AKAMAI TECHNOLOGIES INC
Form 10-Q
November 12, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 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 0-27275

Akamai Technologies, Inc.

(Exact name of registrant as specified in its charter)

Delaware	04-3432319
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8 Cambridge Center
Cambridge, MA 02142
(617) 444-3000
(Address, Including Zip Code, and Telephone Number,
Including Area Code, of Registrant's Principal Executive Offices)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding of the registrant's common stock as of November 5, 2013: 178,977,003

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AKAMAI TECHNOLOGIES, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2013

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS

(in thousands, expect share data)	September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$235,015	$201,989
Marketable securities	331,300	235,592
Accounts receivable, net of reserves of $3,584 and $3,807 at September 30, 2013 and December 31, 2012, respectively	256,453	218,777
Prepaid expenses and other current assets	67,452	51,604
Deferred income tax assets	20,422	20,422
Total current assets	910,642	728,384
Property and equipment, net	424,605	345,091
Marketable securities	620,204	657,659
Goodwill	751,271	723,701
Acquired intangible assets, net	79,803	84,554
Deferred income tax assets	20,672	21,427
Other assets	77,928	39,811
Total assets	$2,885,125	$2,600,627
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$49,073	$43,291
Accrued expenses	171,527	133,087
Deferred revenue	37,025	26,291
Other current liabilities	27,799	275
Total current liabilities	285,424	202,944
Deferred revenue	2,643	2,565
Other liabilities	53,928	49,364
Total liabilities	341,995	254,873
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized; 700,000 shares designated as Series A Junior Participating Preferred Stock; no shares issued or outstanding	—	—
Common stock, $0.01 par value; 700,000,000 shares authorized; 203,958,959 shares issued and 178,707,441 shares outstanding at September 30, 2013 and 200,199,536 shares issued and 177,782,814 shares outstanding at December 31, 2012	2,059	2,015
Additional paid-in capital	5,295,939	5,195,543
Accumulated other comprehensive loss	(5,434)	(1,640)
Treasury stock, at cost, 25,251,518 shares at September 30, 2013 and 22,416,722 shares at December 31, 2012	(736,870)	(624,462)
Accumulated deficit	(2,012,564)	(2,225,702)
Total stockholders' equity	2,543,130	2,345,754

Total liabilities and stockholders’ equity	$2,885,125	$2,600,627

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

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AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(in thousands, except per share data)	2013	2012	2013	2012
Revenue	$395,790	$345,321	$1,141,942	$996,075
Costs and operating expenses:				
Cost of revenue	132,039	134,221	377,136	390,406
Research and development	24,857	19,351	67,359	54,373
Sales and marketing	67,811	55,206	198,326	160,681
General and administrative	66,634	51,003	183,365	156,241
Amortization of acquired intangible assets	4,859	5,381	16,653	15,611
Restructuring charges	69	—	891	14
Total costs and operating expenses	296,269	265,162	843,730	777,326
Income from operations	99,521	80,159	298,212	218,749
Interest income, net	1,458	1,593	4,543	4,865
Other (expense) income, net	(305)	(241)	(96)	449
Income before provision for income taxes	100,674	81,511	302,659	224,063
Provision for income taxes	20,918	33,280	89,521	88,366
Net income	$79,756	$48,231	$213,138	$135,697
Net income per share:				
Basic	$0.45	$0.27	$1.20	$0.76
Diluted	$0.44	$0.27	$1.17	$0.75
Shares used in per share calculations:				
Basic	178,235	177,455	178,008	178,040
Diluted	181,922	181,053	181,623	181,738

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

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AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(in thousands)	2013	2012	2013	2012
Net income	$79,756	$48,231	$213,138	$135,697
Other comprehensive income (loss):				
Foreign currency translation adjustments	2,950	3,770	(4,810)	740
Change in unrealized gain on investments, net of income tax expense of $1,532, $425, $629 and $538 for the three and nine months ended September 30, 2013 and 2012, respectively	2,571	821	1,016	1,002
Other comprehensive income (loss)	5,521	4,591	(3,794)	1,742
Comprehensive income	$85,277	$52,822	$209,344	$137,439

