Annual Report

2023

François Locoh-Donou

President, CEO and Director, F5 Inc.

TO OUR SHAREHOLDERS, CUSTOMERS, AND PARTNERS:

F5 enables and protects the applications and APIs that power the largest companies and service providers across the globe. We are on a mission to bring a better digital world to life, and we are doing so, empowering employee collaboration and securing the dynamic, responsive digital experiences we all have come to expect.

The way enterprises think about and deploy applications has changed radically in just the last several years. Not that long ago, all business applications were deployed and managed within a company's own data centers. Today, our customers are managing a higher volume of applications, distributed across on-premises data centers, various public clouds, and even at the network edge. In fact, 88% of our customers report that they are currently operating across multiple environments. As a result, our customers are grappling with a more intricate set of challenges. The expanding number of applications across distributed environments demands specific expertise and tools for each environment, which adds operational complexity and costs. At the same time, this expanded landscape provides cybercriminals with more potential targets, amplifying security concerns. This complexity is further intensified by the rapid growth in the number of applications, a growth trajectory that is poised to accelerate significantly with the anticipated widespread adoption and proliferation of artificial intelligence (AI).

As we enter 2024, F5 is strategically positioned to support our customers as they navigate these escalating challenges within a rapidly evolving landscape. Our innovation and product portfolio evolution over the last several years have been aimed at addressing exactly these challenges head on. We are the only company capable of securing, delivering, and optimizing any application and any API, regardless of their location—be it in a data center, any one of the public clouds, or at the network edge. Amidst a complex web of environments and solutions, F5 empowers customers to establish a consistent security posture across all their applications, thereby enhancing security, streamlining operations, and reducing costs. Moreover, we are unifying our solutions to provide customers with unprecedented levels of visibility, manageability, and automation.

Though 2023 was a challenging year for F5 and the world at large, we once again delivered record revenue with $2.8 billion in sales. Demand for our solutions was tempered, however, by extreme spending caution from our customers as they contemplated macroeconomic uncertainty, rising interest rates, and the impact of geopolitical conflicts.

We adjusted to these environmental challenges with a view toward delivering on our commitment to double-digit earnings growth. In April of 2023, we implemented cost reductions, eliminating projects with more speculative or longer-term returns. We also executed a 9% reduction in force, impacting 623 of our colleagues.

The combination of our cost reductions, our success in overcoming the supply chain challenges that so significantly impacted 2022, and our strong operating discipline drove meaningful gross and operating margin improvement during 2023, enabling us to achieve 15% non-GAAP earnings growth, with revenue growth of 4%.

In addition, there are many positives to cite from the year, including:

- For the second consecutive year, software accounted for at least 50% of our total product revenue. This showcases that our success in diversifying and expanding our solutions portfolio is rooted in a purposeful and strategic approach that aligns well with customer requirements.
- Despite the challenging IT-spending environment, our subscription renewals performed largely to plan, a strong signal that customers are getting the value they expect from our software solutions.
- For the second consecutive year, we delivered more than $1 billion in security-related revenue.
- Our recently launched F5 Distributed Cloud Services' SaaS offerings are gaining traction with both new and existing customers. In fact, we ended the year with more than 500 customers using the platform, an increase of more than 200% since the end of 2022.
- *Fortune* recognized our Board of Directors as the #1 most Modern Board. Fortune examined expertise, independence, diversity, and tenure of board membership to assess innovation, which is correlated with high performance.

In summary, in 2023 we leveraged and built upon our strengths to deliver on our commitments to our customers and our shareholders. I will use the rest of this letter to recap our fiscal year financial results in more detail, and to highlight several key elements of our strategy. I will conclude with thoughts about the year ahead.

OUR FINANCIAL PERFORMANCE

As I noted, we delivered $2.8 billion in fiscal year 2023 revenue, representing 4% year-over-year growth, driven by 1% product growth and 7% global services growth.

Faced with a demand environment that was softer than initially anticipated, we took decisive action to align our operating model accordingly. Through operating discipline, including the previously mentioned cost reductions, we achieved fiscal year 2023 GAAP net income of $395 million, or $6.55 per share. We delivered non-GAAP net income of $705 million, or $11.70 per share, representing 15% growth from fiscal year 2022, underscoring our commitment to profitability.[1]

Cash flow from operations also remained very strong, at approximately $653 million for the year. Furthermore, we fulfilled our commitment to shareholders by returning 58% of our annual free cash flow via share repurchases, surpassing our 50% minimum pledge.

1 Fiscal year 2023 non-GAAP net income and net income per share excludes $237 million in stock-based compensation, $53 million in amortization and impairment of purchased intangible assets, $15 million in acquisition-related charges, $7 million in facility-exit costs, and $65 million in restructuring charges.

DELIVERING ON OUR STRATEGY

We are creating a global and diverse team that is both human first and high performance

Our strong culture underpins our ability to continue to grow and evolve. We have worked to create a truly unique and inclusive culture that values our employees as humans first. Our culture—and the employee engagement it engenders—is a significant competitive strength for F5 and is therefore a key component of our strategy. Our approach resonates with both prospective and current employees, setting F5 apart from other employers and underpinning our consistently low attrition rates. Notably, in fiscal year 2023 we experienced 6.9% attrition, well below the industry average of 10.7%.

Over the last several years, like many employers, we have had to adapt to working and collaborating in a hybrid office-and-remote work model. We have done so successfully, by embedding our BeF5 behaviors and our LeadF5 principles into our systems, processes, decisions, and conversations—constantly reinforcing, recognizing, and rewarding desired behaviors.

Also like many organizations, in 2023 we began the process of bringing employees back to the office, a change we believe is critical to retaining our culture, driving innovation, increasing knowledge sharing, and fostering connections—all in the service of achieving high performance. Recognizing the potential impact of this change, we conducted extensive research, including running pilots in our Paris and Seattle offices, soliciting employee feedback, evaluating best practices, and learning from other organizations' approaches. Beginning October 1, 2023, we require employees near an F5 office with 30 or more employees to spend 30 days in the office per quarter. This approach enables leaders to drive in-office presence when it matters most, while offering continued flexibility to employees.

We measure employee sentiment through employee surveys, which we conduct via a third-party provider. Given 2023's challenging environment, we expected that our employee survey would show a decline in key sentiment metrics. As of June 2023, employee favorability on one of our key metrics, "I feel a sense of belonging at F5" declined to 76% compared to 84% a year prior. Employee comments in the survey indicate that changes related to the April 2023 reduction in force, our return to office policy, and incentive plans were among the key reasons for the decline.

However, employees continue to feel positively about important elements of their F5 experience, reporting high trust in their managers (89% favorable) and that diverse perspectives are valued and encouraged (88% favorable).

In addition, 83% of employees favorably rate "I am proud to work for F5," and 87% of employees favorably rate "At F5, employees are treated equally and fairly regardless of their background."

We will continue to use these surveys to understand where we need to concentrate our efforts and programs going forward, to ensure we are maintaining key elements of our culture and employee trust.

Critical to both our culture and employee trust is our commitment to create a more diverse and inclusive workplace. F5 believes our differences—when embraced with humility and respect—drive smarter decisions, stronger performance, increased innovation, and a culture where everyone can be themselves and reach their full potential. While other companies have pulled back on diversity, equity, and inclusion initiatives, we continue to focus on our strategic framework, called "IDEA": Inclusion, Diversity, Equity and Allyship. Each concept in IDEA requires engagement at all levels of the organization and is embedded in our ways of working. For example, in fiscal year 2023, worldwide membership in our six Employee Inclusion Groups (EIGs) grew by over 5%, resulting in active EIG participation from over 40% of all F5 employees. In addition, our ongoing investment in professional development programs resulted in women representing 76% of participants in our Sponsorship program. The combination of a challenging macro environment and the resulting slowdown in our overall hiring contributed to us falling short of our four ambitious diversity and inclusion targets for the year, which also represent 10% of our Executive Leadership Team's cash incentives. (For more detailed information about our Diversity & Inclusion programs, please view our 2023 D&I Report.)

Our ESG efforts remain core to how we do business

At F5, we care deeply not just about what we do, but how we do it. Our commitment to Environmental, Social, and Governance (ESG) programs extends from the environmental sustainability of our products and operations to the wellbeing of our employees and our communities and reflects our guiding principle to ''do the right thing.''

Environmental. In fiscal year 2023, we expanded our environmental initiatives by committing to a science-based target. We submitted our target for verification to the Science Based Target Initiative, outlining our commitment to reduce absolute Scope 1 and 2 emissions by 50%, and to reduce absolute Scope 3 emissions by 43% by 2030 from a 2021 baseline. We plan to reduce our operational emissions, referred to as Scope 1 and 2, by sourcing more renewable energy and improving our offices' energy efficiency. We have identified that the majority of our emissions come from the value chain, referred to as Scope 3. Achieving our science-based target will require us to prioritize more sustainable design and energy performance in our products and services, followed by decarbonizing our supply chain.

Social. In addition to investing in our employees, we continue to prioritize F5 Global Good, the community development initiative that amplifies our employee engagement and diversity and inclusion programs. In fiscal year 2023, more than half of all our employees participated in Global Good programs, volunteering more than 10,400 hours and directing the entirety of F5's philanthropic donations, through both the Company matching program and grant selection committees. Combined, F5 and its employees donated more than $3.8 million to over 3,000 non-profits worldwide in fiscal year 2023.

Governance. Our guiding principle to do the right thing for each other, our customers, our shareholders, and our communities is set forth in F5's Code of Business Conduct and Ethics, compliance training programs, and most importantly, in the behaviors and principles by which we measure all employees: BeF5 and LeadF5. The Nominating and ESG Committee of the Board of Directors oversees our ESG programs and reviews our ESG strategy, disclosures, and metrics each quarter. In fiscal year 2023, F5 completed its first Double

Materiality Assessment, based on industry benchmarking and the engagement of hundreds of internal and external stakeholders. This process served as F5's most recent climate-related risk identification for risks with a substantive impact and enabled the Company to identify appropriate ESG risks for our enterprise risk assessment process. Our Nominating and ESG Committee of the Board of Directors oversees our ESG programs and reviews our ESG strategy, disclosures, and metrics each quarter.

We are simplifying hybrid, multi-cloud complexity for our customers

As recently as five years ago, nearly every large enterprise organization expected that they would move their IT infrastructure from their on-premises data centers to the public cloud. They also expected that doing so would dramatically simplify their operations and reduce costs. Today, instead of a simplified, more cost-efficient IT infrastructure, most large enterprises have more complexity than ever, with applications spread across their data center, multiple public clouds, and all the way to the edge of the network. This complexity brings with it higher costs and operational headaches, and worse, it also has resulted in an expanded attack surface for cyber criminals. As organizations embrace the power of AI to drive both innovation and efficiencies, the complexity and the risk is likely to worsen.

F5 is uniquely positioned to help our customers simplify their IT infrastructure and reduce costs, all while consistently protecting their applications, their data, and their users. In fact, as a result of our expanded product portfolio, we are the only company able to secure, deliver, and optimize any application, any API, anywhere—whether it resides in a data center, any one of the public clouds, or at the edge of the network.

Beyond the power of our individual product families, we are driving consistency across our solutions, making it possible for customers to deploy a consistent security posture across all of their applications—something no other vendor is capable of today. In addition, we are unifying our solutions with F5 Distributed Cloud Services, enabling new levels of visibility, manageability, and automation for our customers.

We are changing how customers experience F5

Over the last several years, we have made considerable progress in making it easier for customers to try, buy, deploy, manage, and upgrade F5 solutions, reflecting efforts from across the organization. We believe we are unlocking demand as a result.

For instance, while competitors are forcing customers into subscription models, we have expanded our consumption models, enabling customers to buy via a perpetual license, subscription, or based on consumption. Customers tell us they truly value this flexibility because it enables them to invest in their IT infrastructure the way they choose, whether through operating expenses or capital expenses.

We also continue to innovate across our portfolio. For example, we are bringing what were cloud-only benefits like simplified deployments and multi-tenancy to our traditional ADC solutions and adding features to make it easier for customers to set up default services. As a result, we are reducing the time to upgrade from hours to 10 minutes or less and making it possible for customers to deploy applications in 10 seconds instead of 10 days.

CONCLUSION

As we enter 2024, we are seeing some encouraging signs that the macro environment is beginning to stabilize. On our October 2023 earnings call, we shared our expectation that our fiscal year 2024 revenue would be flat to down low-single-digits year over year, largely as a result of a $180 million headwind caused by backlog shipments that occurred in 2023 and will not recur in 2024. We also are committed to delivering double-digit earnings growth (on a tax-neutral basis to fiscal year 2023) in 2024. We also noted that we expect to return to mid-single-digit revenue growth in fiscal year 2025.

We see our growth and opportunity as fundamentally linked to the inescapable, accelerating growth and use of applications and APIs to power businesses, including driving responsive and engaging digital experiences. While customers have been cautious to invest in their IT infrastructures in the face of economic uncertainty, we believe they can only postpone investment so long.

We are leveraging our incumbency and our position in the flow of 40% of the world’s internet traffic to simplify application and API deployment, security, and management for our customers while significantly reducing their total cost of ownership. We have an installed base of 20,000 customers, all of whom have an acute, significant multi-cloud challenge, and we firmly believe that F5 is uniquely positioned to help them address that challenge.

We remain committed to driving strong profitability and shareholder returns, and we expect to do so as a result of three pillars of our long-term operating model:

1. Delivering sustained mid-single-digit revenue growth supported by our differentiated positioning in attractive end markets along with our durable, high-margin global services business.

2. Driving non-GAAP operating margin expansion, which we will achieve through gross margin improvement and operating discipline.

3. Returning cash to shareholders via share repurchases using at least 50% of our annual free cash flow.

In closing, I extend my thanks to each and every one of our employees for their efforts and commitment. Through the challenges that fiscal year 2023 brought, they have persevered and adapted. Their focus on our customers and their dedication to our values has strengthened F5 and will enable us to build upon that strength as we head into 2024. Finally, my thanks to our customers, partners, and shareholders for placing their trust in us. Every member of the F5 team will work to earn that trust every day.

François Locoh-Donou
President, CEO & Director, F5, Inc.
January 2024

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended September 30, 2023

or

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

For the transition period from to .

Commission File Number 000-26041

F5, 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.)**

801 5th Avenue
Seattle, Washington 98104
(Address of principal executive offices, including zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common stock, no par value	FFIV	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	☑	Accelerated Filer	☐
Non-accelerated Filer	☐ (Do not check if a smaller reporting company)	Smaller Reporting Company	☐
		Emerging Growth Company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

As of March 31, 2023, the aggregate market value of the Registrant’s common stock held by non-affiliates of the Registrant was $8,760,048,466 based on the closing sales price of the Registrant’s common stock on the NASDAQ Global Select Market on that date.

As of November 7, 2023, the number of shares of the Registrant’s common stock outstanding was 59,707,211.

DOCUMENTS INCORPORATED BY REFERENCE

Information required in response to Part III of this Form 10-K (Items 10, 11, 12, 13 and 14) is hereby incorporated by reference to the specified portions of the Registrant’s Definitive Proxy Statement for the Annual Shareholders Meeting for fiscal year 2023, which Definitive Proxy Statement shall be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the end of the fiscal year to which this Report relates.

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F5, INC.

ANNUAL REPORT ON FORM 10-K
For the Fiscal Year Ended September 30, 2023

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Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. These statements include, but are not limited to, statements about our plans, objectives, expectations, strategies, intentions or other characterizations of future events or circumstances and are generally identified by the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and similar expressions. These forward-looking statements are based on current information and expectations and are subject to a number of risks and uncertainties. Our actual results could differ materially and adversely from those expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under "Item 1A. Risk Factors" below and in other documents we file from time to time with the Securities and Exchange Commission. We assume no obligation to revise or update any such forward-looking statements.

Unless the context otherwise requires, in this Annual Report on Form 10-K, the terms "F5," "the Company," "we," "us," and "our" refer to F5, Inc. and its subsidiaries. Our fiscal year ends on September 30, and fiscal years are referred to by the calendar year in which they end. For example, "fiscal year 2023" and "fiscal 2023" refer to the fiscal year ended September 30, 2023.

Item 1. *Business*

General

F5 is a multi-cloud application services and security provider committed to bringing a better digital world to life. F5 partners with the world's largest, most advanced organizations to optimize and secure every application and Application Programming Interface ("API") anywhere, including on-premises, in the cloud, or at the edge. F5 enables organizations to provide exceptional, secure digital experiences for their customers and continuously stay ahead of threats.

Our application security and delivery solutions are available in a range of deployment and consumption models. We sell packaged software in perpetual, subscription and usage-based consumption models. We also sell our solutions in software-as-a-service ("SaaS") and managed services deployment models with subscription and usage-based consumption models. In addition we sell high-performance systems, as well as a broad range of global services including maintenance, consulting, training and other technical support services.

Our customers include large enterprise businesses, public sector institutions, governments, and service providers. We conduct our business globally and manage our business by geography. Our business is organized into three primary geographic regions: Americas; Europe, the Middle East, and Africa ("EMEA"); and the Asia Pacific region ("APAC").

F5 was incorporated on February 26, 1996 in the state of Washington. Our headquarters is in Seattle, Washington, and our mailing address is 801 5th Avenue, Seattle, Washington 98104-1663. The telephone number at that location is (206) 272-5555. Our website is www.f5.com. We have 80 subsidiaries, branch offices, or representative offices worldwide. Through a link on the Investor Relations section of our website, we make available the following filings as soon as reasonably possible after they are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"): our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. All such filings are available free of charge. The information posted on our website is not incorporated into this report.

Strategy and Priorities

Nearly all organizations today find themselves at the convergence of two significant trends: the evolution of applications as the center of their businesses and their customers' digital lives, and the escalation of threats against those applications. This presents a tremendous challenge as many companies now manage complex application portfolios comprising older legacy and newer modern technologies and infrastructures. In our 2023 State of Application Strategy Report, 85% of organizations said they operate both legacy and modern application architectures, and operate in multiple clouds. These hybrid environments create operational complexity and expand the threat surface area as companies are forced to deploy separate, and often inconsistent, security controls across different environments.

Over the past several years, F5 has significantly expanded its software and SaaS offerings to deliver a broad portfolio of solutions to help customers address the complexity and risk in today's hybrid IT environments. Through its BIG-IP, F5 NGINX, and F5 Distributed Cloud Services product families, F5 offers a range of integrated, artificial intelligence- and machine learning-driven solutions that support performance and protect both legacy and modern applications and APIs across data center, cloud, and edge locations.

Our multi-cloud application security and delivery solutions reduce our customers' operational complexity and costs, enabling our customers to scale, secure, and optimize both legacy and modern applications, across any infrastructure to create extraordinary digital experiences for their end users. We are leveraging near real-time collection of live application telemetry, machine learning and artificial intelligence, and toolchain automation to enable applications to rapidly respond to changes in performance, availability, and security threats with little to no human interaction.

Key components of our strategy include:

Solving multi-cloud application delivery and security challenges

Through our organic innovation and inorganic investments, we have created the broadest portfolio of multi-cloud application security and delivery technologies in the market and as a result, we are the only provider capable of serving any application or API in any environment. Our BIG-IP family serves traditional applications on premises, co-located or in cloud environments. Our F5 NGINX family serves modern, container-native and microservices-based applications and APIs. Our F5 Distributed Cloud Services is a portfolio of SaaS and managed services serving both traditional and modern applications where a SaaS-deployment model is preferred. As a result of this broad portfolio, we are the only provider capable of supporting our customers' modern and legacy application security and delivery needs across any environment — on premises, co-located, in a cloud or at the edge — with the added flexibility of multiple deployment models including packaged software, SaaS, managed services and hardware offerings.

Transforming how customers experience F5

As we expand the role we play for our customers, we are also transforming how our customers experience F5. Our goal is to create a unified and frictionless F5 experience for our customers. Over the last several years, we have made it easier for our customers to procure, deploy, use, manage, and upgrade our technologies. We also have taken steps to integrate the customer experience across our growing portfolio by simplifying the product naming and rebranding of several acquired and integrated solutions as part of our F5 Distributed Cloud Services platform.

Going forward we will leverage and grow our foundational capabilities in data and insights, digital sales, and SaaS-delivered capabilities to deliver consistent world-class customer experiences, including simple, integrated and friction-free consumption of our technologies. We will continue to improve customer awareness and understanding of F5's expanded portfolio with a focus on both user and buying personas, and business needs and intend to enhance our digital customer experiences to deliver both growth and efficiency.

F5 is leveraging AI to accelerate the strength of both our current and future offerings. F5 uses AI in its security solutions to support performance and efficacy. Today, our customers are able to further benefit from our three-pronged AI strategy. First, our current portfolio is positioned to solve security and performance challenges associated with new AI workloads. Second, we are building AI models leveraging our current data fabric in order to enhance our existing products. Finally, we are working to build new offerings based on the changing application and data security landscapes and the customer needs associated with these changes.

Capturing growth in security and software-as-a-service

In the previous decade, our customers were focused on protecting their networks from attacks. Today, attackers are targeting applications with threats like malware, bots, and API penetration. Through both organic and inorganic investment, we have expanded our application security portfolio and the deployment models through which customers can consume our solutions. F5's leading security capabilities combined with our hybrid multi-cloud approach enables our customers to deploy a consistent security posture across their entire application estate.

