

F5 NETWORKS INC
Form 8-K/A
August 06, 2004

Table of Contents

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

FORM 8-K/A

CURRENT REPORT

**Pursuant to Section 13 OR 15(d) of the
Securities Exchange Act of 1934**

Date of Report: May 31, 2004

Commission File Number: 000-26041

F5 Networks, Inc.

(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| WASHINGTON | 91-1714307 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**401 Elliott Avenue West
Seattle, Washington 98119**
(Address of principal executive offices)

(206) 272-5555
(Registrant's telephone number, including area code)

TABLE OF CONTENTS

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

Unaudited Pro Forma Condensed Combined Consolidated Balance Sheet

Unaudited Pro Forma Condensed Combined Consolidated Statements of Operations

Unaudited Pro Forma Condensed Combined Consolidated Statements of Operations

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED

FINANCIAL STATEMENTS

SIGNATURES

EXHIBIT INDEX

EXHIBIT 99.1

EXHIBIT 99.2

Table of Contents

Item 7. Financial Statements, *Pro Forma* Financial Information and Exhibits

On May 31, 2004, F5 Networks, Inc. (F5 Networks) acquired MagniFire Websystems, Inc. and its subsidiaries (MagniFire) as a wholly-owned subsidiary through a merger transaction. This Amended Current Report on Form 8-K/A is filed to provide the financial information with respect to the merger required by Item 7(a) of Form 8-K and the pro forma financial information required by Item 7(b) of Form 8-K.

(a) Financial statements of business acquired

See Exhibit 99.1 for the audited consolidated financial statements of MagniFire as of and for the years ended December 31, 2003 and 2002 and for the period July 15, 2000 (date of inception) through December 31, 2003. See Exhibit 99.2 for the unaudited consolidated financial statements of MagniFire as of March 31, 2004 and December 31, 2003, and for the three months ended March 31, 2004 and 2003, and for the period July 15, 2000 (date of inception) through March 31, 2004.

(b) Pro forma financial information

The following unaudited pro forma condensed combined consolidated financial statements give effect to the acquisition of MagniFire by F5 Networks under the purchase method of accounting and have been derived by the application of pro forma adjustments to the historical consolidated financial statements of F5 Networks and MagniFire. Assumptions underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with these unaudited pro forma condensed combined consolidated financial statements. The merger was completed on May 31, 2004.

The unaudited pro forma condensed combined consolidated balance sheet has been prepared to reflect the merger as if it occurred on March 31, 2004. Integration costs are not included in the accompanying unaudited pro forma condensed combined financial statements. The unaudited pro forma condensed combined consolidated statements of operations for the year ended September 30, 2003 and for the six months ended March 31, 2004 have been prepared to reflect the merger as if it occurred on October 1, 2002. There were no material differences between the MagniFire amounts recorded as of March 31, 2004 and the amounts as of the closing date of the merger transaction. The excess of consideration paid by F5 Networks in the acquisition over the fair value of MagniFire identifiable assets and liabilities has been recorded as goodwill.

During the previous fiscal year, we acquired substantially all of the assets and assumed certain liabilities of uRoam, Inc. (uRoam). Accordingly, the unaudited pro forma condensed combined consolidated statements of operations for the year ended September 30, 2003 have also been derived by the application of pro forma adjustments to the historical consolidated financial statements of uRoam for the period October 1, 2002 through July 23, 2003, the effective date of the uRoam acquisition. Refer to the F5 Networks Current Report on Form 8-K/A as filed with the SEC on September 15, 2003 for additional information related to our acquisition of uRoam.

The unaudited pro forma condensed combined consolidated statement of operations for the year ended September 30, 2003 combines the consolidated statement of operations of F5 Networks for the fiscal year ended September 30, 2003 with uRoam's consolidated statement of operations for the period October 1, 2002 through July 23, 2003 and MagniFire's consolidated statement of operations for the calendar year ended December 31, 2003. The unaudited pro forma condensed combined consolidated statement of operations for the six months ended March 31, 2004 combines the unaudited consolidated statement of operations of F5 Networks for the six months ended March 31, 2004 with MagniFire's unaudited statement of operations for the six months ended March 31, 2004. As a result of different fiscal year ends, MagniFire's results of operations for the three months ended December 31, 2003 were combined with the

results of operations for the three months ended March 31, 2004 to conform to the six month period presented for F5 Networks. During the three months ended December 31, 2003, MagniFire recorded no revenue and recorded a net loss of \$1.3 million.