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

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AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine Months Ended September 30,	
(in thousands)	2013	2012
Cash flows from operating activities:		
Net income	$213,138	$135,697
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	134,455	149,203
Stock-based compensation	72,211	69,180
Provision for doubtful accounts	889	(61)
Excess tax benefits from stock-based compensation	(18,152)	(17,589)
Provision for deferred income taxes	—	826
Gain from disposal of property and equipment	(15)	(62)
Gain from divestiture of a business	(1,188)	—
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts receivable	(51,321)	(21,587)
Prepaid expenses and other current assets	(9,266)	10,010
Accounts payable and accrued expenses	43,730	49,149
Deferred revenue	10,991	5,542
Other current liabilities	32	(2,897)
Other non-current assets and liabilities	(3,328)	(104)
Net cash provided by operating activities	392,176	377,307
Cash flows from investing activities:		
Cash paid for acquired businesses, net of cash acquired	(27,420)	(306,030)
Purchases of property and equipment	(142,567)	(119,116)
Capitalization of internal-use software development costs	(55,171)	(39,921)
Purchases of short- and long-term marketable securities	(403,556)	(554,303)
Proceeds from sales of short- and long-term marketable securities	79,207	135,993
Proceeds from maturities of short- and long-term marketable securities	265,495	214,159
Proceeds from the sale of property and equipment	761	12
Other non-currents assets and liabilities	(3,320)	979
Net cash used in investing activities	(286,571)	(668,227)
Cash flows from financing activities:		
Proceeds related to the issuance of common stock under stock plans	54,418	33,760
Excess tax benefits from stock-based compensation	18,152	17,589
Employee taxes paid related to net share settlement of stock-based awards	(28,559)	(26,566)
Repurchases of common stock	(112,408)	(111,649)
Net cash used in financing activities	(68,397)	(86,866)
Effects of exchange rate changes on cash and cash equivalents	(4,182)	1,239
Net increase (decrease) in cash and cash equivalents	33,026	(376,547)
Cash and cash equivalents at beginning of period	201,989	559,197
Cash and cash equivalents at end of period	$235,015	$182,650

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AKAMAI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS, continued

	For the Nine Months Ended September 30,	
(in thousands)	2013	2012
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$44,191	$51,822
Non-cash financing and investing activities:		
Purchases of property and equipment included in accrued expenses	$12,630	$12,939
Capitalization of stock-based compensation, net of impairments	$9,252	$6,694
Convertible note receivable received for divestiture of a business	$18,882	$—

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

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AKAMAI TECHNOLOGIES, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business and Basis of Presentation

Akamai Technologies, Inc. (the “Company”) provides cloud services for delivering, optimizing and securing online content and business applications. Akamai’s globally-distributed platform comprises more than 141,000 servers in approximately 1,200 networks in 90 countries. The Company was incorporated in Delaware in 1998 and is headquartered in Cambridge, Massachusetts. Akamai currently operates in one industry segment: providing cloud services for delivering, optimizing and securing online content and business applications.

The accompanying interim consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. These financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in the accompanying financial statements.

Certain information and footnote disclosures normally included in the Company’s annual audited consolidated financial statements and accompanying notes have been condensed or omitted in these interim financial statements. Accordingly, the unaudited consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company’s annual report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013.

The results of operations presented in this quarterly report on Form 10-Q are not necessarily indicative of the results of operations that may be expected for any future periods. In the opinion of management, these unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, that are necessary for a fair statement of the results of all interim periods reported herein.

Revision of Prior Period Amounts

In the first quarter of 2013, the Company conducted a reevaluation of its business model. Following the review, the Company determined it was appropriate to change the classification of cost of services and support and cost of network build-out and support from sales and marketing and general and administrative expenses, respectively, to costs of revenue because such costs directly support the Company's revenue. The Company has concluded that the prior classification was an error and that it is immaterial to all annual and quarterly periods previously presented. However, to facilitate period-over-period comparisons, the Company has revised its prior period financial statements to reflect the corrections in the period in which the expenses were incurred.

