensation expense had on our operating results. These expenses are tied to the exercise or vesting of underlying equity awards and the price of our common stock at the time of vesting or exercise, which may vary from period to period independent of the operating performance of our business. We also exclude the non-cash charge for previously capitalized research and development expense for our Splunk Storm product (reflected as an impairment of a long-lived asset) as a result of our strategic decision to start making Splunk Storm available at no cost to customers, a decision that we expect to be infrequent in nature. We also exclude acquisition-related costs, amortization of acquired intangible assets and ground lease expense related to a build-to-suit lease obligation from our non-GAAP financial measures because these are considered by management to be outside of our core operating results. We further exclude the partial release of the valuation allowance due to acquisition from non-GAAP net income (loss) and non-GAAP net income (loss) per share because it is also considered by management to be outside our core operating results. Accordingly, we believe that excluding these expenses provides investors and management with greater visibility to the underlying performance of our business operations, facilitates comparison of our results with other periods and may also facilitate comparison with the results of other companies in our industry. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business that can be used for strategic opportunities, including investing in our business, making strategic acquisitions and strengthening our balance sheet.

There are limitations in using non-GAAP financial measures because the non-GAAP financial measures are not prepared in accordance with GAAP, may be different from non-GAAP financial measures used by our competitors and exclude expenses that may have a material impact upon our reported financial results. Further, stock-based compensation expense has been and will continue to be for the foreseeable future a significant recurring expense in our business and an important part of the compensation provided to our employees. The non-GAAP financial measures are meant to supplement and be viewed in conjunction with GAAP financial measures.

The following table reconciles net cash provided by operating activities to free cash flow for the three and nine months ended October 31, 2014 and 2013 (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
Net cash provided by operating activities	$24,205	$13,317	$52,452	$39,419
Less purchases of property and equipment	(4,054)	(4,035)	(11,200)	(7,265)
Free cash flow (Non-GAAP)	$20,151	$9,282	$41,252	$32,154
Net cash used in investing activities	$(343,378)	$(12,993)	$(641,977)	$(16,223)
Net cash provided by financing activities	$3,627	$4,374	$21,745	$22,728

The following table reconciles GAAP gross margin to non-GAAP gross margin for the three and nine months ended October 31, 2014 and 2013:

	Three Months Ended October 31, 2014	2013	Nine Months Ended October 31, 2014	2013
GAAP gross margin	84.8 %	86.6 %	84.6 %	87.9 %
Stock-based compensation expense	3.5	1.5	3.8	1.3
Employer payroll tax on employee stock plans	0.1	0.1	0.1	—
Amortization of acquired intangible assets	0.6	0.1	0.7	—
Impairment of long-lived asset	—	2.7	—	1.0
Non-GAAP gross margin	89.0 %	91.0 %	89.2 %	90.2 %

The following table reconciles GAAP operating loss to non-GAAP operating income (loss) for the three and nine months ended October 31, 2014 and 2013 (in thousands):

	Three Months Ended October 31, 2014	2013	Nine Months Ended October 31, 2014	2013
GAAP operating loss	$(48,251)	$(16,822)	$(158,711)	$(45,823)
Stock-based compensation expense	48,236	14,332	150,985	36,124
Employer payroll tax on employee stock plans	1,092	691	4,821	1,857
Amortization of acquired intangible assets	1,422	136	3,247	136
Impairment of long-lived asset	—	2,128	—	2,128
Acquisition-related costs	—	408	—	408
Ground lease expense related to build-to-suit lease obligation	222	—	444	—
Non-GAAP operating income (loss)	$2,721	$873	$786	$(5,170)

The following table reconciles GAAP operating margin to non-GAAP operating margin for the three and nine months ended October 31, 2014 and 2013:

	Three Months Ended October 31, 2014	2013	Nine Months Ended October 31, 2014	2013
GAAP operating margin	(41.6)%	(21.4)%	(52.3)%	(22.6)%
Stock-based compensation expense	41.6	18.2	49.8	17.8
Employer payroll tax on employee stock plans	0.9	0.9	1.6	0.9
Amortization of acquired intangible assets	1.2	0.2	1.1	0.1
Impairment of long-lived asset	—	2.7	—	1.0
Acquisition-related costs	—	0.5	—	0.2
Ground lease expense related to build-to-suit lease obligation	0.2	—	0.1	—
Non-GAAP operating margin	2.3 %	1.1 %	0.3 %	(2.6)%