The unaudited pro forma condensed combined consolidated financial information is based on estimates and assumptions. These estimates and assumptions have been made solely for purposes of developing this pro forma information, which is presented for illustrative purposes only and is not necessarily indicative of the combined financial position or results of operations of future periods or the results that actually would have been realized had the entities been a single entity during these periods.

Table of Contents

F5 Networks, Inc.
Unaudited Pro Forma Condensed Combined Consolidated Balance Sheet
As of March 31, 2004
(in thousands)

| | F5 Networks | MagniFire | Pro Forma Adjustments | Pro Forma |
|--|--------------------|-------------------|----------------------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| ASSETS | | | | |
| Current assets Cash and cash equivalents | \$ 22,162 | \$ 901 | \$ | \$ 23,063 |
| Short-term investments | 108,656 | | (30,500) | (A1) 78,156 |
| Accounts receivable, net | 19,158 | 73 | | 19,231 |
| Inventories | 1,905 | 83 | (83) | (A2) 1,905 |
| Other current assets | 5,275 | | | 5,275 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total current assets | 157,156 | 1,057 | (30,583) | 127,630 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Restricted cash | 6,183 | 76 | | 6,259 |
| Property and equipment, net | 10,272 | 90 | | 10,362 |
| Long-term investments | 96,450 | | | 96,450 |
| Goodwill | 24,188 | | 24,858 | (A3) 49,046 |
| Other assets, net | 3,727 | 170 | 5,000 | (A3) 8,897 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total assets | \$297,976 | \$ 1,393 | \$ (725) | \$298,644 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 5,397 | \$ 232 | \$ | \$ 5,629 |
| Accrued liabilities | 13,678 | 252 | | 13,930 |
| Deferred revenue | 24,502 | 8 | | 24,510 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total current liabilities | 43,577 | 492 | | 44,069 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Other long-term liabilities | 1,744 | 176 | | 1,920 |
| Deferred tax liability | 454 | | | 454 |
| Convertible promissory note | | 2,089 | (2,089) | (A4) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total long-term liabilities | 2,198 | 2,265 | (2,089) | 2,374 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Edgar Filing: F5 NETWORKS INC - Form 8-K/A

Commitments and contingencies

| | | | | | |
|--|-------------------|-------------------|-------------------|------|-------------------|
| Shareholders' equity | | | | | |
| Common stock | 273,263 | 22 | (22) | (A5) | 273,263 |
| Preferred Stock | | 136 | (136) | (A5) | |
| Deferred stock compensation | | (245) | 245 | (A5) | |
| Additional paid in capital | | 9,429 | (9,429) | (A5) | |
| Accumulated other comprehensive loss | 647 | | | | 647 |
| Accumulated deficit | (21,709) | (10,706) | 10,706 | (A5) | (21,709) |
| | <u> </u> | <u> </u> | <u> </u> | | <u> </u> |
| | | | | | |
| Total shareholders' equity | 252,201 | (1,364) | 1,364 | | 252,201 |
| | <u> </u> | <u> </u> | <u> </u> | | <u> </u> |
| | | | | | |
| Total liabilities and shareholders' equity | \$297,976 | \$ 1,393 | \$ (725) | | \$298,644 |
| | <u> </u> | <u> </u> | <u> </u> | | <u> </u> |

See accompanying notes to the unaudited pro forma condensed combined consolidated financial statements.

Table of Contents**F5 Networks Inc.**

Unaudited Pro Forma Condensed Combined Consolidated Statements of Operations
For the Year Ended September 30, 2003
(in thousands, except per share amounts)