The effect of the revisions to the consolidated statements of operations for the three and nine months ended September 30, 2012, is as follows (in thousands):

	Three Months Ended			Nine Months Ended		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
Cost of revenue	$109,995	$24,226	$134,221	$320,018	$70,388	$390,406
Research and development	19,351	—	19,351	54,373	—	54,373
Sales and marketing	75,924	(20,718)	55,206	219,096	(58,415)	160,681
General and administrative	54,511	(3,508)	51,003	168,214	(11,973)	156,241
	5,381	—	5,381	15,611	—	15,611

Amortization of acquired intangible assets						
Restructuring charges	—	—	—	14	—	14
Total costs and operating expenses	$265,162	$—	$265,162	$777,326	$—	$777,326

The classification error did not affect reported revenue, total costs and operating expenses, income from operations, net income, net income per share, cash flows or any balance sheet line item.

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During the third quarter of 2013, the Company identified immaterial classification errors in its historical consolidated statements of cash flows. The errors relate to the timing of cash payments for property and equipment, cash receipts from employees for common stock related to the Company's employee stock purchase plan and cash payments for lease deposits. The cash flows for these items were improperly reflected as changes in operating assets and liabilities rather than as investing or financing activities. There was no impact to the net change in cash and cash equivalents. The Company concluded these errors are immaterial to all annual and quarterly periods previously presented and has reflected the corrections as a revision to the consolidated statements of cash flows previously filed.

The effect of the revisions to the consolidated statements of cash flows for the nine months ended September 30, 2012, is as follows (in thousands):

	As Previously Reported	Adjustment	As Revised
Cash flows from operating activities:			
Changes in operating assets and liabilities, net of effects from acquisitions:			
Prepaid expenses and other current assets	11,103	(1,093)	10,010
Accounts payable and accrued expenses	54,732	(5,583)	49,149
Other non-current assets and liabilities	(536)	432	(104)
Net cash provided by operating activities	383,551	(6,244)	377,307
Cash flows from investing activities:			
Purchases of property and equipment	(119,256)	140	(119,116)
Other non-current assets and liabilities	—	979	979
Net cash used in investing activities	(669,346)	1,119	(668,227)
Cash flows from financing activities:			
Proceeds related to the issuance of common stock under stock plans	28,635	5,125	33,760
Net cash used in financing activities	(91,991)	5,125	(86,866)
Net decrease in cash and cash equivalents	(376,547)	—	(376,547)

2. Changes to Significant Accounting Policies

Property and Equipment

Property and equipment are recorded at cost, net of accumulated depreciation and amortization. Property and equipment generally includes purchases of items with a per-unit value greater than $1,000 and a useful life greater than one year. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets. The Company periodically reviews the estimated useful lives of property and equipment. Changes to the estimated useful lives are recorded prospectively from the date of the change. Upon retirement or sale, the cost of the assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in income from operations.

The Company implemented software and hardware initiatives to manage its global network more efficiently and, as a result, the expected average useful life of its network assets, primarily servers, increased from three to four years effective January 1, 2013. This change decreased depreciation expense on network assets by approximately $10.3 million and $37.2 million, for the three and nine months ended September 30, 2013, respectively.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board issued guidance and disclosure requirements for reporting of comprehensive income: amounts reclassified out of accumulated other comprehensive income. The guidance requires that an entity provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP. The guidance became effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. The adoption of this guidance in the first quarter of 2013 did not have a material impact on the Company's consolidated financial results.

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3. Fair Value Measurements

The Company accounts for financial assets and liabilities in accordance with a fair value measurement accounting standard. The accounting standard provides a framework for measuring fair value under GAAP and requires expanded disclosures regarding fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The accounting standard also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs, where available, and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs, other than Level 1 prices, such as quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in markets that are inactive, or other inputs that are observable or can be corroborated by observable market data.
- 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, including certain pricing models, discounted cash flow methodologies and similar techniques.