After announcing and launching in fiscal year 2022, we continue to focus investment in expanding our SaaS-based offerings within F5 Distributed Cloud Services, our comprehensive unified, security, networking, and application delivery service. F5 Distributed Cloud enables our customers to choose the best location and architecture for their application portfolio while easing the operational burden of securing and delivering applications across public, private and edge clouds.

F5 Products and Solutions

F5's portfolio of multi-cloud application services and security technologies are enabling customers to address the challenges of delivering differentiated digital experiences to their customers. Our multi-cloud, infrastructure-agnostic approach means customers can use F5 to create a more unified experience across disparate hybrid IT environments, enhancing automation and driving operational and cost efficiencies. Our product portfolio is comprised of solutions made available within the following F5 product families: F5 Distributed Cloud Services, F5 NGINX and F5 BIG-IP, and are discussed below.

F5 Distributed Cloud Services. A unified, security, networking, and application management service that enables customers to deploy, secure, and operate their applications wherever they may reside, regardless of platform or architecture. F5 Distributed Cloud Services leverages the F5 Global Network, a purpose-built, cloud-based, global private backbone to deliver performance, reliability, and control across hybrid, multi-cloud, or edge environments. F5 Distributed Cloud Service offerings are available as packaged software and SaaS-based consumption models and include the following:

- ***F5 Distributed Cloud Web App and API Protection ("WAAP").*** A comprehensive SaaS-based security solution, F5 Distributed Cloud WAAP allows our customers to accelerate time-to-service, lower total cost of ownership, and increase security efficacy on a cloud native platform that is fully integrated across a single policy engine and management console. F5 Distributed Cloud WAAP can be leveraged through multiple deployment options, allowing organizations to simplify security and improve visibility while reducing operational complexity. The solution provides the following F5 application security technologies:
    - Advanced Web Application Firewall ("WAF") capabilities through F5's BIG-IP WAF engine, which allows our customers to quickly apply, secure, and manage uniform comprehensive security policies at scale, across data centers, multi-clouds, and edge computing.
    - Mitigation against L3-L7 application-based and volumetric DDoS attacks through advanced F5 Distributed Cloud DDoS Mitigation, a managed, cloud-delivered mitigation service that detects and mitigates large-scale network, SSL, and application-targeted attacks in real time.
    - Enhanced API security, which leverages machine-based learning, auto-discovery, and anomaly detection, which automates the entire process of finding, securing, and monitoring APIs for anomalous behavior.
    - Next-generation, AI enabled bot mitigation through F5 Distributed Cloud Bot Defense provides our customers the ability to defend applications and APIs from automated attacks. The solution leverages AI to analyze massive amounts of traffic and machine learning to ensure sustainable bot prediction models with high efficacy.
    - Protection from sophisticated account takeover attempts.
- ***F5 Distributed Cloud Multi-Cloud Networking ("MCN").*** Our MCN solutions simplifies networking with an integrated service stack that securely connects both networks and application workloads, lowering operational costs and increasing agility. Under our MCN solutions we offer the following product solution:
    - ***F5 Distributed Cloud Network Connect.*** A networking solution that offers easy, secure, and consolidated connectivity across public and hybrid clouds, data centers, and edge sites. It provides unified policies and single-pane-of-glass management, reducing complexity and increasing efficiency, including full multi-tenancy and segmentation, enabling self-service capabilities for DevOps, NetOps and SecOps. Network Connect automates the configuration of native public cloud networking resources and seamlessly connects multiple clouds using site-to-site connectivity over a private backbone or the F5 Global Network.
- ***F5 Distributed Cloud App Connect.*** An application delivery and deployment solution for connecting clusters across various cloud providers and regions. App Connect offers orchestrated awareness for API endpoints on all connected clusters, allowing cross-cluster service discovery and advertisement for seamless app-to-app communication with fine-grained API control. Connections between sites are self-maintaining, redundant, and fully automated, which reduces the need for administrative tasks such as establishing VPNs and routing. App Connect provides end-to-end visibility for customers, who can choose their underlying transport, including the F5 Global Network.
- ***F5 Distributed Cloud DNS.*** A cloud-based Domain Name System ("DNS") solution that offers DNS delivery across multi-cloud environments and modern applications. F5 Distributed Cloud DNS can be distributed globally as either a primary or secondary DNS, providing authoritative DDoS protection, Domain Name System Security Extensions ("DNSSEC"), and the flexibility to automatically scale to meet our customers growing application demands.

- ***F5 Distributed Cloud CDN.*** A high-performance, multi-cloud and edge focused content delivery network ("CDN") solution that allows our customers to efficiently connect, secure, and optimize applications and workloads across multi- and hybrid-cloud environments through efficiently leveraging the integrated tools and technologies in the F5 Distributed Cloud Platform. F5 Distributed Cloud CDN can be purchased with other F5 Distributed Cloud offerings or as a stand-alone service.
- ***F5 Distributed Cloud App Stack.*** A SaaS-based solution that provides our customers the ability to deploy and orchestrate applications on a managed Kubernetes platform with centralized management of distributed applications through a single pane of glass. F5 Distributed Cloud App Stack simplifies the management of application deployments as one across on-premises, cloud, and edge locations.

F5 NGINX. Built from the F5 NGINX open source software that powers hundreds of millions of websites and applications across the world, our F5 NGINX technology suite delivers a lightweight, agile ADC and API connectivity solution for modern, container-native, micro-services-based applications and APIs. F5 NGINX delivers a range of capabilities including web server, load balancer, proxy, API gateways and caches in packaged software subscription consumption models. F5 NGINX product offerings include the following:

- ***F5 NGINX Plus.*** F5 NGINX Plus, our all-in-one, high performance load balancer, web server, content cache, and API gateway for modern applications, is offered as packaged software in a subscription consumption model. F5 NGINX Plus software delivers cloud-native, Kubernetes-friendly solutions that drive mission-critical applications and APIs with scalability, visibility, security, and governance. F5 NGINX Plus can be easily integrated into enterprise application workflows and CI/CD pipelines, as well as automation frameworks and ecosystems. F5 NGINX Plus is lightweight and can be used as a per-application ADC, but also scalable and performant enough for an enterprise's largest and most critical applications. F5 NGINX Plus is also offered as a fully managed native service on the Microsoft Azure Cloud allowing teams to lift-and-shift their applications to the cloud with no configuration change removing the operational burden of self-managed instances from teams.
- ***F5 NGINX Management Suite.*** The F5 NGINX Management Suite includes software tools that provide application and API management along with orchestration and analytics for F5 NGINX Plus instances running in private data centers and public clouds. The F5 NGINX Instance Manager accelerates application and API deployments with a self-service API driven tool set and allows enterprises to streamline lifecycle management and security. Using F5 NGINX Instance Manager, which is included in this offering, teams can inventory, control and secure F5 NGINX Plus, F5 NGINX Open Source and F5 NGINX WAF instances.
- ***F5 NGINX Ingress Controller.*** The F5 NGINX Ingress Controller provides traffic management for Kubernetes clusters. This solution is deployed at the central point of entry into a Kubernetes cluster and reduces complexity, increases uptime, and provides better insights into application health and performance at scale. This offering is sold in a subscription consumption model that scales with the customer's Kubernetes cluster size.
- ***F5 NGINX App Protect.*** F5 NGINX App Protect is a comprehensive WAF security and denial-of-service ("DoS") defense solution designed to protect applications and API's from advanced Layer 7 attacks. It is a lightweight solution that seamlessly integrates into DevOps environments and is platform-agnostic running across distributed architectures and hybrid environments to deliver consistent protection. It can be used in a variety of the use cases that F5 NGINX Plus is deployed and integrate easily into CI/CD pipelines for automation. F5 NGINX App Protect can be added to subscriptions and is bundled into "advanced" offerings for F5 Ingress Controller.

F5 BIG-IP. Our BIG-IP family of product offerings provide feature-rich, highly programmable and configurable application security and delivery solutions for legacy applications in enterprises and service providers. Also known as traditional applications, legacy applications are based on monolithic, three-tier, or client-server architectures. Such legacy applications are the most ubiquitous application architecture today, and many organizations continue to rely exclusively on legacy applications to power the most mission-critical business applications, customer-facing digital interfaces and internally used applications. For most organizations, the priority around legacy applications is maximizing operational efficiency and minimizing the total cost of ownership. BIG-IPs "best-of-suite" approach helps standardize and consolidate application security and delivery functions into a single solution, automating functions and reducing operational cost. The F5 BIG-IP family of products includes packaged software, which are available in subscription and perpetual consumption models, and F5 BIG-IP system offerings.

- ***F5 BIG-IP Packaged Software.*** F5 BIG-IP packaged software includes a growing portfolio of products that provide the performance and security to deliver applications to end users. F5 BIG-IP Packaged Software offerings include the following:
    - ***F5 BIG-IP Security.*** F5 BIG-IP application security products include F5 BIG-IP Access Policy Manager that secures and protects user access to applications, F5 BIG-IP Advanced Web Application Firewall that protects applications with behavioral analytics, bot defense and application layer encryption, and F5 BIG-IP SSL Orchestrator that maximizes infrastructure security with encryption/decryption and traffic steering. We also offer F5 BIG-IP Advanced Firewall Manager which drives accurate detection with machine learning, stress monitoring, dynamic signatures, and attack mitigation, F5 BIG-IP Carrier Grade NAT which provides carrier-grade scalability with a high number of IP address translations, fast network address translation setup rates and high-speed logging, and F5 BIG-IP DDoS Hybrid Defender which delivers advanced cloud and on-premises DDoS defenses to ensure real-time protection against volumetric DDoS threats and dynamic network and applications attacks.
    - ***F5 BIG-IP Application Delivery.*** F5 BIG-IP Application Delivery products include F5 BIG-IP Local Traffic Manager which manages network traffic so applications are always fast, available, and secure; F5 BIG-IP DNS which provides hyperscale and security during high query volumes and DNS DDoS attacks; and F5 BIG-IP Policy Enforcement Manager which improves network performance through effective policy management.
    - ***F5 BIG-IP Automation Tool Chain.*** F5 BIG-IP Automation Tool Chain is a set of automation tools that make it faster and easier to deploy and configure F5 application services. Via the F5 Automation Tool Chain, F5 BIG-IP capabilities easily integrate into orchestration frameworks such as Ansible, HashiCorp Terraform, OpenShift, and Cloud Foundry as part of a CI/CD pipeline.
    - ***F5 BIG-IQ Centralized Management.*** F5 BIG-IQ simplifies, enhances management of, and reduces customer operational costs associated with F5 BIG-IP deployments through central management, analytics, and automation for F5 BIG-IP instances.
- ***F5 BIG-IP Systems.*** F5 BIG-IP systems are designed to enhance the performance of our software by leveraging a combination of custom field-programmable gate array ("FPGA") logic and off-the-shelf silicon, providing customers a balance of cost and flexibility. All of our systems run all available F5 BIG-IP software modules. Our next-generation hardware, rSeries systems and VELOS chassis and blades are designed to enable enhanced automation and multi-tenancy, a capability that enables running multiple versions of F5 BIG-IP software on the same system thereby making it easy to migrate from one version to another with minimal or no downtime. We also offer our legacy systems, F5 BIG-IP iSeries and chassis-based VIPRION systems.

Competition

As F5 expands its reach and role into a broader set of multi-cloud security and delivery solutions, the companies that we consider competitors evolve. We compete against companies that offer web application firewalls, server load balancing, traffic management, and other functions normally associated with application delivery, application security, multi-cloud networking, and policy management.

The principal competitive factors in the markets in which we compete include deployment model, consumption model, ecosystem integrations, features and performance, customer support, brand recognition, scope of distribution and sales channels, and pricing. We believe we generally compete favorably on the basis of these factors as a result of our robust solutions and services, and our ability to deliver and secure any application, and any API, anywhere.

Within application delivery, our customers have the best of both worlds: reliability that F5's always been known for – across any environment from on-premises to multi-cloud; and agility and flexibility enabled by lightweight modern technologies, without compromising security or manageability. Our BIG-IP offerings compete against Citrix Systems and VMware. Our lightweight, developer-friendly F5 NGINX offerings, which provide capabilities like optimizing Kubernetes traffic management and load balancing cloud-native and hybrid cloud applications compete against Amazon Web Services ("AWS"), Google Cloud Platform, Envoy, HAProxy, and Microsoft Azure.

In application security, we compete with companies that offer web application firewall, bot detection and mitigation, API protection, carrier-grade firewall, carrier-grade network address translation ("NAT"), SSL orchestration, access policy management, and DDoS mitigation including Akamai, Cisco, Citrix Systems, Cloudflare, Fortinet, Imperva, Juniper Networks, Palo Alto and Radware.

F5 Distributed Cloud Services use cases include multi-cloud networking, as well as security offered as SaaS, competing with traditional networking vendors including VMware and Cisco, pure-play vendors like Aviatrix, and to some extent public cloud providers.

Corporate Functions

Customer Services and Technical Support

In connection with our products, we offer a broad range of global services including maintenance, consulting, training, and other technical support services.

We believe that our ability to provide consistent, high-quality customer service and technical support is a key factor in attracting and retaining large enterprise and service provider customers. Accordingly, we offer a broad range of support services that includes phone and online technical support, hardware repair and replacement, software updates, online tools, consulting, and training services.

We provide these services directly to customers and also utilize a multi-tiered support model, leveraging the capabilities of our channel partners. Our technical support staff is strategically located in regional service centers to support our global customer base.

Product Development

We believe our future success depends on our ability to maintain technology leadership by continuing to innovate and to improve our products and by developing new products to meet the changing needs of our customers and partners. Our engineering organization uses standard processes for the development, documentation, and quality control of services, software, and systems that are designed to meet these goals. These processes include working with our business development and marketing teams, customers, and partners to identify technology innovation opportunities to better meet the evolving needs of our addressable markets. We have had dedicated teams focused on testing new disruptive innovations in technology, business models, or customer segments. We expect innovations resulting from the work of these teams will be complementary to our goal of delivering the broadest and most consistent portfolio of solutions across cloud and on-premises environments.

Our engineering teams are primarily located in Seattle and Spokane, Washington; Hyderabad, India; Tel Aviv, Israel; San Jose, California; and Cork, Ireland. Members of our engineering teams collaborate closely with one another to ensure the interoperability and performance of our solutions.

We rely on a combination of patent, copyright, trademark, and trade secret laws and restrictions on disclosure to protect our intellectual property rights. F5 holds various patents in the United States and internationally (with applications pending for various aspects of our technology). We file patent applications to protect our intellectual property and believe that the duration of our issued patents is sufficient when considering the expected lives of our products. Our future success depends in part on our ability to protect our proprietary rights to the technologies used in our principal products. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use trade secrets or other information that we regard as proprietary. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as the laws of the United States. Any issued patent may not preserve our proprietary position, and competitors or others may develop technologies similar to or superior to our technology. Our failure to enforce and protect our intellectual property rights could harm our business, operating results, and financial condition.

In addition to our own proprietary software, we incorporate software licensed from several third-party sources into our products. These are generally term licenses which may renew annually and that generally provide for certain rights and licenses to support our customers post termination. While we may not be able to renew all of these licenses in the future, we believe that alternative technologies for these licenses are available both domestically and internationally.

Sales and Marketing

Our customers include a wide variety of enterprises and service providers among Fortune 1000 and Business Week Global 1000 companies, including those in technology, telecommunications, financial services, transportation, education, manufacturing, healthcare, and government. In fiscal year 2023, sales outside of the Americas represented 43.7% of our net revenues. Refer to Note 15 of our consolidated financial statements included in this Annual Report on Form 10-K for additional information regarding our revenues by geographic area.

Sales

We sell our products and services to large and medium enterprises, government entities, and service providers through a variety of routes to market and channels. Our sales teams sell our products and services directly to customers by working closely with our channel partners including distributors, value-added resellers (“VARs”), managed service providers (“MSPs”), and systems integrators.

F5 sales teams. Our inside sales team generates and qualifies leads from marketing and helps manage accounts by serving as a liaison between the field and internal corporate resources. Our outside sales team works directly with partners and customers across the globe. Our field sales personnel are located in major cities across our three sales regions. Field sales personnel work closely with our channel partners to sell our products and services to their customers. We reward partners that identify new business and provide sales expertise for our portfolio of products and solutions through various incentive programs. Systems engineers, with deep technical domain expertise, support our regional sales account managers and channel partners providing pre-sale technical solution engineering and support, as needed.

Distributors, VARs, and MSPs. As a key component of our sales strategy, we have established relationships with a number of large national and international distributors, local and specialized distributors, VARs, and MSPs. We derive a majority of our product sales from VARs and MSPs, relying on our large distributors for fulfillment, training, and partner enablement.

Our agreements with our channel partners are not exclusive and do not prevent them from selling competitive products. These agreements typically have one-year terms with no obligation to renew, and typically do not provide for exclusive sales territories or minimum purchase requirements.

For fiscal year 2023, sales to two of our worldwide distributors, Ingram Micro, Inc. and Synnex Corporation represented 15.6% and 15.0% of our total revenues, respectively. Our agreements with distributors are standard, non-exclusive distribution agreements that renew automatically on an annual basis and generally can be terminated by either party with 90 days written notice prior to the start of any renewal term. The agreements grant certain distributors the right to distribute our products to resellers, with no minimum purchase requirements.

Systems integrators. We also market our products through strategic relationships with systems integrators, including Dell Services, DXC, HP Enterprise Services, and IBM Global Services, who include our products as core components of application deployments or network-based solutions they deploy for their customers. In most cases, systems integrators do not directly purchase our products for resale to their customers. Instead, they typically recommend and/or manage our products as a part of broader solutions supporting enterprise applications and internet facing systems that incorporate our technology for security, high availability, and enhanced performance.

Resellers and technology partners. Historically, our ability to compete with much larger companies has been strengthened through partnerships with large systems and software vendors. Currently, we partner with many technology partners and public cloud providers who resell our products. We have ongoing partnerships with the major cloud providers such as AWS, Microsoft Azure, and Google Cloud Platform and have expanded our reseller routes to market to include their public cloud marketplaces. F5 has recently signed a Strategic Collaboration Agreement (“SCA”) with AWS and are actively engaged with Microsoft Azure on private offers levering our software on Azure. Our business development team manages these relationships and closely monitors adjacent and complementary markets for opportunities to partner with those whose solutions are complementary to ours and could enable us to expand our addressable market.

Marketing

As we continue to expand our offerings and our range of consumption models, we are focused on driving the compelling and unique value proposition of F5 among our existing customers, including new buying centers within existing customers, as well as with new customers. To do so, we are revitalizing our brand to inform customers about our expanded portfolio and broaden our reach with new customers. We continue to focus on our core NetOps persona while seeking to expand our relationships with DevOps, SecOps, CISO and Cloud Architect audiences.

We invest in driving brand, demand, and advocacy experiences, addressing touchpoints across the customer journey to ensure we do all we can to enable our customers to realize value in their investments with F5. To maximize our reach and impact, we continue to meet customers where they are by increasing our focus and investments in more digitally enabled, personalized, and frictionless experiences at scale.

Manufacturing

We outsource the manufacturing of our systems to a third-party contract manufacturer, Flex Ltd. ("Flex"), for building, assembling, and testing according to our specifications at Flex's facilities in Guadalajara, Mexico and Zhuhai, China. Flex also performs material procurement, assembly, system test, quality control, and direct shipment on our behalf.

We provide a rolling forecast that allows Flex to stock component parts and other materials, plan capacity, and build finished goods inventory in anticipation of end-user demand. Flex procures components in volumes consistent with our forecast, assembles the products, and tests them according to our specifications. Generally, we do not own the system components. Hardware components for our products consist primarily of commodity parts and certain custom components.

Many of our components are purchased from sources which we believe are readily available from other suppliers. However, we currently purchase several hardware components used in the assembly of our products from a number of single or limited sources, and lead times for these components can vary significantly. Per the terms and conditions with our agreement with Flex, if the components are unused or the products are not sold within specified periods of time, we may incur carrying charges or obsolete material charges for components that our contract manufacturers purchased to build products to meet our forecast or customer orders.

Systems built in Guadalajara are shipped to the Flex fulfillment center in Milpitas, California for distribution primarily to distributors, value-added resellers, or end users in the Americas and EMEA. Systems built and fulfilled in Zhuhai are distributed to partners and customers in APAC. Title to the products transfers from Flex to us and then to our customers upon shipment from a designated fulfillment location.

Backlog

Backlog is primarily systems-based and represents orders confirmed with a purchase order for products to be fulfilled and invoiced to customers with approved credit status. Orders are subject to cancellation, rescheduling by customers, or product specification changes by customers. Although we believe that the backlog orders are firm, purchase orders may be canceled by the customer prior to fulfillment without significant penalty. For this reason, we believe that our product backlog at any given date is not a reliable indicator of future revenues. At the end of fiscal year 2023, we had product backlog of approximately $53 million.