The following table reconciles GAAP net loss to non-GAAP net income (loss) for the three and nine months ended October 31, 2014 and 2013 (in thousands):

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	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Nine Months Ended October 31, 2014	Nine Months Ended October 31, 2013
GAAP net loss	$(48,551)	$(16,550)	$(160,088)	$(46,377)
Stock-based compensation expense	48,236	14,332	150,985	36,124
Employer payroll tax on employee stock plans	1,092	691	4,821	1,857
Amortization of acquired intangible assets	1,422	136	3,247	136
Impairment of long-lived asset	—	2,128	—	2,128
Acquisition-related costs	—	408	—	408
Ground lease expense related to build-to-suit lease obligation	222	—	444	—
Partial release of the valuation allowance due to acquisition	—	(747)	—	(747)
Non-GAAP net income (loss)	$2,421	$398	$(591)	$(6,471)

The following table reconciles the shares used in computing basic and diluted GAAP and non-GAAP net income (loss) per share for the three and nine months ended October 31, 2014 and 2013 (in thousands, except per share amounts):

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Nine Months Ended October 31, 2014	Nine Months Ended October 31, 2013
Weighted-average shares used in computing GAAP basic net loss per share	120,331	106,008	118,895	104,063
Effect of dilutive securities: Employee stock awards	6,541	12,117	—	—
Weighted-average shares used in computing Non-GAAP basic and diluted net income (loss) per share	126,872	118,125	118,895	104,063
GAAP basic and diluted net loss per share	$(0.40)	$(0.16)	$(1.35)	$(0.45)
Non-GAAP basic and diluted net income (loss) per share	$0.02	$0.00	$(0.00)	$(0.06)

Components of Operating Results

Revenues

License revenues. License revenues reflect the revenues recognized from sales of licenses to new customers and additional licenses to existing customers. We are focused on acquiring new customers and increasing revenues from our existing customers as they realize the value of our software by indexing higher volumes of machine data and expanding the use of our software through additional use cases and broader deployment within their organizations. A majority of our license revenues consists of revenues from perpetual licenses, under which we generally recognize the license fee portion of the arrangement upfront, assuming all revenue recognition criteria are satisfied. Customers can also purchase term license agreements, under which we recognize the license fee ratably, on a straight-line basis, over the term of the license. Due to the differing revenue recognition policies applicable to perpetual and term licenses, shifts in the mix between perpetual and term licenses from quarter to quarter could produce substantial variation in revenues recognized even if our sales remain consistent. In addition, seasonal trends that contribute to increased sales activity in the fourth fiscal quarter often result in lower sequential revenues in the first fiscal quarter, and we expect this trend to continue. Comparing our revenues on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance.

Maintenance and services revenues. Maintenance and services revenues consist of revenues from maintenance agreements and, to a lesser extent, professional services and training. Typically, when purchasing a perpetual license, a customer also purchases one year of maintenance service for which we charge a percentage of the license fee. When a term license is purchased, maintenance service is typically bundled with the license for the term of the license period. Customers with maintenance agreements are entitled to receive support and unspecified upgrades and enhancements when and if they become available during the maintenance period. We recognize the revenues associated with maintenance agreements ratably, on a straight-line basis, over the associated maintenance period. In arrangements involving a term license, we recognize both

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the license and maintenance revenues over the contract period. We have a professional services organization focused on helping some of our largest customers deploy our software in highly complex operational environments and train their personnel. We recognize the revenues associated with these professional services on a time and materials basis as we deliver the services or provide the training. We expect maintenance and services revenues to become a larger percentage of our total revenues as our installed customer base grows.

Professional services and training revenues as a percentage of total revenues were 8% and 7% for the three months ended October 31, 2014 and 2013, respectively. We have experienced continued growth in our professional services revenues primarily due to the deployment of our software with some customers that have large, highly complex IT environments.

Cost of Revenues

Cost of license revenues. Cost of license revenues includes all direct costs to deliver our product, including salaries, benefits, stock-based compensation and related expenses such as employer taxes, allocated overhead for facilities and IT and amortization of acquired intangible assets. We recognize these expenses as they are incurred.

