SPLUNK INC
Form 10-Q
June 13, 2013
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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 APRIL 30, 2013

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 o	Accelerated filer o
Non-accelerated filer x (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 103,812,024 shares of the registrant's Common Stock issued and outstanding as of June 7, 2013.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

Splunk Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

	April 30, 2013	January 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$331,252	$305,939
Accounts receivable, net	37,916	63,948
Prepaid expenses and other current assets	7,191	6,861
Total current assets	376,359	376,748
Property and equipment, net	12,695	13,205
Other assets	460	492
Total assets	$389,514	$390,445
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$2,533	$1,632
Accrued payroll and compensation	21,191	28,123
Accrued expenses and other liabilities	9,421	7,636
Deferred revenue, current portion	84,933	79,568
Total current liabilities	118,078	116,959
Deferred revenue, non-current	32,404	35,144
Other liabilities, non-current	1,055	798
Total non-current liabilities	33,459	35,942
Total liabilities	151,537	152,901
Commitments and contingencies (Note 3)		
Stockholders' equity:		
Common stock: $0.001 par value; 1,000,000,000 shares authorized; 103,065,286 shares issued and outstanding at April 30, 2013, and 100,920,350 shares issued and outstanding at January 31, 2013	103	101
Accumulated other comprehensive loss	(149)	(135)
Additional paid-in capital	344,856	328,277
Accumulated deficit	(106,833)	(90,699)
Total stockholders' equity	237,977	237,544
Total liabilities and stockholders' equity	$389,514	$390,445

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

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Splunk Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended April 30,	
	2013	2012
Revenues		
License	$36,172	$24,386
Maintenance and services	21,035	12,805
Total revenues	57,207	37,191
Cost of revenues (1)		
License	69	129
Maintenance and services	6,612	4,136
Total cost of revenues	6,681	4,265
Gross profit	50,526	32,926
Operating expenses (1)		
Research and development	14,464	8,103
Sales and marketing	41,313	24,166
General and administrative	10,446	6,846
Total operating expenses	66,223	39,115
Operating loss	(15,697)	(6,189)
Interest and other income (expense), net		
Interest income (expense), net	61	(19)
Other income (expense), net	(94)	2
Change in fair value of preferred stock warrants	—	(14,087)
Total interest and other income (expense), net	(33)	(14,104)
Loss before income taxes	(15,730)	(20,293)
Provision for income taxes	404	177
Net loss	$(16,134)	$(20,470)
Net loss per share:		
Basic and diluted	$(0.16)	$(0.71)
Weighted-average shares outstanding:		
Basic and diluted	102,015	28,679

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

Cost of revenues	$705	$108
Research and development	3,043	895
Sales and marketing	4,322	858
General and administrative	1,765	811

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

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Splunk Inc.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended April 30,	
	2013	2012
Net loss	$(16,134)	$(20,470)
Other comprehensive gain (loss):		
Foreign currency translation adjustments	(14)	7
Comprehensive loss	$(16,148)	$(20,463)

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

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Splunk Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended April 30,	
	2013	2012
Cash flows from operating activities		
Net loss	$(16,134)	$(20,470)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	1,425	931
Change in fair value of preferred stock warrants	—	14,087
Stock-based compensation expense	9,835	2,672
Excess tax benefits from employee stock plans	(111)	—
Changes in operating assets and liabilities		
Accounts receivable, net	26,032	11,015
Prepaid expenses, other current and non-current assets	(298)	12
Accounts payable	918	1,006
Accrued compensation	(6,932)	(4,457)
Accrued expenses and other liabilities	2,491	295
Deferred revenue	2,625	6,477
Net cash provided by operating activities	19,851	11,568
Cash flows from investing activities		
Purchases of property and equipment	(1,263)	(1,877)
Net cash used in investing activities	(1,263)	(1,877)
Cash flows from financing activities		
Repayments of term debt	—	(2,289)
Proceeds from initial public offering, net of offering costs	—	226,512
Proceeds from exercise of stock options	6,607	546
Excess tax benefits from employee stock plans	111	—
Net cash provided by financing activities	6,718	224,769
Effect of exchange rate changes on cash and cash equivalents	7	18
Net increase in cash and cash equivalents	25,313	234,478
Cash and cash equivalents		
Beginning of period	305,939	31,599
End of period	$331,252	$266,077
Supplemental disclosures		
Cash paid for interest	$—	$40
Cash paid for income taxes	181	—
Non-cash investing and financing activities		
Accrued purchases of property and equipment	119	419
Vesting of early exercised options	28	191
Conversion of preferred stock to common stock	—	40,913
Deferred offering costs not yet paid	—	999