| | F5 | Pro | | Pro | | Pro | |
|---------------------------------------|-----------------|--------------|--------------------|------------------|-----------------|--------------------|----------------|
| | Networks | uRoam | Adjustments | Sub-Total | MagniFir | Adjustments | Pro |
| | | | | | | | Forma |
| Net revenues | | | | | | | |
| Products | \$ 84,197 | \$ 884 | \$ | \$ 85,081 | \$ 32 | \$ | \$ 85,113 |
| Services | 31,698 | 133 | | 31,831 | | | 31,831 |
| Total | 115,895 | 1,017 | | 116,912 | 32 | | 116,944 |
| Cost of net revenues | | | | | | | |
| Products | 17,837 | 58 | 600 (A6) | 18,495 | 125 | 1,000 (A6) | 19,620 |
| Services | 9,068 | 6 | | 9,074 | | | 9,074 |
| Total | 26,905 | 64 | 600 | 27,569 | 125 | 1,000 | 28,694 |
| Gross profit | 88,990 | 953 | (600) | 89,343 | (93) | (1,000) | 88,250 |
| Operating expenses | | | | | | | |
| Sales and marketing | 53,458 | 1,664 | | 55,122 | 1,746 | (364) (A7) | 56,504 |
| Research and development | 19,246 | 2,288 | | 21,534 | 2,146 | (46) (A7) | 23,634 |
| General and administrative | 12,014 | 1,762 | | 13,776 | 116 | | 13,892 |
| Amortization of unearned compensation | 83 | | | 83 | | 410 (A7) | 493 |
| Total | 84,801 | 5,714 | | 90,515 | 4,008 | | 94,523 |
| Income (loss) from operations | 4,189 | (4,761) | (600) | (1,172) | (4,101) | (1,000) | (6,273) |
| Other income (expense), net | 751 | (546) | 24 (A8) | 229 | (55) | (488) (A8) | (314) |

Edgar Filing: F5 NETWORKS INC - Form 8-K/A

| | | | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Income (loss) before income taxes | 4,940 | (5,307) | (576) | (943) | (4,156) | (1,488) | (6,587) |
| Provision for income taxes | 853 | | | 853 | | | 853 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net income (loss) | \$ 4,087 | \$ (5,307) | \$ (576) | \$ (1,796) | \$ (4,156) | \$ (1,488) | \$ (7,440) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net income (loss) per share basic | \$ 0.15 | | | | | | \$ (0.28) |
| | <u> </u> | | | | | | <u> </u> |
| Weighted average shares basic | 26,453 | | | | | | 26,453 |
| | <u> </u> | | | | | | <u> </u> |
| Net income (loss) per share diluted | \$ 0.14 | | | | | | \$ (0.28) |
| | <u> </u> | | | | | | <u> </u> |
| Weighted average shares diluted | 28,220 | | | | | | 26,453 |
| | <u> </u> | | | | | | <u> </u> |

See accompanying notes to the unaudited pro forma condensed combined consolidated financial statements.

Table of Contents**F5 Networks, Inc.**

Unaudited Pro Forma Condensed Combined Consolidated Statements of Operations
For the Six Months Ended March 31, 2004
(in thousands, except per share amounts)

| | F5 | | Pro Forma | | |
|---------------------------------------|-------------------|-------------------|--------------------|------|-------------------|
| | Networks | MagniFire | Adjustments | | Pro Forma |
| | <u> </u> | <u> </u> | <u> </u> | | <u> </u> |
| Net revenues | | | | | |
| Products | \$56,096 | \$ | \$ | | \$56,096 |
| Services | 20,632 | | | | 20,632 |
| | <u> </u> | <u> </u> | <u> </u> | | <u> </u> |
| Total | 76,728 | | | | 76,728 |
| | <u> </u> | <u> </u> | <u> </u> | | <u> </u> |
| Cost of net revenues | | | | | |
| Products | 12,648 | 101 | 500 | (A6) | 13,249 |
| Services | 5,088 | | | | 5,088 |
| | <u> </u> | <u> </u> | <u> </u> | | <u> </u> |
| Total | 17,736 | 101 | 500 | | 18,337 |
| | <u> </u> | <u> </u> | <u> </u> | | <u> </u> |
| Gross profit | 58,992 | (101) | (500) | | 58,391 |
| | <u> </u> | <u> </u> | <u> </u> | | <u> </u> |
| Operating expenses | | | | | |
| Sales and marketing | 30,874 | 1,021 | (364) | (A7) | 31,531 |
| Research and development | 11,344 | 904 | (65) | (A7) | 12,183 |
| General and administrative | 7,202 | 86 | | | 7,288 |
| Amortization of unearned compensation | 10 | | 429 | (A7) | 439 |
| | <u> </u> | <u> </u> | <u> </u> | | <u> </u> |
| Total | 49,430 | 2,011 | | | 51,441 |
| | <u> </u> | <u> </u> | <u> </u> | | <u> </u> |
| Income (loss) from operations | 9,562 | (2,112) | (500) | | 6,950 |
| Other income (expense), net | 992 | (57) | (180) | (A8) | 755 |
| | <u> </u> | <u> </u> | <u> </u> | | <u> </u> |
| Income (loss) before income taxes | 10,554 | (2,169) | (680) | | 7,705 |
| Provision for income taxes | 798 | | | | 798 |
| | <u> </u> | <u> </u> | <u> </u> | | <u> </u> |
| Net income (loss) | \$ 9,756 | \$(2,169) | \$ (680) | | \$ 6,907 |