The following is a summary of available-for-sale marketable securities held as of September 30, 2013 and December 31, 2012 (in thousands):

		Gross Unrealized			Classification Balance Sheet	
	Amortized Cost	Gains	Losses	Aggregate Fair Value	Short-Term Marketable Securities	Long-Term Marketable Securities
As of September 30, 2013						
Certificates of deposit	$219	$—	$—	$219	$171	$48
Corporate bonds	755,548	1,017	(514)	756,051	296,783	459,268
U.S. government agency obligations	195,386	45	(197)	195,234	34,346	160,888
	$951,153	$1,062	$(711)	$951,504	$331,300	$620,204
As of December 31, 2012						
Certificates of deposit	$3,100	$—	$—	$3,100	$3,057	$43
Commercial paper	7,481	2	(1)	7,482	7,482	—
Corporate bonds	691,931	1,269	(205)	692,995	217,548	475,447
U.S. government agency obligations	189,607	95	(28)	189,674	7,505	182,169
	$892,119	$1,366	$(234)	$893,251	$235,592	$657,659

Unrealized gains and unrealized temporary losses on investments classified as available-for-sale are included within accumulated other comprehensive loss. Upon realization, those amounts are reclassified from accumulated other comprehensive loss to interest income, net in the statements of operations. As of September 30, 2013, the Company did not hold any investment-related assets that had been in a continuous loss position for more than 12 months.

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The following table details the fair value measurements within the fair value hierarchy of the Company’s financial assets and liability at September 30, 2013 and December 31, 2012 (in thousands):

	Total Fair Value	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
As of September 30, 2013				
Cash Equivalents and Marketable Securities:				
Money market funds	$778	$778	$—	$—
Certificates of deposit	4,252	4,252	—	—
Corporate bonds	756,051	—	756,051	—
U.S. government agency obligations	195,234	—	195,234	—
	$956,315	$5,030	$951,285	$—
Other Assets:				
Note receivable	$21,195	$—	$—	$21,195
As of December 31, 2012				
Cash Equivalents and Marketable Securities:				
Money market funds	$22,255	$22,255	$—	$—
Certificates of deposit	7,473	7,473	—	—
Commercial paper	9,482	—	9,482	—
Corporate bonds	692,995	—	692,995	—
U.S. government agency obligations	189,674	—	189,674	—
	$921,879	$29,728	$892,151	$—
Other Liabilities:				
Contingent consideration obligation related to Verivue acquisition	$(1,200)	$—	$—	$(1,200)

As of September 30, 2013 and December 31, 2012, the Company grouped money market funds and certificates of deposit using a Level 1 valuation because market prices for such investments are readily available in active markets. As of September 30, 2013 and December 31, 2012, the Company grouped commercial paper, U.S. government agency obligations and corporate bonds using a Level 2 valuation because quoted prices for identical or similar assets are available in markets that are inactive.

When developing fair value estimates, the Company maximizes the use of observable inputs and minimize the use of unobservable inputs. When available, the Company uses quoted market prices to measure fair value. The valuation technique used to measure fair value for the Company's Level 1 and Level 2 assets is a market approach, using prices and other relevant information generated by market transactions involving identical or comparable assets. If market prices are not available, the fair value measurement is based on models that use primarily market-based parameters including yield curves, volatilities, credit ratings and currency rates. In certain cases where market rate assumptions are not available, the Company is required to make judgments about assumptions market participants would use to estimate the fair value of a financial instrument.

The valuation technique used to measure fair value for the Company's Level 3 asset, which consists of a $25.0 million face value convertible note receivable that is due and payable on July 24, 2014, is primarily an income approach, where the expected weighted average future cash flows are discounted back to present value. The significant unobservable inputs used in the fair value measurement of the convertible note receivable are the probability of conversion to equity and the fair value of equity in which the note is convertible to. The valuation assumed a 90% probability of being converted to equity. If a 70% probability of conversion was used, the fair value of the note would have been $22.0 million.

The valuation technique used to measure fair value of the Company's Level 3 liability, which consists of contingent consideration related to the acquisition of Verivue, Inc. ("Verivue") (Note 6), is primarily an income approach. The significant unobservable input used in the fair value measurement of the contingent consideration is the likelihood of achieving defined levels of customer revenue.

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Significant increases or decreases in the underlying assumptions used to value the Company's Level 3 asset and liability held at September 30, 2013 and December 31, 2012, respectively, could significantly increase or decrease the fair value estimates recorded in the consolidated balance sheets.