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") provides an innovative software platform that enables organizations to gain real-time operational intelligence by harnessing the value of their data. Our software collects and indexes data regardless of format or source, and enables users to search, correlate, analyze, monitor and report on this data. Our software addresses large and diverse data sets, commonly referred to as big data, and is specifically tailored for machine-generated data. Machine data is produced by nearly every software application and electronic device in an organization and contains a definitive, time-stamped record of various activities, such as transactions, customer and user activities, and security threats. Our software is designed to help users in various roles, including IT and business professionals, analyze machine data and realize real-time visibility into and intelligence about their organization's operations. This operational intelligence enables organizations to improve service levels, reduce costs, mitigate security risks, demonstrate and maintain compliance, and gain new insights that enable them to drive better business decisions. We were incorporated in California in October 2003 and was reincorporated in Delaware in May 2006.

Fiscal Year

Our fiscal year ends on January 31. References to fiscal 2014 or fiscal year 2014, for example, refer to the fiscal year ending January 31, 2014.

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, 2013 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, 2013, filed on April 1, 2013. 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, 2013 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 2014.

Recently Issued Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board issued updated authoritative guidance requiring entities to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety from accumulated other comprehensive income to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. We adopted this guidance during the three months ended April 30, 2013. The adoption of this guidance did not impact our financial statements, as the guidance is related to disclosure only and we have not had any significant reclassifications out of accumulated other comprehensive loss.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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,

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we make estimates with respect to the fair value of multiple elements in revenue recognition, uncollectible accounts receivable, stock-based compensation expense, 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 a software platform that enables our customers to gain real-time operational intelligence by harnessing the value of their data. Our chief operating decision maker is our Chief Executive Officer, who reviews financial information presented on a consolidated basis for purposes of making operating decisions, assessing financial performance and allocating resources.

Principles of Consolidation

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

Foreign Currency

The functional currency of our foreign subsidiaries is the respective local currency. Translation adjustments arising from the use of differing exchange rates from period to period are included in Accumulated Other Comprehensive Loss within Stockholders' Equity. Foreign currency transaction gains and losses are included in Other Income (Expense), Net and were not material for the three months ended April 30, 2013 and 2012. 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.

(2) 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.

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

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

The following table sets forth the fair value of our financial assets and liabilities that were measured on a recurring basis as of April 30, 2013 and January 31, 2013 (in thousands):

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	April 30, 2013				January 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Money market funds	$250,863	$—	$—	$250,863	$250,810	$—	$—	$250,810
Reported as:								
Assets:								
Cash and cash equivalents				$250,863				$250,810
Total				$250,863				$250,810

During the three months ended April 30, 2013, we did not re-measure at fair value on a nonrecurring basis, any nonfinancial assets and liabilities, such as intangible assets and property and equipment.

(3) Commitments and Contingencies

Operating Lease Commitments

We lease our office spaces under non-cancelable operating leases with rent expense recognized on a straight-line basis over the lease term. Rent expense was $1.2 million and $0.8 million for the three months ended April 30, 2013 and 2012.

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 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 end-user 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 and directors, indemnifying them for certain events or occurrences while they serve as officers or directors of the company.

To date, there have not been any costs incurred in connection with such indemnification obligations; therefore, there is no accrual of such amounts at April 30, 2013. We are unable to estimate the maximum potential impact of these indemnifications on our future results of operations.

(4) Debt Financing Facilities

In May 2009, we entered into a Loan and Security Agreement with Silicon Valley Bank, which expired on April 30, 2013. The agreement included a revolving line of credit facility as described below. The agreement contained financial covenants and other customary affirmative and negative covenants. We were in compliance with all covenants as of April 30, 2013. As part of the agreement, we granted the lender a security interest in our personal property, excluding intellectual property and other intangible assets.

We were able to borrow up to $10.0 million under the revolving line of credit facility, subject to a borrowing base determined on eligible accounts receivable and subject to a total maximum outstanding of $10.0 million. As of April 30, 2013,

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we had no balance outstanding on the revolving line of credit. Interest on any drawdown under the revolving line of credit accrued at the prime rate (3.25% in April 2013).

On May 9, 2013 we entered into a new 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 at either the prime rate or the LIBOR rate plus 2.75%. As of June 13, 2013, 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 June 13, 2013.