Human Capital Management

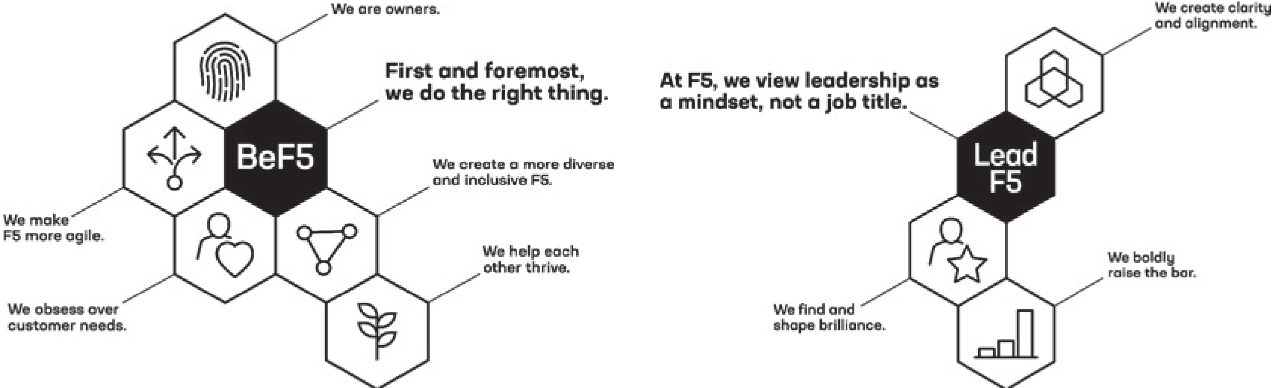
F5's commitment to its employees is to be one global and diverse team that is both human-first and high-performance and to attract and grow amazing talent. This commitment is delivered through our culture and engagement, our investment in employees' growth and development, our focus on diversity and inclusion, and in our compensation, benefits, and wellbeing offerings.

Employees

As of September 30, 2023, we had 6,524 employees – over 99% of whom were full time employees. Our employees are in 47 countries with 49% of employees in the United States. None of our employees in the United States are represented by a labor union. We have experienced no work stoppages and believe that our employee relations are in good standing, as evidenced by our bi-annual employee engagement survey results and described in the section below entitled *Culture and Engagement*.

Culture and Engagement

We have been able to sustain our strong company culture in a hybrid work model thanks to increased focus on continuously embedding BeF5 and LeadF5 behaviors into our systems, processes, decisions, and conversations. We are constantly reinforcing, rewarding, and recognizing desired behaviors to send the message that they are key to executing our strategy.



We measure the success of and identify areas of improvement for our company culture through global surveys of employee experience and sentiment at least twice each year. As of June 2023, employees reported high satisfaction with F5's culture on several key questions:

- 83% of employees favorably rate "I am proud to work for F5."
- 87% of employees favorably rate "At F5, employees are treated equally and fairly regardless of their background."

- 80% of employees favorably rate "F5 has a great culture.""

One survey measure that F5 tracks closely as a gauge of our culture decreased from fiscal year 2022. As of June 2023, 76% of employees favorably rate "I feel a sense of belonging at F5," compared to 84% a year prior. The employee comments in the survey highlighted recent changes in fiscal year 2023 related to the reduction in force, Freedom to Flex policy and incentive plans among the key reasons for the decline of our belonging score and underlined the areas F5 needs to enhance to maintain our culture.

Growth and Development

We provide employees with opportunities to improve their technical and professional knowledge, nurture our innovation ecosystem, strengthen management and leadership, as well as maintain our high standards of business integrity through ongoing compliance training.

These development opportunities are available through live employee events during Innovation Months, Idea Fests, Technology Days and Learning Days dedicated to exploring new ideas, such as Generative AI. F5 also offers employees customized learning paths, leadership coaching, global mentor and sponsorship programs, as well as multiple third-party resources to enhance the learning opportunities developed internally.

Diversity and Inclusion

F5 believes our differences—when embraced with humility and respect—drive smarter decisions, increased innovation, stronger performance, and a culture where everyone can be themselves and reach their full potential.

At F5, we are committed to creating a more diverse and inclusive workplace. Our strategic framework is called "IDEA": Inclusion, Diversity, Equity and Allyship. Each concept in IDEA requires focus and engagement at all levels of the organization and to be embedded into our ways of working. (For more information, please see our most recent Diversity & Inclusion report at F5.com/company/diversity-inclusion).

To increase inclusion at F5, we foster communities through our Employee Inclusion Groups ("EIGs") – F5 Ability, F5 Appreciates Blackness, F5 Connects Women, F5 Latinx e Hispanos Unidos, F5 Military Veterans, and F5 Pride. In fiscal year 2023, the EIGs focused on intersectional events prioritizing community building, culture and talent development and diverse recruitment, with strategic counsel and support from their executive sponsors. The EIG leaders continue to be recognized for their efforts to build a thriving community of diverse employees across F5 through quarterly bonuses.

F5 offers differentiated development programs to help address the barriers for underrepresented groups in the company. In fiscal year 2023, F5's commitment to increase representation at F5 for Women, Black, and Latinx employees across management and leadership positions, and the company overall, was a focus of both our mentor and sponsorship programs.

Allyship is critical to the sustainability of our diversity and inclusion program at F5. The F5ers engaging with this program are on a continuous learning journey to build a culture where everyone feels they belong and can reach their full potential. Each month, content is made available to the allyship community to deepen their understanding of experiences different from their own and gain new skills to speak up and speak out as active participants in creating a more diverse and inclusive F5.

Compensation, Benefits and Wellbeing

F5 aims to attract, reward, and retain extraordinary talent from diverse backgrounds by offering a total compensation package that is equitable, flexible, and market competitive.

This includes the pay, incentive plans, restricted stock unit grants ("RSUs"), Employee Stock Purchase Plan, retirement plans, healthcare, paid time off and family leave F5 provides to employees, as well as the programs that support the diverse needs of our employees' overall health and wellbeing. In fiscal year 2023, F5 launched free and global access to therapy and coaching sessions to all employees, and renewed our popular Wellness Weekends to provide one weekend a quarter when all employees have a set Friday through Monday off to reset and refresh.

Two significant changes were made to F5 employees' compensation and benefits in fiscal year 2023 in response to both macroeconomic and post-COVID-19 pandemic conditions:

- In the second quarter of fiscal year 2023, we altered our incentive plans to reduce our operating budgets. F5 eliminated the annual cash bonus for the CEO, reduced annual cash bonuses for executives by 70% and reduced the funding pool by 50% for employee Management by Objective ("MBO") plans.

- In the third quarter of fiscal year 2023, F5 updated its Freedom to Flex program to reflect the worldwide expiration of COVID-19 pandemic health and safety protocols. To balance the company's goals for employee collaboration and connection, with employees continued need for flexibility from their employer, F5 requires all employees within 30 commutable miles of an F5 office, accommodating 30 or more employees, to work in the office for 30 business days each quarter. The remainder of employees worldwide continue to be offered a choice to work fully remote, hybrid or full-time in an F5 office.

Environmental, Social & Governance

At F5, we care deeply not just about what we do, but how we do it. We consider this our uniquely human-first and high-performance approach to the way we conduct our business, and it is reflected in our commitment to Environmental, Social and Governance ("ESG").

Environmental. In fiscal year 2023, F5 expanded its environmental initiatives by committing to a science-based target. F5 submitted its target for verification to the Science Based Target Initiative, outlining its commitment to reduce absolute Scope 1 and 2 emissions by 50%, and reduce absolute Scope 3 emissions by 43% by 2030 from a 2021 baseline year.

The company plans to reduce its operational emissions, referred to as Scope 1 and 2, by sourcing more renewable energy and improving its offices' energy efficiency. F5 identified that the majority of the Company's emissions, however, come from the value chain, referred to as Scope 3. This will require F5 to prioritize more sustainable design and energy performance in its products and services, followed by decarbonizing its supply chain, in order to reach its science-based target.

Social. In addition to the employee programs and benefits outlined in the Human Capital Management section above, we continue to prioritize F5 Global Good, the community development initiative that amplifies our employee engagement and diversity and inclusion programs. In fiscal year 2023, more than half of all worldwide employees participated in Global Good programs, volunteering over 10,400 hours and directing the entirety of F5's donations, through both the Company matching program and grant selection committees. F5 and its employees donated over $3.8 million to over 3,000 non-profits worldwide in fiscal year 2023.

Governance. Our guiding principle to do the right thing for each other, our customers, our shareholders, and our communities is set forth in F5's Code of Business Conduct and Ethics, compliance training programs and most importantly, in the behaviors we measure all employees on: BeF5 and LeadF5.

In fiscal year 2023, F5 completed its first Double Materiality Assessment, based on industry benchmarking and the engagement of hundreds of internal and external stakeholders. This process served as F5's most recent climate-related risk identification for risks with a substantive impact and enabled the Company to identify appropriate ESG risks for our enterprise risk assessment process. The oversight of our ESG programs is conducted by the Nominating and ESG Committee of the Board of Directors, where ESG strategy, disclosures and metrics are reviewed each quarter.

Executive Officers of the Registrant

The following table sets forth certain information with respect to our executive officers as of November 14, 2023:

Name	Age	Position
François Locoh-Donou	52	President, Chief Executive Officer and Director
Tom Fountain	47	Executive Vice President of Global Services and Chief Strategy Officer
Frank Pelzer	53	Executive Vice President and Chief Financial Officer
Scot Rogers	56	Executive Vice President and General Counsel
Kara Sprague	43	Executive Vice President and Chief Product Officer
Chad Whalen	52	Executive Vice President of Worldwide Sales

François Locoh-Donou has served as our President, Chief Executive Officer and member of our Board of Directors since April 2017. Prior to joining F5, Mr. Locoh-Donou served as Senior Vice President and Chief Operating Officer of Ciena Corporation. During his more than 15 years at Ciena, Mr. Locoh-Donou served in several leadership positions. From August 2011 to October 2015, he served as Ciena's Senior Vice President, Global Products Group. Previously, he served as Ciena's Vice President and General Manager, Europe, Middle East and Africa from June 2005 to August 2011. He holds an M.B.A. from Stanford University, a 'Mastere' in Optical Telecommunications from the National Institute of Telecommunications of Paris, and a 'Diplome d'Ingenieur' in Physics Engineering from the National Institute of Physics in Marseille, France. Mr. Locoh-Donou serves on the board of Capital One Financial Corporation. He is also the co-founder of Cajou Espoir, a cashew-processing facility that employs several hundred people in rural Togo, 80 percent of whom are women. Cajou Espoir exports more than 400 tons of cashew kernels annually to the U.S. and Europe.

Tom Fountain has served as our Executive Vice President of Global Services and Chief Strategy Officer since June 2020. Mr. Fountain joined F5 in January 2018 as Executive Vice President and Chief Strategy Officer. Mr. Fountain is responsible for F5's global services organization, including global support, consulting, and services teams. He is also responsible for F5's corporate strategy, corporate development, technology partnerships, our service provider business, and new business incubations. From November 2012 to January 2018, Mr. Fountain served as Senior Vice President for Strategy and Corporate Development at McAfee LLC, Vice President of Strategy and Operations at Intel Corporation, and Senior Vice President for Strategy and Corporate Development at McAfee Incorporated. Previously, Mr. Fountain served as Vice President and General Manager of the Content and Media Business Unit at Juniper Networks from December 2011 to November 2012 and Vice President of Corporate Strategy at Juniper Networks from February 2009 to December 2011. Earlier in his career, Mr. Fountain was a venture capitalist at Mayfield Fund from June 2003 to February 2009 and co-founder and engineering leader at Ingrian Networks from December 1999 to June 2004. He holds an M.B.A., an M.S. in Computer Science, an M.S. in Electrical Engineering, and a B.S. in Computer Systems Engineering, each from Stanford University.

Frank Pelzer has served as our Executive Vice President and Chief Financial Officer since May 2018. He oversees F5's worldwide financial planning, analysis, accounting, reporting, and internal auditing procedures, as well as investor relations. Prior to joining F5, Mr. Pelzer served as President and Chief Operating Officer of the Cloud Business Group at SAP, responsible for the execution of strategy and operations of the company's SaaS portfolio including Concur, Ariba, Fieldglass, SuccessFactors, and Hybris. Prior to that, he served as Chief Financial Officer of Concur Technologies, before it was acquired by SAP in 2014. Mr. Pelzer has also held senior leadership positions at Deutsche Bank and Credit Suisse Group. Mr. Pelzer serves on the board of directors Freshworks Inc. He holds a B.A. from Dartmouth College and an M.B.A. from the Tuck School of Business at Dartmouth College.

Scot Rogers has served as our Executive Vice President and General Counsel since January 2014. Mr. Rogers has held a variety of positions in F5's legal department since 2005, including most recently as Senior Vice President and Associate General Counsel immediately prior to his promotion to Executive Vice President. From 2002 through 2005, Mr. Rogers was the General Counsel for Xpediate Consulting, a healthcare technology and consulting company located in the San Francisco Bay Area. Prior to becoming a corporate counsel, he spent eight years in private practice as a commercial litigator. He is a graduate of the University of Texas and holds a J.D. from the Dedman School of Law of Southern Methodist University.

Kara Sprague is Executive Vice President and Chief Product Officer. She is responsible for F5's portfolio of multi-cloud application security and delivery solutions. Prior to joining F5 in 2017, Ms. Sprague held various leadership positions across the technology practice of McKinsey & Company. Most recently she led the Technology, Media, and Telecom Practice for the Western Region. Prior to McKinsey, Ms. Sprague was on the engineering staff of Oracle, Agilent Technologies, and Hewlett-Packard. She holds a bachelor's degree and two master's degrees from Massachusetts Institute of Technology and serves on the board of Girls Who Code.

Chad Whalen has served as our Executive Vice President of Worldwide Sales since July 2018. He is responsible for F5's global sales strategy and brings over 20 years of experience leading global teams across Europe, Asia, and North and South America in network infrastructure, security, and SaaS. Mr. Whalen joined F5 in 2017 to lead the Cloud Sales team. Prior to joining F5, he ran strategic alliances at Fortinet, worldwide sales and services at Jasper, Americas sales and field operations at Ciena and global sales and marketing at World Wide Packets. He holds a B.A. in Business Administration and Management from Eastern Washington University.

Item 1A. *Risk Factors*

In addition to the other information in this report, the following risk factors should be carefully considered in evaluating our company and operations.

Risk Factor Summary

Operational and Execution Risks

- Cloud-based and SaaS computing trends present competitive and execution risks;
- Security vulnerabilities in our IT infrastructure or multi-cloud application security and delivery solutions and services as well as unforeseen product errors could have a material adverse impact on our business results of operations, financial condition and reputation;
- We are dependent on various information technology systems, and failures of or interruptions to those systems could harm our business;
- Our success depends on our key personnel and our ability to hire, retain and motivate qualified executives, sales and marketing, operations, product development and professional services personnel;
- Acquisitions present many risks and we may not realize the financial and strategic goals that are contemplated at the time of the transaction;
- Our success depends upon our ability to effectively plan and manage our resources and restructure our business;
- Our business may be harmed if our contract manufacturers are not able to provide us with adequate supplies of our products or if a single source of hardware assembly is lost or impaired;
- Our business could suffer if there are any interruptions or delays in the supply of hardware components from our third-party sources;
- It is difficult to predict our future operating results because we have an unpredictable sales cycle;
- We may not be able to sustain or develop new distribution relationships, and a reduction or delay in sales to significant distribution partners could hurt our business;
- Reliance on fulfillment at the end of the quarter could cause our revenue for the applicable period to fall below expected levels;
- Our operating results are exposed to risks associated with international commerce.
- The average selling price of our products may decrease and our costs may increase, which may negatively impact revenues and profits;

Strategic and Industry Risks

- Our business could be adversely impacted by conditions affecting the markets in which we compete;
- Industry consolidation may result in increased competition;
- We may not be able to compete effectively in the application security and delivery market;
- Our success depends on our timely development of new software and systems products and features, market acceptance of new software and systems product offerings and proper management of the timing of the life cycle of our software and systems products;
- Our success depends on sales and continued innovation of our application security and delivery product lines;
- Issues related to the development and use of artificial intelligence ("AI") could give rise to legal and/or regulatory action, damage our reputation or otherwise materially harm of our business
- Misuse of our products could harm our reputation.

Legal and Regulatory Risks

- Our failure to adequately protect personal information could have a material adverse effect on our business;
- A portion of our revenue is generated by sales to government entities, which are subject to a number of challenges and risks;
- We face litigation risks;

- We may not be able to adequately protect our intellectual property, and our products may infringe on the intellectual property rights of third parties;
- We are subject to governmental export and import controls that could subject us to liability or impair our ability to compete in international markets;
- Changes in governmental regulations could negatively affect our revenues.

Financial Risks

- We may have exposure to greater than anticipated tax liabilities;
- We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and results of operations;
- Changes in financial accounting standards may cause adverse unexpected revenue fluctuations and affect our reported results of operations;
- If we are unable to maintain effective internal control over financial reporting, the accuracy and timeliness of our financial reporting may be adversely affected.

Risks Related to our Common Stock

- Our quarterly and annual operating results may fluctuate in future periods, which may cause our stock price to fluctuate;
- Anti-takeover provisions could make it more difficult for a third party to acquire us;
- Our stock price could be volatile, particularly during times of economic uncertainty and volatility in domestic and international stock markets;
- If securities or industry analysts publish inaccurate or unfavorable research about our business, or discontinue publishing research about our business, the price and trading volume of our securities could decline.

General Risks

- Continued macroeconomic downturns or uncertainties may harm our industry, business, and results of operations;
- We face risks associated with having operations and employees located in Israel;
- Our business is subject to the risks of earthquakes, fire, power outages, floods, and other catastrophic events, and to interruption by man-made problems such as terrorism;
- Climate change may have an impact on our business.

Operational and Execution Risks

Cloud-based and SaaS computing trends present competitive and execution risks

Customers are transitioning to a hybrid computing environment utilizing various cloud-based software and services accessed via various smart client devices. Pricing and delivery models are evolving and our competitors are developing and deploying cloud-based services for customers. In addition, new cloud infrastructures are enabling the emergence of new competitors including large cloud providers who offer their own application security and delivery functionality as well as smaller companies targeting the growing numbers of "born in the cloud" applications. We devote significant resources to develop and deploy our cloud-based and SaaS software and services strategies. While we believe our expertise and investments in software and infrastructure for cloud-based services provides us with a strong foundation to compete, it is uncertain whether our strategies will continue to attract the customers or generate the revenue required to be successful. In addition to software development costs, we are incurring costs to build and maintain infrastructure to support cloud-computing and SaaS services, and the securitization of our customers' data. These costs may reduce the gross and operating margins we have previously achieved. Whether we are successful in this new business model depends on our execution in a number of areas, including:

- continuing to innovate and bring to market compelling cloud-based and SaaS services through consumption models that generate increasing traffic and market share;
- maintaining the utility, compatibility and performance of our software on the growing array of cloud and SaaS computing platforms and the enhanced interoperability requirements associated with orchestration of cloud computing environments; and

- implementing the infrastructure and the securitization of our customers' data to deliver our own cloud-based and SaaS services.

These new business models may reduce our revenues or gross and operating margins and could have a material adverse effect on our business, results of operations and financial condition.

Security vulnerabilities in our IT infrastructure or multi-cloud application security and delivery products and services as well as unforeseen product errors could have a material adverse impact on our business results of operations, financial condition and reputation

In the ordinary course of business, we store sensitive data, including intellectual property, personal data, our proprietary business information and that of our customers, suppliers and business partners on our networks. In addition, we store sensitive data through cloud-based services that may be hosted by third parties and in data center infrastructure maintained by third parties. The secure maintenance of this information is critical to our operations and business strategy. Our IT infrastructure and those of our partners and customers are subject to the increasing threat of intrusions by a wide range of bad actors and malicious parties, including computer programmers, hackers or sophisticated nation-state and nation-state supported actors or they may be compromised due to employee error or wrongful conduct, malfeasance, or other disruptions. Despite our security measures, and those of our third-party vendors, our IT infrastructure has experienced breaches or disruptions and may be vulnerable in the future to breach, attacks or disruptions. If any breach or attack compromises our IT infrastructure, creates system disruptions or slowdowns or exploits security vulnerabilities therein, the information stored on our networks or those of our customers could be accessed and modified, publicly disclosed, lost or stolen, and we may be subject to liability to our customers, suppliers, business partners and others, and suffer reputational and financial harm.

Our multi-cloud application security and delivery products and services are used by our customers to manage their critical applications and data. Bad actors and other malicious parties, may attempt to exploit security in our internal IT infrastructure or cloud environments that support our SaaS-based and managed solutions and services as well as our products that may be deployed in a customer environment. To address these security risks, we devote significant resources to identify and eliminate security vulnerabilities in our multi-cloud application security and delivery products and services. These efforts include, but are not limited to engineering and enhancing security and reliability features in our products and services, deploying security updates to address security vulnerabilities, and seek to respond to known security incidents in sufficient time to minimize any potential adverse impacts to our customers and IT infrastructure. Despite our efforts to harden our IT infrastructure, our security and delivery products and services against these risks, from time to time, we experience attacks and other cyber-threats. These attacks can seek to exploit, among other things, known or unknown vulnerabilities in technology included in our IT infrastructure, security and delivery products and services. While we have undertaken efforts to mitigate these vulnerabilities, they could render our IT infrastructure, security and delivery products and services susceptible to a cyber-attack which may subject the Company to liability to our customers, suppliers, business partners and others, and suffer reputational and financial harm.