Contractual maturities of the Company's available-for-sale marketable securities held at September 30, 2013 and December 31, 2012 were as follows (in thousands):

	September 30, 2013	December 31, 2012
Due in 1 year or less	$331,300	$235,592
Due after 1 year through 5 years	620,204	657,659
	$951,504	$893,251

The following table reflects the activity for the Company's major classes of assets and liabilities measured at fair value using Level 3 inputs for the nine months ended September 30, 2013 (in thousands):

	Other Assets: Note Receivable	Other Liabilities: Contingent Consideration Obligation
Balance as of January 1, 2013	$—	$(1,200)
Fair value adjustment to contingent consideration for acquisition of Verivue included in general and administrative expense	—	1,200
Convertible note receivable from divestiture of a business	18,882	—
Unrealized gain on convertible note receivable included in other comprehensive income	2,313	—
Balance as of September 30, 2013	$21,195	$—

4. Accounts Receivable

Net accounts receivable consisted of the following as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Trade accounts receivable	$169,873	$143,533
Unbilled accounts	90,164	79,051
Gross accounts receivable	260,037	222,584
Allowance for doubtful accounts	(824)	(1,154)
Reserve for cash-basis customers	(2,760)	(2,653)
Total accounts receivable reserves	(3,584)	(3,807)
Accounts receivable, net	$256,453	$218,777

5. Goodwill and Acquired Intangible Assets

The change in the carrying amount of goodwill for the nine months ended September 30, 2013 was as follows (in thousands):

Balance as of January 1, 2013 (1)	$723,701
Divestiture of Advertising Decision Solutions business	(1,939)
Acquisition of strategic network assets	29,509

Balance as of September 30, 2013	$751,271

(1) Balance as of January 1, 2013 has been revised to reflect purchase accounting measurement period adjustments (Note 6).

The Company tests goodwill for impairment at least annually. Through the date the consolidated financial statements were issued, no triggering events had occurred that would indicate a potential impairment exists.

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Acquired intangible assets that are subject to amortization consist of the following as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Completed technology	$62,331	$(33,071)	$29,260
Customer relationships	115,100	(73,536)	41,564
Non-compete agreements	10,570	(4,084)	6,486
Trademarks and trade names	3,400	(907)	2,493
Acquired license rights	490	(490)	—
Total	$191,891	$(112,088)	$79,803

	December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Completed technology	$71,531	$(32,842)	$38,689
Customer relationships	104,700	(68,702)	35,998
Non-compete agreements	14,770	(7,645)	7,125
Trademarks and trade names	3,700	(958)	2,742
Acquired license rights	490	(490)	—
Total	$195,191	$(110,637)	$84,554

Aggregate expense related to amortization of acquired intangible assets for the three and nine months ended September 30, 2013 was $4.9 million and $16.7 million, respectively. Aggregate expense related to amortization of acquired intangible assets for the three and nine months ended September 30, 2012 was $5.4 million and $15.6 million, respectively. Based on the Company’s acquired intangible assets as of September 30, 2013, aggregate expense related to amortization of acquired intangible assets is expected to be $4.9 million for the remainder of 2013, and $20.6 million, $18.8 million, $14.0 million and $9.5 million for 2014, 2015, 2016 and 2017, respectively.

6. Business Acquisitions and Divestitures

Strategic Network Transaction

On November 30, 2012, the Company entered into a strategic alliance with AT&T Services, Inc. ("AT&T"). Under the agreement, AT&T became a reseller of the Company's services and the Company contracted to purchase bandwidth, co-location and related services from AT&T. The Company entered into the agreement with a goal of expanding its content delivery network customer base and developing a relationship with AT&T as a bandwidth and co-location service provider. The transaction meets the definition of a business combination and it was determined that the Company obtained control of the acquired assets in July 2013. The total consideration is $55.0 million, of which $27.5 million was paid during the third quarter of 2013. The remaining payment is recorded as an other current liability in the consolidated balance sheet and is expected to be paid in the fourth quarter of 2013.

The Company allocated