(5) Convertible Preferred Stock

Upon the closing of our initial public offering ("IPO") in April 2012, all outstanding shares of convertible preferred stock were converted into shares of common stock. Warrants to purchase convertible preferred stock were converted into warrants to purchase common stock.

Warrants to Purchase Convertible Preferred Stock

Prior to the closing of our IPO in April 2012, we re-measured the fair value of the preferred stock warrants at each balance sheet date. The fair value of the outstanding warrants was classified within non-current liabilities on the consolidated balance sheets and any changes in fair value were recognized as a component of Other income (expense), net in our consolidated statements of operations. We performed the final re-measurement of the warrants at the closing date of our IPO and recorded an expense of $14.1 million arising from the revaluation during the three months ended April 30, 2012. The fair value of the outstanding warrants was determined using the Black-Scholes option-pricing model. We determined the fair value of each warrant on the issuance date and subsequent reporting dates using the Black-Scholes pricing model utilizing the assumptions noted below. The expected term of the warrant is based on the remaining contractual expiration period. The expected stock price volatility for our stock was determined by examining the historical volatilities of a group of our industry peers as we did not have any trading history of our common stock. The risk-free interest rate was calculated using the average of the published interest rates for United States Treasury zero-coupon issues with maturities that approximate the expected term. The dividend yield assumption is zero as we did not have any history of, nor plans for, dividend payments.

There were no preferred stock warrants outstanding during the three months ended April 30, 2013. The assumptions below were used to estimate the value of the preferred stock warrants during the three months ended April 30, 2012:

Expected volatility	49.7-53.2%	
Risk-free rate	0.50-1.40%	
Dividend yield	0.0	%
Expected term (in years)	3.38-6.30	

(6) Stock Compensation Plans

The following table summarizes the stock option and restricted stock unit ("RSU") award activity during the three months ended April 30, 2013:

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		Options Outstanding				RSUs Outstanding
	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, 2013	7,867,788	18,917,547	$4.26	7.69	$ 544,606	2,904,707
Additional Shares Authorized	5,046,017					
Options granted		—	—			
Options exercised		(2,143,156)	3.08			
Options forfeited and expired	105,725	(105,725)	4.19			
RSUs granted	(355,333)					355,333
RSUs vested						(1,780)
RSUs forfeited and expired	31,750					(31,750)
Balances as of April 30, 2013	12,695,947	16,668,666	4.41	7.45	$ 606,588	3,226,510
Vested and expected to vest		16,234,490	$4.34	7.42	$ 591,867	3,065,185
Exercisable as of April 30, 2013		7,985,139	$1.71	6.40	$ 312,157	

(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 April 30, 2013.

During the three months ended April 30, 2013, $0.1 million of tax benefits have been realized from exercised stock options. At April 30, 2013, there was a total unrecognized compensation cost of $27.8 million related to these stock options, adjusted for estimated forfeitures, which is expected to be recognized over a weighted-average period of 2.34 years. At April 30, 2013, there was a total unrecognized compensation cost of $82.1 million related to RSUs, adjusted for estimated forfeitures, which is expected to be recognized over the next 3.64 years.

The total intrinsic value of options exercised during three months ended April 30, 2013 was $75.2 million. There were no options granted during the three months ended April 30, 2013. The weighted-average grant date fair value of RSUs granted was $38.41 per share for the three months ended April 30, 2013.

(7) Geographic Information

Revenue

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):

	Three Months Ended April 30,	
	2013	2012
United States	$45,003	$30,204
International	12,204	6,987
Total Revenues	$57,207	$37,191

Other than the United States, no other individual country exceeded 10% of total revenues during any of the periods presented. No individual customer represented greater than 10% of total revenues during any of the periods presented. At April 30, 2013, no customer represented greater than 10% of total accounts receivable. At January 31, 2013, there was one customer that represented approximately 31% of total accounts receivable.

Property and Equipment

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

	As of	
	April 30, 2013	January 31, 2013
United States	$11,184	$11,471
International	1,511	1,734
Total property and equipment, net	$12,695	$13,205

As of April 30, 2013, one country, the United Kingdom, represented approximately 12% of total property and equipment.

(8) Income Taxes

For the three months ended April 30, 2013 and 2012, we recorded $0.4 million and $0.2 million in income tax expense, respectively. The increase was primarily due to federal alternative minimum tax and increase in taxable income in our international jurisdictions.

There were no material changes to our unrecognized tax benefits in the three months ended April 30, 2013, 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.

(9) Net Loss Per Share