Our products may also contain undetected errors or defects when first introduced or as new versions are released. We have experienced these errors or defects in the past in connection with new products and product upgrades. As our products and customer IT infrastructures become increasingly complex, customers may experience unforeseen errors in implementing our products into their IT environments. We expect that these errors or defects will be found from time to time in new or enhanced products after commencement of commercial shipments. These problems may cause us to incur significant warranty and repair costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations problems. We may also be subject to liability claims for damages related to product errors or defects. While we carry insurance policies covering this type of liability, these policies may not provide sufficient protection should a claim be asserted. A material product liability claim may harm our business and results of operations.

Our products must successfully operate with products from other vendors. As a result, when problems occur in a network, it may be difficult to identify the source of the problem. The occurrence of software or hardware problems, whether caused by our products or another vendor’s products, may result in the delay or loss of market acceptance of our products. The occurrence of any of these problems may harm our business and results of operations.

Any errors, defects or vulnerabilities in our products or IT infrastructure could result in:

- expenditures of significant financial and product development resources in efforts to analyze, correct, eliminate, or work-around errors and defects or to address and eliminate vulnerabilities;
- remediation costs, such as liability for stolen assets or information, repairs or system damage;
- increased cybersecurity protection costs which may include systems and technology changes, training, and engagement of third party experts and consultants;

- increased insurance premiums;
- loss of existing or potential customers or channel partners;
- loss of proprietary information leading to lost competitive positioning and lost revenues;
- inaccessibility to certain data or systems necessary to operate the business;
- negative publicity and damage to our reputation;
- delayed or lost revenue;
- delay or failure to attain market acceptance;
- an increase in warranty claims compared with our historical experience, or an increased cost of servicing warranty claims, either of which would adversely affect our gross margins; and
- litigation, regulatory inquiries, or investigations that may be costly and harm our reputation.

We are dependent on various information technology systems, and failures of or interruptions to those systems could harm our business

Many of our business processes depend upon our IT systems, the systems and processes of third parties, including cloud hosting service providers, and on interfaces with the systems of third parties. For example, our order entry system provides information to the systems of our contract manufacturers, which enables them to build and ship our products. If those systems fail or are interrupted, or if our ability to connect to or interact with one or more networks is interrupted, our processes may function at a diminished level or not at all. This could harm our ability to ship products or our ability to deliver cloud-based services, which could harm our financial results.

In addition, reconfiguring our IT systems or other business processes in response to changing business needs may be time-consuming and costly. To the extent this impacted our ability to react timely to specific market or business opportunities, our financial results may be harmed.

Our success depends on our key personnel and our ability to hire, retain and motivate qualified executives, sales and marketing, operations, product development and professional services personnel

Our success depends, in large part, on our ability to attract, engage, retain, and integrate qualified executives and other key employees throughout all areas of our business. In order to attract and retain executives and other key employees in a competitive marketplace, we must provide a competitive compensation package, including cash- and equity-based compensation. If we do not obtain the stockholder approval needed to continue granting equity compensation in a competitive manner, our ability to attract, retain, and motivate executives and key employees could be weakened. Failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations. We have recently experienced changes in our senior leadership team and we expect to continue to see changes as we build the team that is needed to execute our strategy. Changes in our management team may be disruptive to our business, and any failure to successfully integrate key new hires or promoted employees could adversely affect our business and results of operations. The complexity of our products and their integration into existing networks and ongoing support, as well as the sophistication of our sales and marketing effort, requires us to retain highly trained developers, professional services, customer support and sales personnel. Competition for qualified developers, professional services, customer support and sales personnel in our industry is intense, especially in Silicon Valley and Seattle where we have substantial operations and a need for highly skilled personnel, because of the limited number of people available with the necessary technical skills and understanding of our products. Also, to the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited, that they have divulged proprietary or other confidential information, that they have violated non-compete obligations to their prior employers, or that their former employers own their inventions or other work product. Our ability to hire and retain these personnel may be adversely affected by volatility or reductions in the price of our common stock or our ability to get approval from shareholders to offer additional common stock to our employees, since these employees are generally granted restricted stock units. The loss of services of any of our key personnel, the inability to retain and attract qualified personnel in the future or delays in hiring qualified personnel may harm our business and results of operations. In addition, restructuring plans to better align strategic and financial objectives, optimize operations, and drive efficiencies for long-term growth and profitability, may include a reduction in force of the Company's workforce. These restructuring activities could lead to increased attrition amongst those employees who were not directly affected by the reduction in force program.

Acquisitions present many risks and we may not realize the financial and strategic goals that are contemplated at the time of the transaction

With respect to our past acquisitions, as well as any other future acquisitions we may undertake, we may find that the acquired businesses, products or technologies do not further our business strategy as expected, that we paid more than what the assets are later worth or that economic conditions change, all of which may generate future impairment charges. Our acquisitions may be viewed negatively by customers, financial markets or investors. There may be difficulty integrating the operations and personnel of the acquired business, and we may have difficulty retaining the key personnel of the acquired business. We may have difficulty in integrating the acquired technologies or products with our existing product lines. Our ongoing business and management's attention may be disrupted or diverted by transition or integration issues and the complexity of managing geographically and culturally diverse locations. We may have difficulty maintaining uniform standards, controls, procedures and policies across locations. We may experience significant problems or liabilities associated with product quality, technology and other matters.

Our inability to successfully operate and integrate newly-acquired businesses appropriately, effectively and in a timely manner, or to retain key personnel of any acquired business, could have a material adverse effect on our ability to take advantage of further growth in demand for application security and delivery solutions and other advances in technology, as well as on our revenues, gross margins and expenses.

Our success depends upon our ability to effectively plan and manage our resources and restructure our business

Our ability to successfully offer our products and services in a rapidly evolving market requires an effective planning, forecasting, and management process to enable us to effectively scale and adjust our business and business models in response to fluctuating market opportunities and conditions. From time to time, we have increased investment in our business by increasing headcount, acquiring companies, and increasing our investment in research and development, sales and marketing, and other parts of our business. Conversely, in the last few years, we have initiated restructuring plans to better align strategic and financial objectives, optimize operations, and drive efficiencies for long-term growth and profitability, which resulted in restructuring charges. Our ability to achieve the anticipated cost savings and other benefits from these initiatives is subject to many estimates and assumptions, which are subject to uncertainties. If our estimates and assumptions are incorrect, if we are unsuccessful at implementing changes, or if other unforeseen events occur, our business and results of operations could be adversely affected.

Our business may be harmed if our contract manufacturers are not able to provide us with adequate supplies of our products or if a single source of hardware assembly is lost or impaired

We outsource the manufacturing of our hardware platforms to third party contract manufacturers who assemble these hardware platforms to our specifications. We have experienced minor delays in shipments from contract manufacturers in the past. However, if we experience major delays in the future or other problems, such as inferior quality and insufficient quantity of product, any one or a combination of these factors may harm our business and results of operations. The inability of our contract manufacturers to provide us with adequate supplies of our products or the loss of one or more of our contract manufacturers may cause a delay in our ability to fulfill orders while we obtain a replacement manufacturer and may harm our business and results of operations. In particular, we currently subcontract manufacturing of our products to a single contract manufacturer. If our arrangement with this single source of hardware assembly was terminated or otherwise impaired, and we were not able to engage another contract manufacturer in a timely manner, our business, financial condition and results of operation could be adversely affected.

If the demand for our products grows, we will need to increase our raw material and component purchases, contract manufacturing capacity and internal test and quality control functions. Any disruptions in product flow may limit our revenue, may harm our competitive position and may result in additional costs or cancellation of orders by our customers.

Our business could suffer if there are any interruptions or delays in the supply of hardware components from our third-party sources

We currently purchase several hardware components used in the assembly of our products from a number of single or limited sources. Lead times for these components vary significantly. The unavailability of suitable components, any interruption or delay in the supply of any of these hardware components or the inability to procure a similar component from alternate sources at acceptable prices within a reasonable time, may delay assembly and our ability to fulfill our sales of our products and, hence, our revenues, and may harm our business and results of operations.

It is difficult to predict our future operating results because we have an unpredictable sales cycle

Our products have a lengthy sales cycle and the timing of our revenue is difficult to predict. Historically, our sales cycle has tended to lengthen as our products become increasingly complex. Also, as our distribution strategy is focused on a channel model, utilizing value-added resellers, distributors and systems integrators, the level of variability in the length of sales cycle across transactions has increased and made it more difficult to predict the timing of many of our sales transactions. Sales of our products require us to educate potential customers in their use and benefits. Sales of our products are subject to delays from the lengthy internal budgeting, approval and competitive evaluation processes that large enterprises and governmental entities may require. For example, customers frequently begin by evaluating our products on a limited basis and devote time and resources to testing our products before they decide whether or not to purchase. Customers may also defer orders as a result of anticipated releases of new products or enhancements by our competitors or us. As a result, our products have an unpredictable sales cycle that contributes to the uncertainty of our future operating results.

We may not be able to sustain or develop new distribution relationships, and a reduction or delay in sales to significant distribution partners could hurt our business

We sell our products and services through multiple distribution channels in the United States and internationally, including leading industry distributors, value-added resellers, systems integrators, service providers and other indirect channel partners. We have a limited number of agreements with companies in these channels, and we may not be able to increase our number of distribution relationships or maintain our existing relationships. Recruiting and retaining qualified channel partners and training them in our technologies requires significant time and resources. These channel partners may also market, sell and support products and services that are competitive with ours and may devote more resources to the marketing, sales and support of such competitive products. Our indirect sales channel structure could subject us to lawsuits, potential liability, and reputational harm if, for example, any of our channel partners misrepresent the functionality of our products or services to customers or violate laws or our corporate policies. If we are unable to establish or maintain our indirect sales channels, our business and results of operations will be harmed. In addition, two worldwide distributors of our products accounted for 30.6% of our total net revenue for fiscal year 2023. A substantial reduction or delay in sales of our products to these distribution partners, if not replaced by sales to other indirect channel partners and distributors, could harm our business, operating results and financial condition.

Reliance on fulfillment at the end of the quarter could cause our revenue for the applicable period to fall below expected levels

As a result of customer buying patterns and the efforts of our sales force and channel partners to meet or exceed their sales objectives, we have historically received a substantial portion of sales orders and generated a substantial portion of revenue during the last few weeks of each fiscal quarter. In addition, any significant interruption in our information technology systems, which manage critical functions such as order processing, revenue recognition, financial forecasts, inventory and supply chain management, and trade compliance reviews, could result in delayed order fulfillment and decreased revenue for that fiscal quarter. If expected revenue at the end of any fiscal quarter is delayed for any reason, including the failure of anticipated purchase orders to materialize, our third party contract manufacturers' inability to manufacture and ship products prior to fiscal quarter-end to fulfill purchase orders received near the end of the fiscal quarter, our failure to manage inventory to meet demand, our inability to release new products on schedule, any failure of our systems related to order review and processing, or any delays in shipments based on trade compliance requirements, our revenue for that quarter could fall below our expectations, resulting in a decline in the trading price of our common stock.

Our operating results are exposed to risks associated with international commerce

As our international sales increase, our operating results become more exposed to international operating risks. Additionally, our international sales and operations are subject to a number of risks, including the following:

- greater difficulty in enforcing contracts and accounts receivable collection and longer collection periods;
- the uncertainty of protection for intellectual property rights in some countries;
- greater risk of unexpected changes in regulatory practices, tariffs, and tax laws and treaties;
- risks associated with trade restrictions and foreign legal requirements, including the importation, certification, and localization of our products required in foreign countries;
- greater risk of a failure of foreign employees, partners, distributors, and resellers to comply with both U.S. and foreign laws, including antitrust regulations, the U.S. Foreign Corrupt Practices Act, and any trade regulations ensuring fair trade practices;

- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements;
- increased expenses incurred in establishing and maintaining office space and equipment for our international operations;
- greater difficulty in recruiting local experienced personnel, and the costs and expenses associated with such activities;
- management communication and integration problems resulting from cultural and geographic dispersion;
- fluctuations in exchange rates between the U.S. dollar and foreign currencies in markets where we do business;
- economic uncertainty around the world, including continued economic uncertainty as a result of sovereign debt issues in Europe; and
- general economic and political conditions in these foreign markets.

In addition, the impact of Brexit on EU-UK political, trade, economic and diplomatic relations continues to be uncertain and such impact may not be fully realized for several years or more. Continued uncertainty and friction may result in regulatory, operational, and cost challenges to our UK and global operations.

We must hire and train experienced personnel to staff and manage our foreign operations. To the extent that we experience difficulties in recruiting, training, managing, and retaining an international staff, and specifically staff related to sales management and sales personnel, we may experience difficulties in sales productivity in foreign markets. We also enter into strategic distributor and reseller relationships with companies in certain international markets where we do not have a local presence. If we are not able to maintain successful strategic distributor relationships internationally or recruit additional companies to enter into strategic distributor relationships, our future success in these international markets could be limited. Business practices in the international markets that we serve may differ from those in the United States and may require us in the future to include terms other than our standard terms in customer contracts. We intend to continue expanding into international markets.

These factors and other factors could harm our ability to gain future international revenues and, consequently, materially impact our business, operating results, and financial condition. The expansion of our existing international operations and entry into additional international markets will require significant management attention and financial resources. Our failure to successfully manage our international operations and the associated risks effectively could limit the future growth of our business.

The average selling price of our products may decrease and our costs may increase, which may negatively impact revenues and profits

It is possible that the average selling prices of our products will decrease in the future in response to competitive pricing pressures, increased sales discounts, including responses to inflationary pressures, new product introductions by us or our competitors, or other factors. Therefore, in order to maintain our profits, we must develop and introduce new products and product enhancements on a timely basis and continually reduce our product costs. Our failure to do so could cause our revenue and profits to decline, which would harm our business and results of operations. In addition, we may experience substantial period-to-period fluctuations in future operating results due to the erosion of our average selling prices.

Strategic and Industry Risks

Our business could be adversely impacted by conditions affecting the markets in which we compete

A substantial portion of our business depends on the demand for information technology by large enterprise customers and service providers. We are dependent upon the overall economic health of our current and prospective customers. International, national, regional and local economic conditions, such as recessionary economic cycles, protracted economic slowdown or further deterioration of the economy could adversely impact demand for our products. Demand for our products and services depends substantially upon the general demand for application security and delivery solutions, which fluctuates based on numerous factors, including capital spending levels and growth of our current and prospective customers, as well as general economic conditions. Moreover, the purchase of our products is often discretionary and may involve a significant commitment of capital and other resources. Future economic projections for the information technology sector are uncertain as companies continue to reassess their spending for technology projects and embrace a range of consumption models from physical systems to software, SaaS-based and managed services solutions. As a result, spending priorities for our current and future customers may vary and demand for our products and services may be impacted. In addition, customer buying patterns are changing over time and more customers seek to rent software on a subscription basis and to reduce their total cost of ownership. These evolving business models could lead to changes in demand and licensing strategies, which could have a material adverse effect on our business, results of operations and financial condition.

Industry consolidation may result in increased competition

Some of our competitors have made acquisitions or entered into partnerships or other strategic relationships to offer a more comprehensive solution than they had previously offered. We have also entered into large, strategic partnerships to enhance our competitive position in the marketplace. As technology companies attempt to strengthen or maintain their market positions in the evolving application delivery, mobility, cloud networking and cloud platform markets, these companies continue to seek to deliver comprehensive solutions to end users and combine enterprise-level hardware and software solutions that may compete with our solutions and which could negatively impact our partnerships. These consolidators or potential consolidators may have significantly greater financial, technical and other resources than we do and may be better positioned to acquire and offer complementary products and services. The companies resulting from these possible combinations may create more compelling product and service offerings and be able to offer greater pricing flexibility or sales and marketing support for such offerings than we can. These heightened competitive pressures could result in a loss of customers or a reduction in our revenues or revenue growth rates, all of which could adversely affect our business, results of operations and financial condition.

We may not be able to compete effectively in the application security and delivery market

The markets we serve are rapidly evolving and highly competitive, and we expect competition to persist and intensify in the future. As we expand our reach and role into a broader set of multi-cloud solutions, the companies that we consider competitors evolves as well. In addition to server load balancing, traffic management, and other functions normally associated with application delivery, our suite of solutions has expanded our addressable market into security, and policy management, where we compete with a number of companies focused on niche areas of application security.

We expect to continue to face additional competition as new participants enter our markets. As we continue to expand globally, we may see new competitors in different geographic regions. In addition, larger companies with significant resources, brand recognition, and sales channels may form alliances with or acquire competing application services solutions from other companies and emerge as significant competitors. Potential competitors may bundle their products or incorporate an Internet traffic management or security component into existing products in a manner that discourages users from purchasing our products. Any of these circumstances may limit our opportunities for growth and negatively impact our financial performance.

Our success depends on our timely development of new software and systems products and features, market acceptance of new software and systems product offerings and proper management of the timing of the life cycle of our software and systems products

The markets for our products and services are characterized by:

- rapid technological change;
- evolving industry standards;
- consolidation of network and application functions into existing network infrastructure products;
- requirements that our products interoperate with technologies from other vendors to enable ease of management;
- fluctuations in customer demand;

- changes in customer requirements; and
- frequent new product and service introductions and enhancements.

Our continued success depends on our ability to identify and develop new software and systems products and new features for our existing software and systems products, to meet the demands of these changes, and the acceptance of those products and features by our existing and target customers. In addition, our software and systems products must interoperate with our end customers' IT infrastructure, including the expanding use of the cloud and hybrid cloud environments, which often have different specifications, deploy products from multiple vendors, and utilize multiple protocol standards. Our customers' IT infrastructure is becoming more complex and we may be reliant on orchestration and interoperability with third party vendors on whom we are reliant for testing and support of new software and systems product versions and configurations. If we are unable to identify, develop and deploy new software and systems products and new product features on a timely basis, our business and results of operations may be harmed.

The current development cycle for our software and systems products varies and has become increasingly complex due to the sophistication and the addressing of our customers' needs. The development timetable to commercial release and availability to our customers is uncertain, and the introduction of new products or product enhancements may shorten the life cycle of our existing products, or replace sales of some of our current products, thereby offsetting the benefit of even a successful product introduction, and may cause customers to defer purchasing our existing products in anticipation of the new products. This could harm our operating results by decreasing sales of our software and systems products, or increasing our inventory levels of older systems products and exposing us to greater risk of product obsolescence. We have also experienced, and may in the future experience, delays in developing and releasing new software and systems products and related product enhancements. This has led to, and may in the future lead to, delayed sales, increased expenses and lower quarterly revenue than anticipated. Also, in the development of our systems products, we have experienced delays in the prototyping, which in turn has led to delays in product introductions. In addition, complexity and difficulties in managing product transitions at the end-of-life stage of a product can create excess inventory of components associated with the outgoing product that can lead to increased expenses. Any or all of the above problems could materially harm our business and results of operations.

Our success depends on sales and continued innovation of our application security and delivery product lines

We expect to derive a significant portion of our net revenues from the sale of our cloud, software and hardware application security and delivery product lines in the future. Implementation of our strategy depends upon these products being able to solve critical network availability, performance and security problems for our customers. If our products are unable to solve these problems for our customers or if we are unable to sustain the high levels of innovation in product feature sets needed to maintain leadership in what will continue to be a competitive market environment, our business and results of operations will be harmed.

We operate in an industry of evolving standards and rapid technological advancements. If our competitors are able to develop and implement compelling technological innovations or features into their product offerings or services more rapidly or successfully than us in the future, our ability to compete effectively may be impacted which could negatively impact our business and results of operations.

Issues related to the development and use of artificial intelligence ("AI") could give rise to legal and/or regulatory action, damage our reputation or otherwise materially harm of our business

We currently incorporate AI technology in certain of our products and services and in our business operations. Our research and development of such technology remains ongoing. AI presents risks, challenges, and unintended consequences that could affect our and our customers' adoption and use of this technology. AI algorithms and training methodologies may be flawed. Additionally, AI technologies are complex and rapidly evolving, and we face significant competition in the market and from other companies regarding such technologies. While we aim to develop and use AI responsibly and attempt to identify and mitigate ethical and legal issues presented by its use, we may be unsuccessful in identifying or resolving issues before they arise. AI-related issues, deficiencies and/or failures could (i) give rise to legal and/or regulatory action, including with respect to proposed legislation regulating AI in jurisdictions such as the European Union and others, and as a result of new applications of existing data protection, privacy, intellectual property, and other laws; (ii) damage our reputation; or (iii) otherwise materially harm our business.

Misuse of our products could harm our reputation

Our products may be misused by end-customers or third parties that obtain access to our products. For example, our products could be used to censor private access to certain information on the Internet. Such use of our products for censorship could result in negative publicity and damage to our reputation. In addition, as many of our products are subject to export control regulations, diversion of our products to restricted third parties by others could result in investigations, penalties, fines, trade restrictions and negative publicity that could damage our reputation and materially impact our business, operating results, and financial condition.