Cost of maintenance and services revenues. Cost of maintenance and services revenues includes salaries, benefits, stock-based compensation and related expenses such as employer taxes for our maintenance and services organization, allocated overhead for depreciation of equipment, facilities and IT, and amortization. We recognize expenses related to our maintenance and services organization as they are incurred.

Operating Expenses

Our operating expenses are classified into three categories: research and development, sales and marketing and general and administrative. For each category, the largest component is personnel costs, which include salaries, employee benefit costs, bonuses, commissions as applicable, stock-based compensation and related expenses such as employer taxes. Operating expenses also include allocated overhead costs for depreciation of equipment, facilities and IT. Allocated costs for facilities consist of leasehold improvements and rent. Our allocated costs for IT include costs for compensation of our IT personnel and costs associated with our IT infrastructure. Operating expenses are generally recognized as incurred.

Research and development. Research and development expenses primarily consist of personnel and facility-related costs attributable to our research and development personnel. We have devoted our product development efforts primarily to enhancing the functionality and expanding the capabilities of our software and services. We expect that our research and development expenses will continue to increase, in absolute dollars, as we increase our research and development headcount to further strengthen and enhance our software and services and invest in the development of our solutions and apps.

Sales and marketing. Sales and marketing expenses primarily consist of personnel and facility-related costs for our sales, marketing and business development personnel, commissions earned by our sales personnel, and the cost of marketing and business development programs. We expect that sales and marketing expenses will continue to increase, in absolute dollars, as we continue to hire additional personnel and invest in marketing programs.

General and administrative. General and administrative expenses primarily consist of personnel and facility-related costs for our executive, finance, legal, human resources and administrative personnel; our legal, accounting and other professional services fees; and other corporate expenses. We anticipate continuing to incur additional expenses due to growing our operations and being a publicly traded company, including higher legal, corporate insurance and accounting expenses and costs related to maintaining compliance with Section 404 of the Sarbanes-Oxley Act and related regulations.

Interest and other income (expense), net

Interest and other income (expense), net consists primarily of foreign exchange gains and losses, interest income on our investments and cash and cash equivalents balances, and interest expense on outstanding debt.

Provision for income taxes

The provision for income taxes consists of federal, state and foreign income taxes. We recognize deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts using enacted tax rates in effect for the year in which we expect the differences to reverse. We record a valuation allowance to reduce the deferred tax assets to the amount that we are more-likely-than-not to realize. Because of our history of U.S. net operating losses, we have established, in prior years, a full valuation allowance against potential future

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benefits for U.S. deferred tax assets including loss carry-forwards and research and development and other tax credits. We regularly assess the likelihood that our deferred income tax assets will be realized based on the realization guidance available. To the extent that we believe any amounts are not more-likely-than-not to be realized, we record a valuation allowance to reduce the deferred income tax assets. We regularly assess the need for the valuation allowance on our deferred tax assets, and to the extent that we determine that an adjustment is needed, such adjustment will be recorded in the period that the determination is made.

Results of Operations

The following tables set forth our results of operations for the periods presented and as a percentage of our total revenues for those periods. The period-to-period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods.

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
	(in thousands)			
Condensed Consolidated Statement of Operations Data:				
Revenues				
License	$71,754	$50,873	$185,109	$130,230
Maintenance and services	44,275	27,760	118,374	72,483
Total revenues	116,029	78,633	303,483	202,713
Cost of revenues				
License	535	84	685	229
Maintenance and services	17,045	10,441	46,153	24,398
Total cost of revenues	17,580	10,525	46,838	24,627
Gross profit	98,449	68,108	256,645	178,086
Operating expenses				
Research and development	39,534	18,961	103,455	49,635
Sales and marketing	85,720	53,052	236,776	138,999
General and administrative	21,446	12,917	75,125	35,275
Total operating expenses	146,700	84,930	415,356	223,909
Operating loss	(48,251)	(16,822)	(158,711)	(45,823)
Interest and other income (expense), net				
Interest income	199	55	492	174
Other income (expense), net	(52)	(283)	(326)	(459)
Total interest and other income (expense), net	147	(228)	166	(285)
Loss before income taxes	(48,104)	(17,050)	(158,545)	(46,108)
Income tax provision (benefit)	447	(500)	1,543	269
Net loss	$(48,551)	$(16,550)	$(160,088)	$(46,377)