| | | | | |
|---------------------------------|---------|-------|-------|---------|
| | _____ | _____ | _____ | _____ |
| Net income per share basic | \$ 0.31 | | | \$ 0.22 |
| | _____ | | | _____ |
| Weighted average shares basic | 31,953 | | | 31,953 |
| | _____ | | | _____ |
| Net income per share diluted | \$ 0.28 | | | \$ 0.20 |
| | _____ | | | _____ |
| Weighted average shares diluted | 35,074 | | | 35,074 |
| | _____ | | | _____ |

See accompanying notes to the unaudited pro forma condensed combined consolidated financial statements.

Table of Contents**F5 NETWORKS, INC.****NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS****1. Basis of Unaudited Pro Forma Presentation**

On May 31, 2004, we acquired MagniFire Websystems, Inc. and its subsidiaries (MagniFire) through a merger transaction. We agreed to pay \$29.0 million in cash for all of the issued and outstanding shares of MagniFire capital stock. We also incurred \$1.5 million of direct transaction costs for a total purchase price of \$30.5 million. As a result of the merger, we acquired all the assets of MagniFire, including MagniFire's web application firewall product line, all property, equipment and other assets that MagniFire used in its business and assumed certain of the liabilities of MagniFire. The acquisition of MagniFire is intended to allow us to quickly enter the web application security market, broaden our customer base and augment our existing product line.

The unaudited pro forma condensed combined consolidated financial information has been prepared to give effect to the acquisition, accounted for using the purchase method of accounting in accordance with Statement of Financial Accounting Standards No. 141 Business Combinations (SFAS No. 141). The purchase price allocation is based on management's best estimate of the fair value of the assets acquired and liabilities assumed, which, based on facts and circumstances are subject to change.

As a result of different fiscal year ends of F5 Networks and MagniFire, financial information has been combined for different periods in the pro forma financial information. The unaudited pro forma condensed combined consolidated balance sheet has been prepared to reflect the acquisition as if the merger had occurred on March 31, 2004. The unaudited pro forma condensed combined consolidated statements of operations for the year ended September 30, 2003 and for the six months ended March 31, 2004 have been prepared to reflect the acquisition as if the acquisition occurred on October 1, 2002. Certain reclassifications have been made to conform MagniFire's historical and pro forma amounts to F5 Network's financial statement presentation.

2. Acquisition by F5 Networks

We accounted for the acquisition under the purchase method of accounting in accordance with SFAS No. 141. Under the purchase method of accounting, the total purchase price is allocated to the tangible and intangible assets acquired and the liabilities assumed based on their estimated fair values. The excess of the purchase price over those fair values is recorded as goodwill. The fair value assigned to the tangible and intangible assets acquired and liabilities assumed are based on estimates and assumptions provided by management, and other information compiled by management, including an independent valuation, prepared by an independent valuation specialist that utilizes established valuation techniques appropriate for the technology industry. The purchase price allocation as of May 31, 2004, the effective date of the merger transaction, is as follows (in thousands):

| | |
|--------------------------|--------|
| Assets acquired | |
| Cash | \$ 895 |
| Accounts receivable, net | 152 |
| Restricted cash | 76 |
| Other assets | 235 |
| Property and equipment | 81 |
| Developed technology | 5,000 |
| Goodwill | 24,809 |

| | |
|----------------------------|----------|
| Total assets acquired | 31,248 |
| Liabilities assumed | |
| Accrued liabilities | (723) |
| Deferred revenue | (25) |
| | <hr/> |
| Total liabilities assumed | (748) |
| | <hr/> |
| Net assets acquired | \$30,500 |
| | <hr/> |