Legal and Regulatory Risks

Our failure to adequately protect personal information could have a material adverse effect on our business

A wide variety of local, state, national, and international laws, directives and regulations apply to the collection, use, retention, protection, disclosure, transfer, and other processing of personal data. These data protection and privacy-related laws and regulations continue to evolve and may result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions and increased costs of compliance. Certain safe-harbor exemptions upon which the Company relies for data transfers have been challenged and may no longer be available to us in the future. Our failure to comply with applicable laws and regulations, or to protect such data, could result in enforcement action against us, including fines, imprisonment of company officials and public censure, claims for damages by end-customers and other affected individuals, damage to our reputation and loss of goodwill (both in relation to existing end-customers and prospective end-customers), any of which could have a material adverse effect on our operations, financial performance, and business. Changing definitions of personal data and personal information, within the European Union, the United States, and elsewhere, especially relating to classification of IP addresses, machine identification, location data, and other information, may limit or inhibit our ability to operate or expand our business, including limiting strategic partnerships that may involve the sharing of data. The evolving data protection regulatory environment may require significant management attention and financial resources to analyze and modify our IT infrastructure to meet these changing requirements all of which could reduce our operating margins and impact our operating results and financial condition.

A portion of our revenue is generated by sales to government entities, which are subject to a number of challenges and risks

Sales to U.S. and foreign, federal, state, and local governmental agency end-customers account for a significant portion of our revenues and we may in the future increase sales to government entities. Sales to government entities are subject to a number of risks. Selling to government entities can be highly competitive, expensive, and time consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. The substantial majority of our sales to date to government entities have been made indirectly through our channel partners. Government certification requirements for products like ours may change, thereby restricting our ability to sell into the federal government sector until we have attained the revised certification. Government demand and payment for our products and services may be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products and services. Government entities may have statutory, contractual or other legal rights to terminate contracts with our distributors and resellers for convenience or due to a default, and any such termination may adversely impact our future operating results. Governments routinely investigate and audit government contractors' administrative processes, and any unfavorable audit could result in the government refusing to continue buying our products and services, a reduction of revenue or fines or civil or criminal liability if the audit uncovers improper or illegal activities, which could adversely impact our operating results in a material way. Finally, for purchases by the U.S. government, the government may require certain products to be manufactured in the United States and other relatively high cost manufacturing locations, and we may not manufacture all products in locations that meet the requirements of the U.S. government, affecting our ability to sell these products to the U.S. government.

We face litigation risks

We are a party to lawsuits in the normal course of our business. Litigation in general, and intellectual property and securities litigation in particular, can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. Responding to lawsuits has been, and will likely continue to be, expensive and time-consuming for us. An unfavorable resolution of these lawsuits could adversely affect our business, results of operations or financial condition.

We may not be able to adequately protect our intellectual property, and our products may infringe on the intellectual property rights of third parties

We rely on a combination of patent, copyright, trademark and trade secret laws, and restrictions on disclosure of confidential and proprietary information to protect our intellectual property rights. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Monitoring unauthorized use of our products is difficult, and we cannot be certain that the steps we have taken will prevent misappropriation of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. In the ordinary course of our business, we are involved in disputes and licensing discussions with others regarding their claimed proprietary rights and cannot provide assurance that we will always successfully defend ourselves against such claims and such matters are subject to many uncertainties and outcomes are not predictable with assurance. We expect that infringement claims may increase as the number of products and competitors in our market increases and overlaps occur. Also, as we have gained greater visibility, market exposure and competitive success, we face a higher risk of being the subject of intellectual property infringement claims. If we are found to infringe the proprietary rights of others, or if we otherwise settle such claims, we could be compelled to pay damages or royalties and either obtain a license to those intellectual property rights or alter our products so that they no longer infringe upon such proprietary rights. Any license could be very expensive to obtain or may not be available at all or may require us to make royalty payments which could adversely affect gross margins in future periods. The actual liability in any such matters may be materially different from our estimate, if any, which could result in the need to adjust the liability and record additional expenses. Similarly, changing our products or processes to avoid infringing upon the rights of others may be costly or impractical. In addition, we have initiated, and may in the future initiate, claims or litigation against third parties for infringement of our proprietary rights, or to determine the scope and validity of our proprietary rights or those of our competitors. Any of these claims, whether claims that we are infringing the proprietary rights of others, or vice versa, with or without merit, may be time-consuming, result in costly litigation and diversion of technical and management personnel or require us to cease using infringing technology, develop non-infringing technology or enter into royalty or licensing agreements. Further, our license agreements typically require us to indemnify our customers, distributors and resellers for infringement actions related to our technology, which could cause us to become involved in infringement claims made against our customers, distributors or resellers. Any of the above-described circumstances relating to intellectual property rights disputes could result in our business and results of operations being harmed.

We incorporate open source software into our products. Although we monitor our use of open source closely, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. We could also be subject to similar conditions or restrictions should there be any changes in the licensing terms of the open source software incorporated into our products. In either event, we could be required to seek licenses from third parties in order to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely or successful basis, any of which could adversely affect our business, operating results and financial condition.

Many of our products include intellectual property licensed from third parties. In the future, it may be necessary to renew licenses for third party intellectual property or obtain new licenses for other technology. These third party licenses may not be available to us on acceptable terms, if at all. The inability to obtain certain licenses, or litigation regarding the interpretation or enforcement of license rights and related intellectual property issues, could have a material adverse effect on our business, operating results and financial condition. Furthermore, we license some third party intellectual property on a non-exclusive basis and this may limit our ability to protect our intellectual property rights in our products.

We are subject to governmental export and import controls that could subject us to liability or impair our ability to compete in international markets

Our products are subject to U.S. export controls and may be exported outside the U.S. only with the required level of export license or through an export license exception because we incorporate encryption technology into our products. In addition, various countries regulate the import of certain encryption technology and have enacted laws that could limit our ability to distribute our products or our customers' ability to implement our products in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations or change in the countries, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. Any decreased use of our products or limitation on our ability to export or sell our products would likely adversely affect our business, operating results and financial condition.

Changes in governmental regulations could negatively affect our revenues

Many of our products are subject to various regulations promulgated by the United States and various foreign governments including, but not limited to, environmental regulations and regulations implementing export license requirements and restrictions on the import or export of some technologies, especially encryption technology. Changes in governmental regulation and our inability or failure to obtain required approvals, permits or registrations could harm our international and domestic sales and adversely affect our revenues, business and operations.

The SEC requires us, as a public company that uses certain raw materials considered to be "conflict minerals" in our products, to report publicly on the extent to which "conflict minerals" are in our supply chain. As a provider of hardware end-products, we are several steps removed from the mining, smelting, or refining of any conflict minerals. Accordingly, our ability to determine with certainty the origin and chain of custody of these raw materials is limited. Our relationships with customers, suppliers, and investors could suffer if we are unable to describe our products as "conflict-free." We may also face increased costs in complying with conflict minerals disclosure requirements.

Financial Risks

We may have exposure to greater than anticipated tax liabilities

Our provision for income taxes is subject to volatility and could be affected by changes in our business operations, including acquisitions, new offerings, and changes in the jurisdictions in which we operate. The provision for income taxes may also be impacted by changes in stock-based compensation, changes in the research and development tax credit laws, earnings being lower than anticipated in jurisdictions where we have lower statutory rates and being higher than anticipated in jurisdictions where we have higher statutory rates, transfer pricing adjustments, not meeting the terms and conditions of tax holidays or incentives, changes in the valuation of our deferred tax assets and liabilities, changes in actual results versus our estimates, or changes in tax laws, regulations, accounting principles or interpretations thereof, including changes to the tax laws applicable to corporate multinationals. In addition, we may be subject to examination of our income tax returns by the U.S. Internal Revenue Service and other tax authorities. While we regularly assess the likelihood of adverse outcomes from such examinations and the adequacy of our provision for income taxes, there can be no assurance that such provision is sufficient and that a determination by a tax authority will not have an adverse effect on our results of operations and cash flows.

We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and results of operations

Our sales contracts are denominated in U.S. dollars, and therefore, substantially all of our revenue is not subject to foreign currency risk. However, a strengthening of the U.S. dollar could increase the real cost of our solutions to our end customers outside of the United States, which could adversely affect our financial condition and operating results. In addition, an increasing portion of our operating expenses is incurred outside the United States, is denominated in foreign currencies, and is subject to fluctuations due to changes in foreign currency exchange rates. If we become more exposed to currency fluctuations and are not able to successfully hedge against the risks associated with currency fluctuations, our operating results could be adversely affected. To date, we have not entered into any hedging arrangements with respect to foreign currency risk or other derivative instruments.

Changes in financial accounting standards may cause adverse unexpected revenue fluctuations and affect our reported results of operations

A change in accounting policies can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New pronouncements and varying interpretations of existing pronouncements have occurred with frequency and may occur in the future. Changes to existing rules, or changes to the interpretations of existing rules, could lead to changes in our accounting practices, and such changes could adversely affect our reported financial results or the way we conduct our business.

If we are unable to maintain effective internal control over financial reporting, the accuracy and timeliness of our financial reporting may be adversely affected

As a public company, we are required to design and maintain proper and effective internal controls over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes-Oxley Act of 2002 requires that we evaluate and determine the effectiveness of our internal controls over financial reporting and provide a management report on the internal controls over financial reporting, which must be attested to by our independent registered public accounting firm. We have an ongoing program to review the design of our internal controls framework in keeping with changes in business needs, implement necessary changes to our controls design and test the system and process controls necessary to comply with these requirements. If in the future, our internal controls over financial reporting are determined to be not effective resulting in a material weakness, investor perceptions regarding the reliability of our financial statements may be adversely affected which could cause a decline in the market price of our stock and otherwise negatively affect our liquidity and financial condition.

Risks Related to our Common Stock

Our quarterly and annual operating results may fluctuate in future periods, which may cause our stock price to fluctuate

Our quarterly and annual operating results have varied significantly in the past and could vary significantly in the future, which makes it difficult for us to predict our future operating results. Our operating results may fluctuate due to a variety of factors, many of which are outside of our control, including the changing and recently volatile U.S. and global economic environment, which may cause our stock price to fluctuate. In particular, we anticipate that the size of customer orders may increase as we continue to focus on larger business accounts. A delay in the recognition of revenue, even from just one account, may have a significant negative impact on our results of operations for a given period. In the past, a majority of our sales have been realized near the end of a quarter. Accordingly, a delay in an anticipated sale past the end of a particular quarter may negatively impact our results of operations for that quarter, or in some cases, that fiscal year. Additionally, we have exposure to the credit risks of some of our customers. Although we have programs in place that are designed to monitor and mitigate the associated risk, there can be no assurance that such programs will be effective in reducing our credit risks adequately. We monitor individual payment capability in granting credit arrangements, seek to limit the total credit to amounts we believe our customers can pay and maintain reserves we believe are adequate to cover exposure for potential losses. If there is a deterioration of a major customer's creditworthiness or actual defaults are higher than expected, future losses, if incurred, could harm our business and have a material adverse effect on our operating results. Further, our operating results may be below the expectations of securities analysts and investors in future quarters or years. Our failure to meet these expectations will likely harm the market price of our common stock. Such a decline could occur, and has occurred in the past, even when we have met our publicly stated revenue and/or earnings guidance.

Anti-takeover provisions could make it more difficult for a third party to acquire us

Our Board of Directors has the authority to issue up to 10,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the shareholders. The rights of the holders of common stock may be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change of control of our company without further action by our shareholders and may adversely affect the voting and other rights of the holders of common stock. Further, certain provisions of our bylaws, including a provision limiting the ability of shareholders to raise matters at a meeting of shareholders without giving advance notice, may have the effect of delaying or preventing changes in control or management of our company, which could have an adverse effect on the market price of our common stock. Similarly, state anti-takeover laws in the State of Washington related to corporate takeovers may prevent or delay a change of control of our company.

Our stock price could be volatile, particularly during times of economic uncertainty and volatility in domestic and international stock markets

Our stock price has been volatile and has fluctuated significantly in the past. The trading price of our stock is likely to continue to be volatile and subject to fluctuations in the future. Some of the factors that could significantly affect the market price of our stock include:

- Actual or anticipated variations in operating and financial results;
- Analyst reports or recommendations;
- Rumors, announcements or press articles regarding our competitors' operations, management, organization, financial condition or financial statements; and
- Other events or factors, many of which are beyond our control.

The stock market in general and the market for technology companies in particular, have experienced extreme price and volume fluctuations. These fluctuations have often been unrelated or disproportionate to operating performance. The fluctuations may continue in the future and this could significantly impact the value of our stock and your investment.

If securities or industry analysts publish inaccurate or unfavorable research about our business, or discontinue publishing research about our business, the price and trading volume of our securities could decline

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us, our business, our market or our competitors. If one or more of the analysts who cover us downgrade our common stock or publish inaccurate or unfavorable research about our business, the price of our securities would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our securities could decrease, which might cause the price and trading volume of our securities to decline.

General Risks

Continued macroeconomic downturns or uncertainties may harm our industry, business, and results of operations

We operate globally and as a result, our business, revenues, and profitability may be impacted by global macroeconomic conditions. The continuing adverse global macroeconomic conditions and related market uncertainties have, among other things, softened customer demand and customer purchase decisions, which may in turn, limit our ability to forecast future business activities involving our products and services. Prolonged adverse macroeconomic conditions both in the U.S. and abroad, including, but not limited to, rising interest rates to combat inflationary pressures of goods and services, challenges in the financial and credit markets, labor shortages, supply chain disruptions, trade uncertainty, adverse changes in global taxation and tariffs, sanctions, outbreaks of pandemic diseases such as COVID-19, political unrest and social strife, armed conflicts, such as the Russian invasion of Ukraine, or other impacts from the macroeconomic environment have led to a slowing of global economic growth. Continued worsening of macroeconomic conditions could adversely affect our business, financial condition, results of operations and cash flows through, among others, softer demand of our products and services as well as unfavorable increases to our operating costs, which could negatively impact our profitability.

We face risks associated with having operations and employees located in Israel

We have offices and employees located in Israel. As a result, political, economic, and military conditions in Israel directly affect our operations. The future of peace efforts between Israel and its Arab neighbors remains uncertain. There has been a significant increase in hostilities and political unrest in Israel. The effects of these hostilities and violence on the Israeli economy and our operations in Israel are unclear, and we cannot predict the effect on us of further increases in these hostilities or future armed conflict, political instability or violence in the region. In addition, many of our employees in Israel are obligated to perform annual reserve duty in the Israeli military and are subject to being called for active duty under emergency circumstances. We cannot predict the full impact of these conditions on us in the future, particularly if emergency circumstances or an escalation in the political situation occurs. If many of our employees in Israel are called for active duty for a significant period of time, our operations and our business could be disrupted and may not be able to function at full capacity. Current or future tensions and conflicts in the Middle East could adversely affect our business, operating results, financial condition and cash flows.

Our business is subject to the risks of earthquakes, fire, power outages, floods, and other catastrophic events, and to interruption by man-made problems such as terrorism

A significant natural disaster, such as an earthquake, a fire, a flood, or a significant power outage could have a material adverse impact on our business, operating results, and financial condition. We have an administrative and product development office and a third party contract manufacturer located in the San Francisco Bay Area, a region known for seismic activity. In addition, natural disasters could affect our supply chain, manufacturing vendors, or logistics providers' ability to provide materials and perform services such as manufacturing products or assisting with shipments on a timely basis. In the event our or our service providers' information technology systems or manufacturing or logistics abilities are hindered by any of the events discussed above, shipments could be delayed, resulting in missed financial targets, such as revenue and shipment targets, for a particular quarter. In addition, cyber-attacks, acts of terrorism, or other geopolitical unrest could cause disruptions in our business or the business of our supply chain, manufacturers, logistics providers, partners, or end-customers or the economy as a whole. Any disruption in the business of our supply chain, manufacturers, logistics providers, partners or end-customers that impacts sales at the end of a fiscal quarter could have a significant adverse impact on our quarterly results. All of the aforementioned risks may be further increased if the disaster recovery plans for us and our suppliers prove to be inadequate. To the extent that any of the above should result in delays or cancellations of customer orders, or the delay in the manufacture, deployment or shipment of our products, our business, financial condition and operating results would be adversely affected.

Climate change may have an impact on our business

Risks related to climate change are increasing in both impact and type of risk. We believe there will not be significant near-term impacts to our offices worldwide due to climate change, but long-term impacts remain unknown. However, there may be business operational risk due to the significant impacts climate change could pose to our employees' lives, our supply chain, or electrical power availability from climate-related weather events. In addition, rapidly changing customer and regulatory requirements to reduce carbon emissions present a risk of loss of business if we are not able to meet those requirements.

In addition to other risks listed in this "Risk Factors" section, factors that may affect our operating results include, but are not limited to:

- fluctuations in demand for our products and services due to changing market conditions, pricing conditions, technology evolution, seasonality, or other changes in the global economic environment;
- changes or fluctuations in sales and implementation cycles for our products and services;
- changes in the mix of our products and services, including increases in SaaS and other subscription-based offerings;
- changes in the growth rate of the application delivery market;
- reduced visibility into our customers' spending and implementation plans;
- reductions in customers' budgets for data center and other IT purchases or delays in these purchases;
- changes in end-user customer attach rates and renewal rates for our services;
- fluctuations in our gross margins, including the factors described herein, which may contribute to such fluctuations;
- our ability to control costs, including operating expenses, the costs of hardware and software components, and other manufacturing costs;
- our ability to develop, introduce and gain market acceptance of new products, technologies and services, and our success in new and evolving markets;
- any significant changes in the competitive environment, including the entry of new competitors or the substantial discounting of products or services;
- the timing and execution of product transitions or new product introductions, and related inventory costs;
- variations in sales channels, product costs, or mix of products sold;
- our ability to establish and manage our distribution channels, and the effectiveness of any changes we make to our distribution model;
- the ability of our contract manufacturers and suppliers to provide component parts, hardware platforms and other products in a timely manner;
- benefits anticipated from our investments in sales, marketing, product development, manufacturing or other activities;
- impacts on our overall tax rate caused by any reorganization in our corporate structure;

- changes in tax laws or regulations, or other accounting rules; and
- general economic conditions, both domestically and in our foreign markets.

Item 1B. ***Unresolved Staff Comments***

Not applicable.

Item 2. ***Properties***

We lease our principal administrative, sales, marketing, research and development facilities, which are located in Seattle, Washington and consist of approximately 515,000 square feet. In May 2017, we entered into a lease agreement for the building in Seattle, Washington that now serves as our corporate headquarters. This lease will expire in 2033 with an option for renewal.

We believe that our existing properties are in good condition and suitable for the conduct of our business. We also lease additional office space for product development and sales and support personnel in the United States and internationally. We believe that our future growth can be accommodated by our current facilities or by leasing additional space if necessary.

Item 3. ***Legal Proceedings***

See Note 12 - Commitments and Contingencies of the Notes to Financial Statements (Part II, Item 8 of this Form 10-K) for information regarding legal proceedings in which we are involved.

Item 4. ***Mine Safety Disclosures***

Not applicable.

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market Prices of Common Stock

Our common stock is traded on the Nasdaq Global Select Market under the symbol "FFIV." The following table sets forth the high and low sales prices of our common stock as reported on the Nasdaq Global Select Market.

	Fiscal Year 2023		Fiscal Year 2022	
	High	Low	High	Low
First Quarter	$ 159.96	$ 133.68	$ 249.00	$ 193.50
Second Quarter	$ 159.95	$ 135.49	$ 245.59	$ 188.50
Third Quarter	$ 154.04	$ 127.05	$ 215.28	$ 147.47
Fourth Quarter	$ 167.89	$ 142.16	$ 174.38	$ 141.91

The last reported sales price of our common stock on the Nasdaq Global Select Market on November 7, 2023 was $156.11.

As of November 7, 2023, there were 39 holders of record of our common stock. As many of our shares of common stock are held by brokers and other institutions on behalf of shareholders, we are unable to estimate the total number of beneficial holders of our common stock represented by these record holders.

Dividend Policy

Our policy has been to retain cash for use in our business, for investment in acquisitions and to repurchase shares of our common stock. Accordingly, we have not paid dividends and do not anticipate declaring dividends on our common stock in the foreseeable future.

Unregistered Securities Sold in 2023

We did not sell any unregistered shares of our common stock during the fiscal year 2023.

Issuer Purchases of Equity Securities

On July 25, 2022, we announced that our Board of Directors authorized an additional $1.0 billion for our common stock share repurchase program. This authorization is incremental to the existing $5.4 billion program, initially approved in October 2010 and expanded in subsequent fiscal years. Acquisitions for the share repurchase programs will be made from time to time in private transactions, accelerated share repurchase programs, or open market purchases as permitted by securities laws and other legal requirements. The programs can be terminated at any time.

On February 3, 2021, the Company entered into Accelerated Share Repurchase ("ASR") agreements with two financial institutions under which the Company paid an aggregate of $500 million. The ASR agreements were accounted for as two separate transactions (1) a repurchase of common stock and (2) an equity-linked contract on the Company's own stock. Upon execution of the ASR agreements, the Company received an initial delivery of 2.1 million shares for an aggregate price of $400 million, based on the market price of $194.91 per share of the Company's common stock on the date of the transaction. The initial shares received by the Company were retired immediately upon receipt. The equity-linked contract for the remaining $100 million, representing remaining shares to be delivered by the financial institutions under the ASR agreements, was recorded to common stock as of March 31, 2021 and was settled in the third quarter of fiscal 2021 with the Company receiving 449,049 additional shares, which were retired immediately upon receipt. The total ASR resulted in a repurchase of 2.5 million shares of the Company's common stock at a volume weighted average repurchase price, less an agreed upon discount, of $199.90 per share. The shares received by the Company were retired, accounted for as a reduction to stockholder's equity in the consolidated balance sheets, and treated as a repurchase of common stock for purposes of calculating earnings per share. The Company was not required to make any additional cash payments or delivery of common stock to the financial institutions upon settlement of the agreements.