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	Three Months Ended October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
	(as % of revenues)			
Condensed Consolidated Statement of Operations Data:				
Revenues				
License	61.8 %	64.7 %	61.0 %	64.2 %
Maintenance and services	38.2	35.3	39.0	35.8
Total revenues	100.0	100.0	100.0	100.0
Cost of revenues				
License (1)	0.7	0.2	0.4	0.2
Maintenance and services (1)	38.5	37.6	39.0	33.7
Total cost of revenues	15.2	13.4	15.4	12.1
Gross profit	84.8	86.6	84.6	87.9
Operating expenses				
Research and development	34.1	24.1	34.1	24.5
Sales and marketing	73.8	67.5	78.0	68.6
General and administrative	18.5	16.4	24.8	17.4
Total operating expenses	126.4	108.0	136.9	110.5
Operating loss	(41.6)	(21.4)	(52.3)	(22.6)
Interest and other income (expense), net				
Interest income (expense), net	0.2	0.1	0.2	0.1
Other income (expense), net	—	(0.4)	(0.1)	(0.2)
Total interest and other income (expense), net	0.2	(0.3)	0.1	(0.1)
Loss before income taxes	(41.4)	(21.7)	(52.2)	(22.7)
Income tax provision (benefit)	0.4	(0.6)	0.5	0.1
Net loss	(41.8)%	(21.1)%	(52.7)%	(22.8)%

(1) Calculated as a percentage of the associated revenues.

Comparison of the Three Months Ended October 31, 2014 and 2013

Revenues

	Three Months Ended October 31,		
	2014	2013	% Change
	($ amounts in thousands)		
Revenues			
License	$71,754	$50,873	41.0 %
Maintenance and services	44,275	27,760	59.5 %
Total revenues	$116,029	$78,633	47.6 %
Percentage of revenues			
License	61.8 %	64.7 %	
Maintenance and services	38.2	35.3	
Total	100.0 %	100.0 %	

The increase in license revenues of $20.9 million was primarily driven by increases in our total number of customers, sales to existing customers and an increase in the number of large orders. For example, we had 290 and 207 orders greater than $100,000 for the three months ended October 31, 2014 and 2013, respectively. Our total number of customers increased from approximately 6,400 at October 31, 2013 to more than 8,400 at October 31, 2014. The increase in maintenance and services

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revenues of $16.5 million was due to increases in sales of maintenance agreements as well as sales of professional services resulting from the growth of our installed customer base.

Cost of Revenues and Gross Margin

	Three Months Ended October 31,				
	2014		2013		% Change	
	($ amounts in thousands)					
Cost of revenues						
License	$535		$84		536.9	%
Maintenance and services	17,045		10,441		63.3	%
Total cost of revenues	$17,580		$10,525		67.0	%
Gross margin						
License	99.3	%	99.8	%		
Maintenance and services	61.5	%	62.4	%		
Total gross margin	84.8	%	86.6	%		

Total cost of revenues increased $7.1 million due to the increase in cost of maintenance and services revenues. The increase in cost of maintenance and services revenues was primarily related to an increase of $5.3 million in salaries and benefits expense, which includes a $2.9 million increase in stock-based compensation expense, due to increased headcount, an increase of $2.1 million related to professional services expense and an increase of $0.9 million related to overhead costs. These increases were partially offset by a $2.1 million decrease due to the absence of a prior year impairment charge of a long-lived asset for previously capitalized software development costs for our Splunk Storm product as a result of our decision to make Splunk Storm available to customers at no cost.

Operating Expenses

	Three Months Ended October 31,					
	2014		2013		% Change	
	($ amounts in thousands)					
Operating expenses (1)						
Research and development	$39,534		$18,961		108.5	%
Sales and marketing	85,720		53,052		61.6	%
General and administrative	21,446		12,917		66.0	%
Total operating expenses	$146,700		$84,930		72.7	%
Percentage of revenues						
Research and development	34.1	%	24.1	%		