Of the total estimated purchase price, \$5.0 million was allocated to developed technology. To determine the value of the developed technology, a combination of cost and market approaches were used. The cost approach required an

Table of Contents

F5 NETWORKS, INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS

estimation of the costs required to reproduce the acquired technology. The market approach measures the fair value of the technology through an analysis of recent comparable transactions. The \$5.0 million allocated to developed technology will be amortized on a straight-line basis over an estimated useful life of five years.

Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets. In accordance with Statement of Financial Accounting Standards No. 142, Goodwill and other Intangible Assets, goodwill will not be amortized but instead will be tested for impairment at least annually. In the event that we determine that goodwill has been impaired, we will incur an accounting charge for the amount of impairment during the fiscal quarter in which the determination is made.

The estimated purchase price was allocated to goodwill of \$24.8 million, including the Company's valuation allowance on the deferred taxes acquired from MagniFire. We have a full valuation allowance to offset U.S. deferred tax assets in accordance with the provisions of Financial Accounting Standards Board Statement No. 109, Accounting for Income Taxes. Based on current and expected financial trends, we expect to release the valuation allowance during the fourth quarter of fiscal 2004. At that time, Goodwill will be increased by an estimated additional \$1.0 million to \$2.0 million.

3. Pro Forma Adjustments

The unaudited pro forma adjustments reflect those matters that are a direct result of the merger transaction which are factually supportable and, for pro forma adjustments to the pro forma condensed combined consolidated statements of operations, are expected to have continuing impact. The unaudited pro forma adjustments are as follows (in thousands):

(A1) We funded the acquisition of MagniFire from existing cash reserves reducing our short-term investments by \$30.5 million.

(A2) The carrying value of MagniFire's inventory has been eliminated because it no longer has value as a result of the new product line hardware specifications required by F5 Networks.

(A3) Adjustment to reflect the preliminary estimate of the fair value of intangible assets. Those assets consist of developed technology of \$5,000 and goodwill of \$24,698. Goodwill represents the residual of the purchase price, including direct costs relating to the acquisition, over the fair value of net assets acquired.

(A4) MagniFire's convertible promissory note payable was not assumed in the merger transaction and has been eliminated.

(A5) MagniFire's stockholders' equity (deficiency) balances have been eliminated.

(A6) The increase reflects additional amortization of developed technology in connection with the acquisition. The developed technology has an estimated useful life of five years and the incremental amortization expense has been reflected as if the acquisition occurred on October 1, 2002.

(A7) Reclassification of deferred stock compensation expenses to conform to F5 Network's income statement presentation.

(A8) Adjustment to reduce interest income that would have been earned had the acquisition taken place on October 1, 2002.

7

Table of Contents

(c) Exhibits

| Exhibit Number | Exhibit Description |
|---------------------------|---|
| 99.1 | MagniFire Websystems, Inc. consolidated financial statements as of and for the years ended December 31, 2003 and 2002 and for the period July 15, 2000 (date of inception) through December 31, 2003. |
| 99.2 | MagniFire Websystems, Inc. unaudited consolidated financial statements as of March 31, 2004 and December 31, 2003, and for the three months ended March 31, 2004 and 2003, and for the period July 15, 2000 (date of inception) through March 31, 2004. |

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on the 5th day August, 2004.

F5 NETWORKS, INC.

By: /s/ Steven B. Coburn
Steven B. Coburn
Senior Vice President, Chief Financial
Officer

9

Table of Contents

EXHIBIT INDEX

| Exhibit Number | Exhibit Description |
|---------------------------|---|
| 99.1 | MagniFire Websystems, Inc. consolidated financial statements as of and for the years ended December 31, 2003 and 2002 and for the period July 15, 2000 (date of inception) through December 31, 2003. |
| 99.2 | MagniFire Websystems, Inc. unaudited consolidated financial statements as of March 31, 2004 and December 31, 2003, and for the three months ended March 31, 2004 and 2003, and for the period July 15, 2000 (date of inception) through March 31, 2004. |