During fiscal year 2023, we repurchased and retired 2,454,382 shares of common stock at an average price of $142.62 per share and as of September 30, 2023, we had $922 million remaining authorized to purchase shares.

Shares repurchased and retired during the fourth quarter of fiscal year 2023 are as follows (in thousands, except shares and per share data):

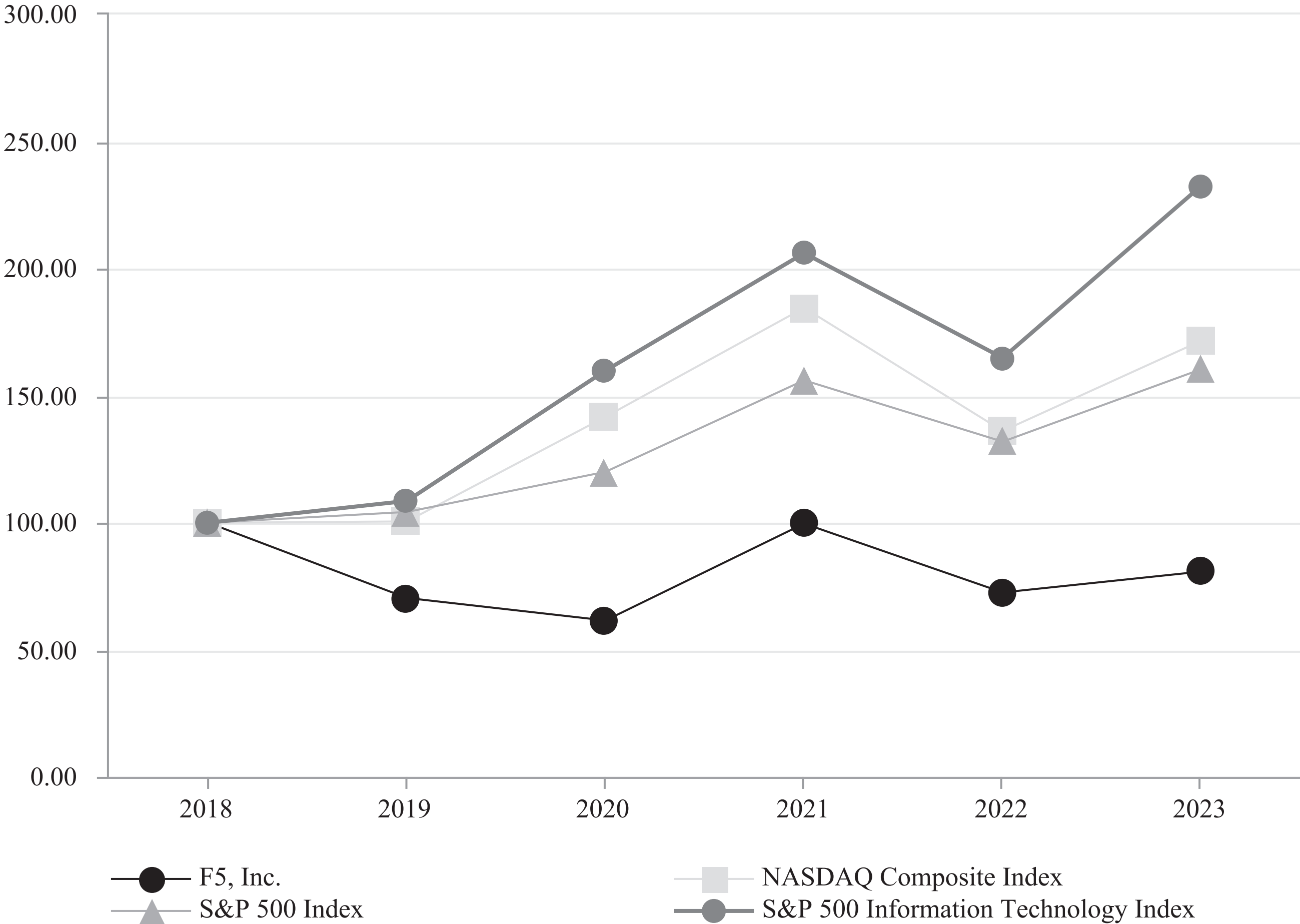
	Total Number of Shares Purchased[1]		Average Price Paid per Share	Total Number of Shares Purchased per the Publicly Announced Plan		Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan[2]
July 1, 2023 — July 31, 2023	63,605	$	157.24	63,605	$	972,446
August 1, 2023 — August 31, 2023	326,798	$	158.64	315,309	$	922,439
September 1, 2023 — September 30, 2023	—		—	—	$	922,439

(1) Includes 11,489 shares withheld from restricted stock units that vested in the fourth quarter of fiscal 2023 to satisfy minimum tax withholding obligations that arose on the vesting of restricted stock units.

(2) Shares withheld from restricted stock units that vested to satisfy minimum tax withholding obligations that arose on the vesting of such awards do not deplete the dollar amount available for purchases under the repurchase program.

Performance Measurement Comparison of Shareholder Return

The following graph compares the annual percentage change in the cumulative total return on shares of our common stock, the Nasdaq Composite Index, the S&P 500 Index, and the S&P 500 Information Technology Index for the period commencing September 30, 2018, and ending September 30, 2023. For additional comparability, we have added the S&P 500 Information Technology Index as an industry specific index.



The Company's closing stock price on September 29, 2023, the last trading day of the Company's 2023 fiscal year, was $161.14 per share.

* Assumes that $100 was invested September 30, 2018 in shares of common stock and in each index, and that all dividends were reinvested. Shareholder returns over the indicated period should not be considered indicative of future shareholder returns.

Item 6. ***[Reserved]***

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion of our financial condition and results of operations contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. These statements include, but are not limited to, statements about our plans, objectives, expectations, strategies, intentions or other characterizations of future events or circumstances and are generally identified by the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and similar expressions. These forward-looking statements are based on current information and expectations and are subject to a number of risks and uncertainties. Our actual results could differ materially from those expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under "Item 1A. Risk Factors" herein and in other documents we file from time to time with the Securities and Exchange Commission. We assume no obligation to revise or update any such forward-looking statements.

Overview

F5 is a leading provider of multi-cloud application security and delivery solutions which enable our customers to develop, deploy, operate, secure, and govern applications in any architecture, from on-premises to the public cloud. Our enterprise-grade application services are available as cloud-based, software-as-a-service, and software-only solutions optimized for multi-cloud environments, with modules that can run independently, or as part of an integrated solution on our high-performance appliances. We market and sell our products primarily through multiple indirect sales channels in the Americas; Europe, the Middle East, and Africa ("EMEA"); and the Asia Pacific region ("APAC"). Enterprise customers (Fortune 1000 or Business Week Global 1000 companies) in the technology, telecommunications, financial services, transportation, education, manufacturing, and health care industries, along with government customers, continue to make up the largest percentage of our customer base.

Our management team monitors and analyzes a number of key performance indicators in order to manage our business and evaluate our financial and operating performance on a consolidated basis. Those indicators include:

- *Revenues*. Our revenue is derived from the sales of both global services and products. Our global services revenue includes annual maintenance contracts, training and consulting services. The majority of our product revenues are derived from sales of our application security and delivery solutions including our BIG-IP software and systems, F5 NGINX software, and our F5 Distributed Cloud Services offerings. Our BIG-IP software solutions are sold both on a perpetual license and a subscription basis. We sell F5 NGINX on a subscription basis. F5 Distributed Cloud Services provides security, multi-cloud networking, and edge-based computing solutions, encompassing software solutions from what were previously branded as our Shape, Volterra, and Silverline product offerings. F5 Distributed Cloud Services are offered on a subscription basis, under a unified software-as-a-service ("SaaS") platform.

  We monitor the sales mix of our revenues within each reporting period. We believe customer acceptance rates of our new products, feature enhancements and consumption models are indicators of future trends. We also consider overall revenue concentration by geographic region as an additional indicator of current and future trends. Toward the end of fiscal 2022, and continuing into fiscal 2023, we saw changes in customer buying patterns due to the uncertain macroeconomic environment and resulting customer budget constraints. The impact of these buying patterns has led to softer demand for both our software and systems products and services. We believe the current demand environment is temporary based on several factors, notably the fact that demand for our products and services stems from the growth of applications and APIs. In addition, our stronger than normal maintenance renewals signal delays in purchases as customers extend their maintenance contracts over the products they currently own. This softer demand for new products is brought on by the current macroeconomic uncertainties and related customer budget constraints, rather than architectural shifts or losses to competitors. We will continue to closely monitor the macroeconomic environment and its impacts on our business.

- *Cost of revenues and gross margins.* We strive to control our cost of revenues and thereby maintain our gross margins. Significant items impacting cost of revenues are hardware costs paid to our contract manufacturers, third-party software license fees, software-as-a-service infrastructure costs, amortization of developed technology and personnel and overhead expenses. In addition, factors such as sales price, product and services mix, inventory obsolescence, returns, component price increases, warranty costs, global supply chain constraints, and the remaining uncertainty surrounding the COVID-19 pandemic could significantly impact our gross margins.

- *Operating expenses.* Operating expenses are substantially driven by personnel and related overhead expenses. Existing headcount and future hiring plans are the predominant factors in analyzing and forecasting future operating expense trends. Other significant operating expenses that we monitor include marketing and promotions, travel, professional fees, computer costs related to the development of new products and provision of services, facilities and depreciation expenses.

- *Liquidity and cash flows.* Our financial condition remains strong with significant cash and investments. The decrease in cash and investments for fiscal year 2023 was primarily due to cash used for the repayment of the Term Loan Facility, including the outstanding principal balance of $350.0 million, and all accrued, but unpaid interest outstanding of $3.0 million. In addition, $350.0 million of cash was used for the repurchase of outstanding common stock during fiscal year 2023. The decrease was partially offset by cash provided by operating activities of $653.4 million. Going forward, we believe the primary driver of cash flows will be net income from operations. We will continue to evaluate possible acquisitions of, or investments in businesses, products, or technologies that we believe are strategic, which may require the use of cash. Additionally, on January 31, 2020, we entered into a Revolving Credit Agreement (the "Revolving Credit Agreement") that provides for a senior unsecured revolving credit facility in an aggregate principal amount of $350.0 million (the "Revolving Credit Facility"). We have the option to increase commitments under the Revolving Credit Facility from time to time, subject to certain conditions, by up to $150.0 million. As of September 30, 2023, there were no outstanding borrowings under the Revolving Credit Facility, and we had available borrowing capacity of $350.0 million.
- *Balance sheet.* We view cash, short-term and long-term investments, deferred revenue, accounts receivable balances and days sales outstanding as important indicators of our financial health. Deferred revenues continued to increase in fiscal 2023 due to an increase in maintenance renewal contracts related to our existing product installation base and the growth of our subscriptions business. Our days sales outstanding for the fourth quarter of fiscal year 2023 was 58. Days sales outstanding is calculated by dividing ending accounts receivable by revenue per day for a given quarter.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

We believe that, of our significant accounting policies, which are described in Note 1 of the notes to the consolidated financial statements, the following accounting policy involves a greater degree of judgment and complexity. Accordingly, we believe the following policy is the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

Revenue Recognition. We sell products through distributors, resellers, and directly to end users. Revenue related to our contracts with customers is recognized by following a five-step process:

- *Identify the contract(s) with a customer.* Evidence of a contract generally consists of a purchase order issued pursuant to the terms and conditions of a distributor, reseller or end user agreement.
- *Identify the performance obligations in the contract.* Performance obligations are identified in our contracts and include hardware, hardware-based software, software-only solutions, cloud-based subscription services as well as a broad range of service performance obligations including consulting, training, installation and maintenance.
- *Determine the transaction price.* The purchase price stated in an agreed upon purchase order is generally representative of the transaction price. We offer several programs in which customers are eligible for certain levels of rebates if certain conditions are met. When determining the transaction price, we consider the effects of any variable consideration.
- *Allocate the transaction price to the performance obligations in the contract.* The transaction price in a contract is allocated based upon the relative standalone selling price of each distinct performance obligation identified in the contract.
- *Recognize revenue when (or as) the entity satisfies a performance obligation.* We satisfy performance obligations either over time or at a point in time as discussed in further detail below. Revenue is recognized at the time the related performance obligation is satisfied by transferring control of promised products and services to a customer.

Revenue is recognized net of any taxes collected, which are subsequently remitted to governmental authorities. Shipping and handling fees charged to our customers are recognized as product revenue in the period shipped and the related costs for providing these services are recorded as a cost of sale.

The following is a description of the principal activities from which we generate revenue:

Product

Revenue from the sale of our hardware and perpetual software products is generally recognized at a point in time when the product has been fulfilled and the customer is obligated to pay for the product. We also offer several products by subscription, either through term-based license agreements or as SaaS offerings. Revenue for term-based license agreements is recognized at a point in time when we deliver the software license to the customer and the subscription term has commenced. For our SaaS offerings, revenue is recognized ratably as the services are provided. Hardware, including the software run on those devices is considered systems revenue. Perpetual or subscription software offerings that are deployed on a standalone basis, along with our SaaS offerings, are considered software revenue. When rights of return are present and we cannot estimate returns, revenue is recognized when such rights of return lapse. Payment terms to customers are generally net 30 days to net 60 days.

Global Services

Revenues for post-contract customer support ("PCS") are recognized on a straight-line basis over the service contract term. PCS includes a limited period of telephone support, updates, repair or replacement of any failed product or component that fails during the term of the agreement, bug fixes and rights to upgrades, when and if available. Consulting services are customarily billed at fixed hourly rates, plus out-of-pocket expenses, and revenues are recognized as the consulting is completed. Similarly, training revenue is recognized as the training is completed.

Contract Acquisition Costs

Sales commissions earned by our sales force are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions for initial service contracts and subscription offerings are deferred and then amortized as an expense on a straight-line basis over the period of benefit, which management has determined to be 4.5 years for initial service and 3 to 5 years for subscription offerings.

Flexible Consumption Program

We enter into certain contracts with customers, including flexible consumption programs and multi-year subscriptions, with non-standard terms and conditions. Management assesses contractual terms in these agreements to identify and evaluate performance obligations. Management allocates consideration to each performance obligation based on relative fair value using standalone selling price and recognizes associated revenue as control is transferred to the customer.

Impact of Current Macroeconomic Conditions

Our overall performance depends in part on worldwide economic and geopolitical conditions and their impacts on customer behavior. Worsening economic conditions, including inflation, higher interest rates, slower growth, fluctuations in foreign exchange rates, and developments related to the COVID-19 pandemic, and other changes in economic conditions, may adversely affect our results of operations and financial performance. For further discussion of the potential impacts of recent macroeconomic events on our business, financial condition, and operating results, see Part I, Item 1A titled “Risk Factors.”

Results of Operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements, related notes and risk factors included elsewhere in this Annual Report on Form 10-K.

	Years Ended September 30,		
	2023	2022	2021
	(in thousands, except percentages)		
Net revenues			
Products	$1,334,638	$1,317,117	$1,247,084
Services	1,478,531	1,378,728	1,356,332
Total	$2,813,169	$2,695,845	$2,603,416
Percentage of net revenues			
Products	47.4 %	48.9 %	47.9 %
Services	52.6	51.1	52.1
Total	100.0 %	100.0 %	100.0 %

Net Revenues. Total net revenues increased 4.4% in fiscal year 2023 from fiscal year 2022, compared to an increase of 3.6% in fiscal year 2022 from the prior year. Overall revenue growth for the year ended September 30, 2023 was due to increases in both product and service revenue. The product revenue increase was driven by an increase in systems revenue. Service revenues increased as a result of continued growth in maintenance contract renewals. International revenues represented 47.1%, 44.8% and 47.5% of net revenues in fiscal years 2023, 2022 and 2021, respectively.

Net Product Revenues. Net product revenues increased 1.3% in fiscal year 2023 from fiscal year 2022, compared to an increase of 5.6% in fiscal year 2022 from the prior year. The increase of $17.5 million in net product revenues for fiscal year 2023 was due to growth in systems revenue. The increase of $70.0 million in net product revenues for fiscal year 2022 was primarily due to growth in software revenue, partially offset by a decrease in systems revenue associated with a shortage of components to meet systems demand.

The following presents net product revenues by systems and software (in thousands):

	Years Ended September 30,		
	2023	2022	2021
Net product revenues			
Systems revenue	$ 670,652	$ 651,902	$ 748,192
Software revenue	663,986	665,215	498,892
Total net product revenue	$1,334,638	$1,317,117	$1,247,084
Percentage of net product revenues			
Systems revenue	50.2 %	49.5 %	60.0 %
Software revenue	49.8	50.5	40.0
Total net product revenue	100.0 %	100.0 %	100.0 %

Software Revenues. As a component of net product revenues, software revenues remained relatively flat in fiscal year 2023, compared to an increase of 33.3% in fiscal year 2022 from the prior year.

The following presents software revenue by consumption model (in thousands):

	Years Ended September 30,		
	2023	2022	2021
Software revenue			
Subscriptions[1]	$ 555,941	$ 521,809	$ 390,202
Perpetual licenses	108,045	143,406	108,690
Total software revenue	$ 663,986	$ 665,215	$ 498,892
Percentage of software revenue			
Subscriptions[1]	83.7 %	78.4 %	78.2 %
Perpetual licenses	16.3	21.6	21.8
Total software revenue	100.0 %	100.0 %	100.0 %

(1) Subscriptions revenue includes revenue from SaaS and managed services and term-based subscriptions.

Net Service Revenues. Net service revenues increased 7.2% in fiscal year 2023 from fiscal year 2022, compared to an increase of 1.7% in fiscal year 2022 from the prior year. The increase of $99.8 million in service revenue for fiscal year 2023 was the result of increased purchases or renewals of maintenance contracts driven by delayed purchase decisions in new product purchases by our install base and additions to our installed base of products. In addition, we are seeing the benefits of price increases put in place in fiscal 2022. The increase of $22.4 million in service revenue for fiscal year 2022 was the result of increased purchases or renewals of maintenance contracts driven by additions to our installed base of products.

The following distributors of our products accounted for more than 10% of total net revenue:

	Years Ended September 30,		
	2023	2022	2021
Ingram Micro, Inc.	15.6 %	20.0 %	19.2 %
Synnex Corporation	15.0 %	13.4 %	11.1 %

The following distributors of our products accounted for more than 10% of total receivables:

	September 30,	
	2023	2022
Ingram Micro, Inc.	—	12.9 %
Synnex Corporation	16.0 %	12.6 %
Carahsoft Technology Corporation	10.1 %	16.2 %

No other distributors accounted for more than 10% of total net revenue or receivables.

	Years Ended September 30,		
	2023	2022	2021
	(in thousands, except percentages)		
Cost of net revenues and gross profit			
Products	$ 375,192	$ 319,713	$ 286,293
Services	218,116	219,914	206,853
Total	593,308	539,627	493,146
Gross profit	$2,219,861	$2,156,218	$2,110,270
Percentage of net revenues and gross margin (as a percentage of related net revenue)			
Products	28.1 %	24.3 %	23.0 %
Services	14.8	16.0	15.3
Total	21.1	20.0	18.9
Gross margin	78.9 %	80.0 %	81.1 %

Cost of Net Product Revenues. Cost of net product revenues consist of finished products purchased from our contract manufacturers, manufacturing overhead, freight, warranty, provisions for excess and obsolete inventory, software-as-a-service infrastructure costs and amortization expenses in connection with developed technology from acquisitions. Cost of net product revenues increased to $375.2 million in fiscal year 2023, up 17.4% from the prior year, primarily due to systems product revenue growth. In addition, we continued to experience component cost increases, expedite fees and other sourcing-related costs in fiscal 2023. Cost of net product revenues increased to $319.7 million in fiscal year 2022, up 11.7% from the prior year, primarily due to software product revenue growth. In addition, we experienced component cost increases, expedite fees and other sourcing-related costs in fiscal 2022.

Cost of Net Service Revenues. Cost of net service revenues consist of the salaries and related benefits of our professional services staff, travel, facilities and depreciation expenses. Cost of net service revenues as a percentage of net service revenues decreased to 14.8% in fiscal year 2023 compared to 16.0% in fiscal year 2022 and 15.3% in fiscal year 2021. Professional services headcount at the end of fiscal 2023 decreased to 1,046 from 1,091 at the end of fiscal 2022. Professional services headcount at the end of fiscal year 2022 increased to 1,091 from 1,014 at the end of fiscal 2021. In addition, cost of net service revenues included stock-based compensation expense of $22.2 million, $21.9 million and $22.1 million for fiscal years 2023, 2022 and 2021, respectively.

	Years Ended September 30,		
	2023	2022	2021
	(in thousands, except percentages)		
Operating expenses			
Sales and marketing	$ 878,215	$ 926,591	$ 929,983
Research and development	540,285	543,368	512,627
General and administrative	263,405	274,558	273,635
Restructuring charges	65,388	7,909	—
Total	$1,747,293	$1,752,426	$1,716,245
Operating expenses (as a percentage of net revenue)			
Sales and marketing	31.2 %	34.4 %	35.7 %
Research and development	19.2	20.1	19.7
General and administrative	9.4	10.2	10.5
Restructuring charges	2.3	0.3	—
Total	62.1 %	65.0 %	65.9 %

Sales and Marketing. Sales and marketing expenses consist of the salaries, commissions and related benefits of our sales and marketing staff, the costs of our marketing programs, including public relations, advertising and trade shows, travel, facilities, and depreciation expenses. Sales and marketing expense decreased $48.4 million, or 5.2% in fiscal year 2023 from the prior year, and remained relatively flat year-over-year in fiscal 2022. The decrease in sales and marketing expense for fiscal year 2023 was primarily due to a decrease of $18.4 million in personnel costs. Sales and marketing headcount at the end of fiscal year 2023 decreased to 2,170 from 2,500 at the end of fiscal year 2022. The decrease in sales and marketing expense for fiscal year 2023 was also due to a decrease of $13.2 million in marketing spend as part of cost reductions implemented by management. In fiscal year 2022, sales and marketing expense included a decrease of $14.0 million in commissions, partially offset by an increase in employee travel and customer outreach of $12.9 million, compared to the prior year. Sales and marketing headcount at the end of fiscal year 2022 increased to 2,500 from 2,479 at the end of fiscal year 2021. Sales and marketing expense included stock-based compensation expense of $96.5 million, $104.3 million and $104.6 million for fiscal years 2023, 2022 and 2021, respectively.

Research and Development. Research and development expenses consist of the salaries and related benefits of our product development personnel, prototype materials and other expenses related to the development of new and improved products, facilities and depreciation expenses. Research and development expense remained relatively flat in fiscal year 2023 from the prior year, as compared to a year-over-year increase of $30.7 million, or 6.0% in fiscal year 2022. Research and development headcount at the end of fiscal year 2023 decreased to 2,095 from 2,170 at the end of fiscal year 2022. In fiscal year 2022, the increase in research and development expense was primarily due to increased personnel costs of $29.6 million, compared to the prior year. The increase in personnel costs were driven by growth in research and development employee headcount during fiscal year 2022, including employees from the acquisition of Threat Stack. Research and development headcount at the end of fiscal year 2022 increased to 2,170 from 1,884 at the end of fiscal year 2021. Research and development expense included stock-based compensation expense of $69.4 million, $71.8 million and $67.2 million for fiscal years 2023, 2022 and 2021, respectively.

General and Administrative. General and administrative expenses consist of the salaries, benefits and related costs of our executive, finance, information technology, human resource and legal personnel, third-party professional service fees, bad debt charges, facilities and depreciation expenses. General and administrative expense decreased $11.2 million, or 4.1% in fiscal year 2023 from the prior year, and remained relatively flat year-over-year in fiscal 2022. The decrease in general and administrative expense for fiscal year 2023 was primarily due to a decrease of $7.0 million in fees paid to outside consultants for legal, accounting and tax services. General and administrative headcount at the end of fiscal year 2023 decreased to 855 from 984 at the end of fiscal year 2022. In fiscal year 2022, general and administrative expense included an increase of $15.4 million in personnel costs, partially offset by a decrease in fees paid to outside consultants for legal, accounting and tax services of $7.0 million and a decrease in facilities costs of $7.7 million, compared to the prior year. The increase in personnel costs were driven by growth in general and administrative employee headcount during fiscal year 2022. General and administrative headcount at the end of fiscal year 2022 increased to 984 from 829 at the end of fiscal year 2021. General and administrative expense included stock-based compensation expense of $41.1 million, $43.9 million and $42.4 million for fiscal years 2023, 2022 and 2021, respectively.

Restructuring charges. In the third quarter of fiscal 2023, we initiated a restructuring plan to better align strategic and financial objectives, optimize operations, and drive efficiencies for long-term growth and profitability. We estimate the expenses associated with the headcount reductions will result in annualized savings of approximately $130 million. As a result of these initiatives, we recorded a restructuring charge of $56.7 million related to a reduction in workforce and exit of leased space that is reflected in our results for the year ended September 30, 2023.

In the first fiscal quarters of 2023 and 2022, we initiated restructuring plans to align strategic and financial objectives and optimize resources for long-term growth. As a result of these initiatives, we recorded restructuring charges of $8.7 million and $7.9 million related to a reduction in workforce that is reflected in our results for the years ended September 30, 2023 and 2022, respectively. There were no restructuring expenses recorded for the year ended September 30, 2021.

	Years Ended September 30,		
	2023	2022	2021
	(in thousands, except percentages)		
Other income and income taxes			
Income from operations	$ 472,568	$ 403,792	$ 394,025
Other income (expense), net	13,420	(18,399)	(7,088)
Income before income taxes	485,988	385,393	386,937
Provision for income taxes	91,040	63,233	55,696
Net income	$ 394,948	$ 322,160	$ 331,241
Other income and income taxes (as percentage of net revenue)			
Income from operations	16.8 %	15.0 %	15.1 %
Other (expense) income, net	0.5	(0.7)	(0.3)
Income before income taxes	17.3	14.3	14.8
Provision for income taxes	3.3	2.3	2.1
Net income	14.0 %	12.0 %	12.7 %

Other Income (Expense), Net. Other income (expense), net, consists primarily of interest income and expense and foreign currency transaction gains and losses. Other income (expense), net increased $31.8 million in fiscal year 2023, as compared to fiscal year 2022 and decreased $11.3 million in fiscal year 2022, as compared to fiscal year 2021. The increase in other income (expense), net for fiscal year 2023 was primarily due to an increase in interest income of $16.5 million from our investments, and a decrease in interest expense of $5.5 million, compared to the prior year. In addition, foreign currency losses decreased $9.8 million for fiscal year 2023, compared to the prior year. The decrease in other income (expense), net for fiscal year 2022 as compared to fiscal year 2021 was primarily due to an increase in foreign currency losses of $7.8 million, and an increase in interest expense of $2.7 million, compared to the prior year.

Provision for Income Taxes. We recorded an 18.7% provision for income taxes for fiscal year 2023, compared to 16.4% in fiscal year 2022 and 14.4% in fiscal year 2021. The increase in effective tax rate from fiscal year 2022 to 2023 is primarily due to the tax impact of stock-based compensation and tax reserves. The increase in the effective tax rate from fiscal year 2021 to 2022 is primarily due to a discrete impact recorded in fiscal year 2021 from filing the Company's fiscal year 2020 U.S. federal income tax return.

We record a valuation allowance to reduce our deferred tax assets to the amount we believe is more likely than not to be realized. In making these determinations we consider historical and projected taxable income, and ongoing prudent and feasible tax planning strategies in assessing the appropriateness of a valuation allowance. The net decrease in the valuation allowance of $2.2 million for fiscal year 2023 and net increase of $5.7 million for fiscal year 2022 was primarily related to tax net operating losses and credits incurred in certain foreign jurisdictions, and state tax carryforwards. Our net deferred tax assets as of September 30, 2023, 2022 and 2021 were $290.7 million, $180.6 million, and $125.8 million, respectively.

Our worldwide effective tax rate may fluctuate based on a number of factors, including variations in projected taxable income in the various geographic locations in which we operate, changes in the valuation of our net deferred tax assets, resolution of potential exposures, tax positions taken on tax returns filed in the various geographic locations in which we operate, and the introduction of new accounting standards or changes in tax laws or interpretations thereof in the various geographic locations in which we operate. We have recorded liabilities to address potential tax exposures related to business and income tax positions we have taken that could be challenged by taxing authorities. The ultimate resolution of these potential exposures may be greater or less than the liabilities recorded which could result in an adjustment to our future tax expense.

Liquidity and Capital Resources

We have funded our operations with our cash balances and cash generated from operations.

	Years Ended September 30,		
	2023	2022	2021
		(in thousands)	
Liquidity and Capital Resources			
Cash and cash equivalents and investments	$ 808,391	$ 894,110	$ 1,043,385
Cash provided by operating activities	653,409	442,631	645,196
Cash provided by (used in) investing activities	36,393	218,116	(445,335)
Cash used in financing activities	(653,299)	(476,508)	(468,280)

Cash and cash equivalents, short-term investments and long-term investments totaled $808.4 million as of September 30, 2023, compared to $894.1 million as of September 30, 2022, representing a decrease of $85.7 million. The decrease was primarily due to cash used for the repayment of the Term Loan Facility, including the outstanding principal balance of $350.0 million, and all accrued, but unpaid interest outstanding of $3.0 million. In addition, $350.0 million of cash was used for the repurchase of outstanding common stock during fiscal year 2023. The decrease was partially offset by cash provided by operating activities of $653.4 million. As of September 30, 2023, 62.8% of our cash and cash equivalents and investment balances were outside of the U.S. The cash and cash equivalents and investment balances outside of the U.S. are subject to fluctuation based on the settlement of intercompany balances. In fiscal year 2022, the decrease to cash and cash equivalents, short-term investments and long-term investments from the prior year was primarily due to $500.0 million of cash used for the repurchase of outstanding common stock and $68.0 million in cash paid for the acquisition of Threat Stack in the first quarter of fiscal 2022. The decrease was also driven by $33.6 million of capital expenditures related to the expansion of our facilities to support our operations worldwide as well as investments in information technology infrastructure and equipment purchases to support our core business activities. The decrease was partially offset by cash provided by operating activities of $442.6 million. As of September 30, 2022, 62.8% of our cash and cash equivalents and investment balances were outside of the U.S.

Cash provided by operating activities during fiscal year 2023 was $653.4 million compared to $442.6 million in fiscal year 2022 and $645.2 million in fiscal year 2021. Cash provided by operating activities resulted primarily from cash generated from net income, after adjusting for non-cash charges such as stock-based compensation, depreciation and amortization charges and changes in operating assets and liabilities. Cash provided by operating activities for fiscal year 2023 increased from the prior year primarily due to an increase in net income, as well as an increase in cash received from customers.

Cash from operations could be affected by various risks and uncertainties, including, but not limited to the risks detailed in Part I, Item 1A titled "Risk Factors." However, we anticipate our current cash, cash equivalents and investment balances, anticipated cash flows generated from operations, and available borrowing capacity on the Revolver Credit Facility will be sufficient to meet our liquidity needs.

Cash provided by investing activities during fiscal year 2023 was $36.4 million compared to cash provided by investing activities of $218.1 million in fiscal year 2022 and cash used in investing activities of $445.3 million in fiscal year 2021. Investing activities include purchases, sales and maturities of available-for-sale securities, business acquisitions and capital expenditures. Cash provided by investing activities for fiscal year 2023 was primarily the result of $111.3 million in maturities of investments and $16.1 million in sales of investments, partially offset by $35.0 million in cash paid for acquisitions and $54.2 million in capital expenditures related to maintaining our operations worldwide. Cash used in investing activities for fiscal year 2022 was primarily the result of $260.4 million in maturities of investments and $120.6 million in sales of investments, partially offset by $68.0 million cash paid for the acquisition Threat Stack in the first quarter of fiscal 2022 and purchases of investments of $61.3 million. Cash used in investing activities for fiscal year 2021 was primarily the result of $411.3 million in cash paid for the acquisition businesses, primarily Volterra in the second quarter of fiscal 2021, along with capital expenditures related to maintaining our operations worldwide and the purchase of investments, partially offset by the maturity and sale of investments.

Cash used in financing activities was $653.3 million for fiscal year 2023, compared to cash used in financing activities of $476.5 million for fiscal year 2022 and cash used in financing activities of $468.3 million for fiscal year 2021. Cash used in financing activities for fiscal year 2023 included $350.0 million of cash used for the repayment of the Term Loan Facility, as well as $350.0 million of cash used to repurchase shares. In addition, $13.2 million in cash was used for taxes related to net share settlement of equity awards. Cash used in financing activities was partially offset by cash received from the exercise of employee stock options and stock purchases under our employee stock purchase plan of $60.0 million. Cash used in financing activities for fiscal year 2022 included $500.0 million to repurchase shares under our Share Repurchase program, as well as $21.0 million in cash used for taxes related to net share settlement of equity awards and $20.0 million in cash used to make principal payments on our term loan. Cash used in financing activities was partially offset by cash received from the exercise of employee stock options and stock purchases under our employee stock purchase plan of $64.5 million. Cash used in financing activities for fiscal year 2021 included $500.0 million to repurchase shares under our Accelerated Share Repurchase agreements, as well as $20.0 million in cash used to make principal payments on our term loan and $14.0 million in cash used for taxes related to net share settlement of equity awards. Cash used in financing activities was partially offset by cash received from the exercise of employee stock options and stock purchases under our employee stock purchase plan of $65.8 million.

On January 31, 2020, we entered into a Revolving Credit Agreement (the "Revolving Credit Agreement") that provides for a senior unsecured revolving credit facility in an aggregate principal amount of $350.0 million (the "Revolving Credit Facility"). We have the option to increase commitments under the Revolving Credit Facility from time to time, subject to certain conditions, by up to $150.0 million. As of September 30, 2023, there were no outstanding borrowings under the Revolving Credit Facility, and we had available borrowing capacity of $350.0 million.

Based on our current operating and capital expenditure forecasts, we believe that our existing cash and investment balances, together with cash generated from operations should be sufficient to meet our operating requirements for the next twelve months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities, the timing and extent of expansion into new territories, the timing of introductions of new products and enhancements of existing products, the continuing market acceptance of our products and cash paid for future acquisitions.

Obligations and Commitments

As of September 30, 2023, we had approximately $85.4 million of tax liabilities, including interest and penalties, related to uncertain tax positions (See Note 8 to our Consolidated Financial Statements). Because of the high degree of uncertainty regarding the settlement of these liabilities, we are unable to estimate the years in which future cash outflows may occur.

As of September 30, 2023, our principal commitments consisted of obligations outstanding under operating leases and purchase obligations with one of our component suppliers.

In October 2022, we entered into an unconditional purchase commitment with one of our suppliers for the delivery of systems components. Under the terms of the agreement, we are obligated to purchase $10 million of component inventory annually, with a total committed amount of $40 million over a four-year term. As of September 30, 2023, we had no remaining purchase commitments under the first year of the agreement. Our total non-cancelable long-term purchase commitments outstanding as of September 30, 2023 was $30.0 million.

We have a contractual obligation to purchase inventory components procured by our primary contract manufacturer in accordance with our annual build forecast. The contractual terms of the obligation contain cancellation provisions, which reduce our liability to purchase inventory components for periods greater than one year. In order to support our build forecast, we will, from time-to-time prepay our primary contract manufacturer for inventory purchases.

Recently Adopted Accounting Standards

There have been no material changes in recently issued or adopted accounting standards from those disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2022.

Item 7A. ***Quantitative and Qualitative Disclosure About Market Risk***

Interest Rate Risk. Our cash equivalents consist of high-quality securities, as specified in our investment policy guidelines. The policy limits the amount of credit exposure to any one issue or issuer to a maximum of 5% of the total portfolio with the exception of U.S. treasury and agency securities and money market funds, which are exempt from size limitation. The policy requires investments in securities that mature in three years or less, with the average maturity being no greater than one and a half years. These securities are subject to interest rate risk and will decrease in value if interest rates increase. Due to the short-term nature of our investment portfolio, we do not believe an immediate 10% increase or decrease in interest rates would have a material effect on the fair market value of our portfolio. Therefore, we do not expect our operating results or cash flows to be materially affected by a sudden change in interest rates.

Inflation Risk. We are actively monitoring the current inflationary environment, but we do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations. If the current inflationary environment constrains our customers' ability to procure goods and services from us, we may see customers reprioritize these investment decisions. These macroeconomic conditions could harm our business, financial condition and results of operations.

Foreign Currency Risk. The majority of our sales, cost of net revenues, and operating expenses are denominated in U.S. dollars and as a result, we have not experienced significant foreign currency transaction gains and losses to date. While we conduct transactions in foreign currencies and expect to continue to do so, we do not anticipate that foreign currency transaction gains or losses will be significant at our current level of operations. However, as we continue to expand our operations internationally, transaction gains or losses may become significant in the future.

Item 8. *Financial Statements and Supplementary Data*

F5, INC.
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of F5, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of F5, Inc. and its subsidiaries (the "Company") as of September 30, 2023 and 2022, and the related consolidated statements of income, of comprehensive income, of shareholders' equity and of cash flows for each of the three years in the period ended September 30, 2023, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of September 20, 2023, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2023] in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2023, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition for Certain Products and Services Contracts

As described in Note 1 to the consolidated financial statements, the Company sells hardware and perpetual software products and offers several products by subscription, either through term-based license agreements or as SaaS offerings. Evidence of a contract generally consists of a purchase order. The purchase price stated in an agreed upon purchase order is generally representative of the transaction price. The transaction price in a contract is allocated based upon the relative standalone selling price of each distinct performance obligation identified in the contract. Revenue is recognized at the time the related performance obligation is satisfied by transferring control of promised products and services to a customer. Revenue from the sale of the Company's hardware and perpetual software products is generally recognized at a point in time when the product has been fulfilled and the customer is obligated to pay for the product. Revenue for term-based license agreements is recognized at a point in time, when the Company delivers the software license to the customer and the subscription term has commenced. Revenue for SaaS offerings is recognized ratably as the services are provided. Revenues for post-contract customer support are recognized on a straight-line basis over the service contract term. The Company’s products and services revenue was $1,335 million and $1,479 million, respectively, for the year ended September 30, 2023, of which a portion relates to certain products and services contracts.

The principal consideration for our determination that performing procedures relating to revenue recognition for certain products and services contracts is a critical audit matter is a high degree of auditor effort in performing procedures and evaluating audit evidence related to the Company’s revenue recognition.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process. These procedures also included, among others, (i) testing the accuracy and existence of certain product and service revenue recognized for a sample of revenue transactions by obtaining and inspecting source documents, such as purchase orders, invoices, and proof of shipments or delivery, where applicable; (ii) testing, on a sample basis, the determination of the standalone selling price of certain performance obligations, including testing the completeness and accuracy of the underlying data used by management; and (iii) confirming a sample of outstanding customer invoice balances as of September 30, 2023 and, for confirmations not returned, obtaining and inspecting source documents, such as invoices, proof of shipment or delivery, and subsequent cash receipts.

/s/ PricewaterhouseCoopers LLP
Seattle, Washington
November 14, 2023

We have served as the Company’s auditor since 1996.

F5, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	September 30,	
	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	$ 797,163	$ 758,012
Short-term investments	6,160	126,554
Accounts receivable, net of allowances of $3,561 and $6,020	454,832	469,979
Inventories	35,874	68,365
Other current assets	554,744	489,314
Total current assets	1,848,773	1,912,224
Property and equipment, net	170,422	168,182
Operating lease right-of-use assets	195,471	227,475
Long-term investments	5,068	9,544
Deferred tax assets	295,308	183,365
Goodwill	2,288,678	2,259,282
Other assets, net	444,613	516,122
Total assets	$ 5,248,333	$ 5,276,194
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 63,315	$ 113,178
Accrued liabilities	282,890	309,819
Deferred revenue	1,126,576	1,067,182
Current portion of long-term debt	—	349,772
Total current liabilities	1,472,781	1,839,951
Deferred tax liabilities	4,637	2,781
Deferred revenue, long-term	648,545	624,398
Operating lease liabilities, long-term	239,565	272,376
Other long-term liabilities	82,573	67,710
Total long-term liabilities	975,320	967,265
Commitments and contingencies (Note 12)		
Shareholders' equity		
Preferred stock, no par value; 10,000 shares authorized, no shares outstanding	—	—
Common stock, no par value; 200,000 shares authorized, 59,207 and 59,860 shares issued and outstanding	24,399	91,048
Accumulated other comprehensive loss	(23,221)	(26,176)
Retained earnings	2,799,054	2,404,106
Total shareholders' equity	2,800,232	2,468,978
Total liabilities and shareholders' equity	$ 5,248,333	$ 5,276,194

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

F5, INC.
CONSOLIDATED INCOME STATEMENTS
(in thousands, except per share amounts)

	Years Ended September 30,		
	2023	2022	2021
Net revenues			
Products	$ 1,334,638	$ 1,317,117	$ 1,247,084
Services	1,478,531	1,378,728	1,356,332
Total	2,813,169	2,695,845	2,603,416
Cost of net revenues			
Products	375,192	319,713	286,293
Services	218,116	219,914	206,853
Total	593,308	539,627	493,146
Gross profit	2,219,861	2,156,218	2,110,270
Operating expenses			
Sales and marketing	878,215	926,591	929,983
Research and development	540,285	543,368	512,627
General and administrative	263,405	274,558	273,635
Restructuring charges	65,388	7,909	—
Total	1,747,293	1,752,426	1,716,245
Income from operations	472,568	403,792	394,025
Other income (expense), net	13,420	(18,399)	(7,088)
Income before income taxes	485,988	385,393	386,937
Provision for income taxes	91,040	63,233	55,696
Net income	$ 394,948	$ 322,160	$ 331,241
Net income per share — basic	$ 6.59	$ 5.34	$ 5.46
Weighted average shares — basic	59,909	60,274	60,707
Net income per share — diluted	$ 6.55	$ 5.27	$ 5.34
Weighted average shares — diluted	60,270	61,097	62,057

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

F5, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Years Ended September 30,		
	2023	**2022**	**2021**
Net income	$ 394,948	$ 322,160	$ 331,241
Other comprehensive income (loss):			
Foreign currency translation adjustment	1,477	(4,502)	(68)
Available-for-sale securities:			
Unrealized gains (losses) on available-for-sale securities, net of taxes of $286, $(160), and $(234) for the years ended September 30, 2023, 2022, and 2021, respectively	2,090	(1,449)	(1,557)
Reclassification adjustment for realized (losses) gains included in net income, net of taxes of $78, $48, and $(69) for the years ended September 30, 2023, 2022, and 2021, respectively	(612)	(152)	268
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	1,478	(1,601)	(1,289)
Total other comprehensive income (loss)	2,955	(6,103)	(1,357)
Comprehensive income	$ 397,903	$ 316,057	$ 329,884

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

F5, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands)

	Common Stock		Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
Balances, September 30, 2020	61,099	$ 305,453	$ (18,716)	$ 1,945,531	$ 2,232,268
Exercise of employee stock options	164	4,864	—	—	4,864
Issuance of stock under employee stock purchase plan	542	60,888	—	—	60,888
Issuance of restricted stock	1,430	—	—	—	—
Repurchase of common stock	(2,501)	(411,056)	—	(88,944)	(500,000)
Taxes paid related to net share settlement of equity awards	(82)	(14,032)	—	—	(14,032)
Stock-based compensation	—	246,341	—	—	246,341
Net income	—	—	—	331,241	331,241
Other comprehensive loss	—	—	(1,357)	—	(1,357)
Balances, September 30, 2021	60,652	$ 192,458	$ (20,073)	$ 2,187,828	$ 2,360,213
Exercise of employee stock options	143	3,613	—	—	3,613
Issuance of stock under employee stock purchase plan	412	60,927	—	—	60,927
Issuance of restricted stock	1,368	—	—	—	—
Repurchase of common stock	(2,611)	(394,141)	—	(105,882)	(500,023)
Taxes paid related to net share settlement of equity awards	(104)	(21,025)	—	—	(21,025)
Stock-based compensation	—	249,216	—	—	249,216
Net income	—	—	—	322,160	322,160
Other comprehensive loss	—	—	(6,103)	—	(6,103)
Balances, September 30, 2022	59,860	$ 91,048	$ (26,176)	$ 2,404,106	$ 2,468,978
Exercise of employee stock options	56	1,491	—	—	1,491
Issuance of stock under employee stock purchase plan	501	58,468	—	—	58,468
Issuance of restricted stock	1,335	—	—	—	—
Repurchase of common stock	(2,454)	(350,049)	—	—	(350,049)
Taxes paid related to net share settlement of equity awards	(91)	(13,209)	—	—	(13,209)
Stock-based compensation	—	236,650	—	—	236,650
Net income	—	—	—	394,948	394,948
Other comprehensive income	—	—	2,955	—	2,955
Balances, September 30, 2023	59,207	$ 24,399	$ (23,221)	$ 2,799,054	$ 2,800,232

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

F5, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended September 30,		
	2023	2022	2021
Operating activities			
Net income	$ 394,948	$ 322,160	$ 331,241
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock-based compensation	236,650	249,216	243,279
Depreciation and amortization	112,702	115,609	115,424
Non-cash operating lease costs	38,528	38,735	38,375
Deferred income taxes	(108,521)	(40,244)	(76,930)
Impairment of assets	3,455	6,175	40,698
Other	1,372	1,267	737
Changes in operating assets and liabilities (excluding effects of the acquisition of businesses):			
Accounts receivable	16,704	(130,605)	(46,289)
Inventories	32,491	(46,310)	5,843
Other current assets	(64,959)	(144,628)	(84,328)
Other assets	16,591	(87,008)	(110,653)
Accounts payable and accrued liabilities	(63,100)	19,163	22,933
Deferred revenue	81,741	191,147	216,431
Lease liabilities	(45,193)	(52,046)	(51,565)
Net cash provided by operating activities	653,409	442,631	645,196
Investing activities			
Purchases of investments	(1,789)	(61,284)	(472,165)
Maturities of investments	111,330	260,357	197,279
Sales of investments	16,085	120,578	271,521
Acquisition of businesses, net of cash acquired	(35,049)	(67,911)	(411,319)
Purchases of property and equipment	(54,184)	(33,624)	(30,651)
Net cash provided by (used in) investing activities	36,393	218,116	(445,335)
Financing activities			
Proceeds from the exercise of stock options and purchases of stock under employee stock purchase plan	59,959	64,540	65,752
Repurchase of common stock	(350,049)	(500,023)	(500,000)
Payments on term debt agreement	(350,000)	(20,000)	(20,000)
Taxes paid related to net share settlement of equity awards	(13,209)	(21,025)	(14,032)
Net cash used in financing activities	(653,299)	(476,508)	(468,280)
Net increase (decrease) in cash, cash equivalents and restricted cash	36,503	184,239	(268,419)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	2,125	(6,365)	(74)
Cash, cash equivalents and restricted cash, beginning of year	762,207	584,333	852,826
Cash, cash equivalents and restricted cash, end of year	$ 800,835	$ 762,207	$ 584,333

	Years Ended September 30,		
	2023	2022	2021
Supplemental disclosures of cash flow information			
Cash paid for taxes, net of refunds	$ 191,569	$ 110,036	$ 99,378
Cash paid for amounts included in the measurement of operating lease liabilities	52,893	58,592	61,504
Cash paid for interest on long-term debt	2,970	7,981	5,280
Supplemental disclosures of non-cash activities			
Right-of-use assets obtained in exchange for lease obligations	$ 10,544	$ 20,778	$ 13,051

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

1. Summary of Significant Accounting Policies

The Company

F5, Inc. (the "Company") is a leading provider of multi-cloud application security and delivery solutions which enable its customers to develop, deploy, operate, secure, and govern applications in any architecture, from on-premises to the public cloud. The Company's cloud, software, and hardware solutions enable its customers to deliver digital experiences to their customers faster, reliably, and at scale. The Company's enterprise-grade application services are available as cloud-based, software-as-a-service, and software-only solutions optimized for multi-cloud environments, with modules that can run independently, or as part of an integrated solution on its high-performance appliances. In connection with its solutions, the Company offers a broad range of professional services, including consulting, training, maintenance, and other technical support services.

Accounting Principles

The Company's consolidated financial statements and accompanying notes are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America ("GAAP").

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates and Assumptions

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 as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Examples of estimates and assumptions include: revenue recognition, identifying and evaluating the performance obligations of contracts with non-standard terms, and the allocation of purchase consideration based on the relative fair value standalone sales price of these performance obligations; business combinations, including the determination of fair value for acquired developed technology assets and the evaluation and selection of significant assumptions such as revenue growth rate and technology migration curve; and the incremental borrowing rate for measuring lease obligations. Actual results may differ materially from management's estimates and assumptions.

Cash, Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company invests its cash and cash equivalents in deposits with four major financial institutions, which, at times, exceed federally insured limits. The Company has not experienced any losses on its cash and cash equivalents. Amounts included in restricted cash represent those for which the Company's use is restricted by a contractual agreement.

Investments

The Company classifies its debt investments as available-for-sale. Debt investments, consisting of money market funds, corporate and municipal bonds and notes, the United States government and agency securities are reported at fair value with the related unrealized gains and losses included as a component of accumulated other comprehensive income (loss) in shareholders' equity. Realized gains and losses, credit allowances and impairments due to credit losses are included in other income (expense) in the Company's consolidated income statements. Debt investments with maturities of less than one year or where management's intent is to use the investments to fund current operations are classified as short-term investments. Debt investments with maturities of greater than one year are classified as long-term investments.

As an approximation to fair value, equity investments are measured using net asset value ("NAV") and are classified as long-term investments. Unrealized and realized gains and losses are recorded in other income (expense) in the Company's consolidated income statements.

Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount, net of allowances for credit losses for any potential uncollectible amounts. The allowance for credit losses is based on the assessment of the collectability of accounts. Management regularly reviews the adequacy of the allowance for credit losses on a collective basis by considering the age of each outstanding invoice, each customer's expected ability to pay and collection history, current market conditions, and reasonable and supportable forecasts of future economic conditions to determine whether the allowance is appropriate. Accounts receivable deemed uncollectible are charged against the allowance for credit losses when identified. For fiscal years ended September 30, 2023 and 2022, the allowance for credit losses was not material.

Unbilled Receivables

Unbilled receivables represent amounts related to the Company's unconditional right to consideration associated with contracts with customers that have not yet been billed. Unbilled receivables are converted to accounts receivable at the point in time when the Company has the contractual right to invoice its customers. As of September 30, 2023, unbilled receivables that are expected to be reclassified to accounts receivable within the next 12 months are included in other current assets, with those expected to be transferred to accounts receivables in more than 12 months included in other assets.

Concentration of Credit Risk

The Company extends credit to customers and is therefore subject to credit risk. The Company performs initial and ongoing credit evaluations of its customers' financial condition and does not require collateral. An allowance for credit losses is recorded for any potential uncollectible amount. Estimates are used in determining the allowance for credit losses in accordance with the Accounts Receivable policy. See Note 15 - Segment Information, for disaggregated accounts receivable by significant customer.

The Company maintains its cash and investment balances with high credit quality financial institutions.

Fair Value of Financial Instruments

Short-term and long-term investments are recorded at fair value as the underlying securities are classified as available-for-sale with any unrealized gains or losses being recorded to other comprehensive income (or loss). The fair value for securities held is determined using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

Inventories

The Company outsources the manufacturing of its pre-configured hardware platforms to contract manufacturers, who assemble each product to the Company's specifications. As protection against component shortages and to provide replacement parts for its service teams, the Company also stocks limited supplies of certain key product components. The Company reduces inventory to net realizable value based on excess and obsolete inventories determined primarily by historical usage and forecasted demand. Inventories consist of hardware and related component parts and are recorded at the lower of cost and net realizable value (as determined by the first-in, first-out method).

Property and Equipment

Property and equipment are stated at net book value. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets, ranging from two to five years. Leasehold improvements are amortized over the lesser of the remaining lease term or the estimated useful life of the improvements. The cost of normal maintenance and repairs is charged to expense as incurred and expenditures for major improvements are capitalized at cost. Gains or losses on the disposition of assets are reflected in the consolidated income statements at the time of disposal.

Business Combinations

The Company's business combinations are accounted for under the acquisition method. Management allocates the fair value of purchase consideration to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets.

Goodwill

Goodwill represents the excess purchase price over the estimated fair value of net assets acquired as of the acquisition date. The Company tests goodwill for impairment on an annual basis and between annual tests when impairment indicators are identified, and goodwill is written down when impaired. For its annual goodwill impairment test in all periods to date, the Company has operated under one reporting unit and the fair value of its reporting unit has been determined by the Company's enterprise value. The Company performs its annual goodwill impairment test during the second fiscal quarter.

For its annual impairment test performed in the second quarter of fiscal 2023, the Company completed a quantitative assessment and determined that there was no impairment of goodwill. The Company also considered potential impairment indicators of goodwill at September 30, 2023 and noted no indicators of impairment.

Intangible Assets

Intangible assets with finite lives consist of acquired developed technology, customer relationships, patents and trademarks, trade names, and non-compete covenants acquired through business combinations or asset acquisitions. Intangible assets acquired through business combinations are recorded at their respective estimated fair values upon acquisition close. Other intangible assets acquired through asset acquisitions are recorded at their respective cost. The Company determines the estimated useful lives for acquired intangible assets based on the expected future cash flows associated with the respective asset. The Company's intangible assets with finite lives are amortized using the straight-line method over their estimated useful lives, ranging from four to fifteen years. Amortization expense related to acquired developed technology is charged to cost of product revenues. Amortization expense related to customer relationships, trade names, and non-compete covenants is charged to sales and marketing activities. Amortization expense related to patents and trademarks is charged to general and administrative activities. The Company evaluates the recoverability of intangible assets periodically by taking into account events or circumstances that may warrant revised estimates of useful lives or that indicate the asset may be impaired.

Software Development Costs

The authoritative guidance requires certain internal software development costs related to software to be sold to be capitalized upon the establishment of technological feasibility. Capitalized software development costs are amortized over the remaining estimated economic life of the product. The Company's software development costs incurred subsequent to achieving technological feasibility have not been significant and, as a result, all software development costs have been expensed as research and development activities as incurred.

Internal-Use Software

The Company capitalizes costs incurred during the application development stage associated with the development of internal-use software systems. The capitalized costs are then amortized over the estimated useful life of the software, which is generally three to ten years, and are included in property and equipment in the accompanying consolidated balance sheets.

Impairment of Long-Lived Assets

The Company assesses the impairment of long-lived assets whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be recoverable. When such events occur, management determines whether there has been impairment by comparing the anticipated undiscounted net future cash flows to the related asset's carrying value. If impairment exists, the asset is written down to its estimated fair value.

Revenue Recognition

The Company sells products through distributors, resellers, and directly to end users. Revenue related to the Company's contracts with customers is recognized by following a five-step process:

- *Identify the contract(s) with a customer.* Evidence of a contract generally consists of a purchase order issued pursuant to the terms and conditions of a distributor, reseller or end user agreement.
- *Identify the performance obligations in the contract.* Performance obligations are identified in the Company's contracts and include hardware, hardware-based software, software-only solutions, cloud-based subscription services as well as a broad range of service performance obligations including consulting, training, installation and maintenance.

- *Determine the transaction price.* The purchase price stated in an agreed upon purchase order is generally representative of the transaction price. The Company offers several programs in which customers are eligible for certain levels of rebates if certain conditions are met. When determining the transaction price, the Company considers the effects of any variable consideration.

- *Allocate the transaction price to the performance obligations in the contract.* The transaction price in a contract is allocated based upon the relative standalone selling price of each distinct performance obligation identified in the contract.

- *Recognize revenue when (or as) the entity satisfies a performance obligation.* The Company satisfies performance obligations either over time or at a point in time as discussed in further detail below. Revenue is recognized at the time the related performance obligation is satisfied by transferring control of promised products and services to a customer.

Revenue is recognized net of any taxes collected, which are subsequently remitted to governmental authorities. Shipping and handling fees charged to the Company's customers are recognized as product revenue in the period shipped and the related costs for providing these services are recorded as a cost of sale.

The following is a description of the principal activities from which the Company generates revenue:

Product

Revenue from the sale of the Company's hardware and perpetual software products is generally recognized at a point in time when the product has been fulfilled and the customer is obligated to pay for the product. The Company also offers several products by subscription, either through term-based license agreements or as SaaS offerings. Revenue for term-based license agreements is recognized at a point in time, when the Company delivers the software license to the customer and the subscription term has commenced. For the Company's SaaS offerings, revenue is recognized ratably as the services are provided. Hardware, including the software run on those devices is considered systems revenue. Perpetual or subscription software offerings that are, or have the ability to be deployed on a standalone basis, along with the Company's SaaS offerings are considered software revenue. When rights of return are present and the Company cannot estimate returns, revenue is recognized when such rights of return lapse. Payment terms to customers are generally net 30 days to net 60 days.

Global Services

Revenues for post-contract customer support ("PCS") are recognized on a straight-line basis over the service contract term. PCS includes a limited period of telephone support, updates, repair or replacement of any failed product or component that fails during the term of the agreement, bug fixes and rights to upgrades, when and if available. Consulting services are customarily billed at fixed hourly rates, plus out-of-pocket expenses, and revenues are recognized as the consulting is delivered. Similarly, training revenue is recognized as the training is completed.

Contract Acquisition Costs

Sales commissions earned by the Company's sales force are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions for initial service contracts and subscription offerings are deferred and then amortized as an expense on a straight-line basis over the period of benefit, which management has determined to be 4.5 years for initial service and 3 to 5 years for subscription offerings.

Flexible Consumption Program

The Company enters into certain contracts with customers, including flexible consumption programs and multi-year subscriptions, with non-standard terms and conditions. Management assesses contractual terms in these agreements to identify and evaluate performance obligations. Management allocates consideration to each performance obligation based on relative fair value using standalone selling price and recognizes associated revenue as control is transferred to the customer.

Guarantees and Product Warranties

In the normal course of business to facilitate sales of its products, the Company indemnifies other parties, including customers, resellers, lessors, and parties to other transactions with the Company, with respect to certain matters. The Company has agreed to hold the other party harmless against losses arising from a breach of representations or covenants, or out of intellectual property infringement or other claims made against certain parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. The Company has entered into indemnification agreements with its officers and directors, and the Company's bylaws contain similar indemnification obligations to the Company's agents. It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement.

The Company offers warranties of one year for hardware for those customers without service contracts, with the option of purchasing additional warranty coverage in yearly increments. The Company accrues for warranty costs as part of its cost of sales based on associated material product costs and technical support labor costs. Warranty expense and accrued warranty costs were not material for all periods presented.

Research and Development

Research and development expenses consist of salaries and related benefits of product development personnel, prototype materials and expenses related to the development of new and improved products, and an allocation of facilities, depreciation and amortization expense. Research and development expenses are reflected in the income statements as incurred.

Advertising

Advertising costs are expensed as incurred. The Company incurred $8.9 million, $15.4 million and $10.0 million in advertising costs during the fiscal years 2023, 2022 and 2021, respectively.

Income Taxes

Deferred income tax assets and liabilities are determined based upon differences between the financial statement and income tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The realization of deferred tax assets is based on historical tax positions and estimates of future taxable income. A valuation allowance is recorded when it is more-likely-than-not that some of the deferred tax assets will not be realized.

The Company assesses whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. The Company may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefits to be recognized in the financial statements from such a position is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The Company adjusts these liabilities based on a variety of factors, including the evaluation of information not previously available. These adjustments are reflected as increases or decreases to income tax expense in the period in which new information is available.

Foreign Currency

The functional currency for the Company's foreign subsidiaries is either the U.S. dollar or the local currency depending on the assessment of management. An entity's functional currency is determined by the currency of the economic environment in which the majority of cash is generated and expended by the entity. The financial statements of all majority-owned subsidiaries and related entities, with a functional currency other than the U.S. dollar, have been translated into U.S. dollars. All assets and liabilities of the respective entities are translated at year-end exchange rates and all revenues and expenses are translated at average rates during the respective period. Translation adjustments are reported as other comprehensive income (loss) in the consolidated statements of comprehensive income.

Foreign currency transaction gains and losses are a result of the effect of exchange rate changes on transactions denominated in currencies other than the functional currency, including U.S. dollars. Gains and losses on those foreign currency transactions are included in determining net income or loss for the period of exchange and are recorded in other income, net. The net effect of foreign currency gains and losses was not material during the fiscal years ended September 30, 2023, 2022 and 2021.

Segments

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Management has determined that the Company is organized as, and operates in, one reportable operating segment.

Stock-based Compensation

The Company issues incentive awards to its employees through stock-based compensation consisting of restricted stock units ("RSUs"). RSUs are payable in shares of the Company's common stock as the periodic vesting requirements are satisfied, generally over one to four years. The value of an RSU is based upon the fair market value of the Company's common stock on the date of grant. The value of RSUs is determined using the intrinsic value method and is based on the number of shares granted and the quoted price of the Company's common stock on the date of grant.

The Company offers an Employee Stock Purchase Plan ("ESPP") that permits eligible employees to purchase shares of the Company’s common stock at a discount. In determining the fair value of shares issued under the ESPP, the Company uses the Black-Scholes option pricing model. The assumptions within the option pricing model are based on management’s best estimates at that time, which impact the fair value of the ESPP option calculated under the Black-Scholes methodology and, ultimately, the expense that will be recognized over the life of the ESPP option.

The Company has also issued stock options as replacement awards, most notably for those assumed as part of business combinations. The Company used the Black-Scholes option pricing model to determine the fair value of the stock option replacement awards. The assumptions within the option pricing model are based on management’s best estimates at that time, which impact the fair value of the option calculated under the Black-Scholes methodology and, ultimately, the expense that will be recognized over the term of the option.

The Company accounts for stock-based compensation using the straight-line attribution method for recognizing compensation expense. The Company recognizes compensation expense for only the portion of stock-based awards that are expected to vest. Therefore, the Company applies estimated forfeiture rates that are derived from historical employee termination behavior. Based on historical differences with forfeitures of stock-based awards granted to the Company’s executive officers and Board of Directors versus grants awarded to all other employees, the Company has developed separate forfeiture expectations for these two groups.

The Company issues incentive awards to certain current executive officers as part of its annual equity awards program. A portion of the aggregate number of RSUs issued to executive officers vest in equal quarterly increments, and a portion is subject to the Company achieving specified performance goals.

In fiscal 2018, the Company's Talent and Compensation Committee adopted a set of metrics for the performance stock awards, including (1) 50% of the annual performance stock grant is based on achieving certain annual revenue; (2) 25% of the annual performance stock grant is based on achieving an increase annual software revenue compared to the prior year; and (3) 25% of the annual performance stock grant is based on relative total shareholder return ("TSR") benchmarked to the S&P 500 index. In fiscal 2023, the Company's Talent and Compensation Committee amended the metrics for the performance stock awards to replace software revenue with earnings per share. In each case, no vesting or payment with respect to a performance goal shall occur unless a minimum threshold is met for the applicable goal. Vesting and payment with respect to the performance goal is linear above the threshold of the applicable goal and is capped at achievement of 200% above target.

The Company recognizes compensation costs for awards with performance conditions and market conditions on a straight-line basis over the requisite service period for each separately vesting portion of the award and, for awards with performance conditions, when it concludes it is probable that the performance condition will be achieved. The Company reassesses the probability of vesting at each balance sheet date and adjusts compensation costs based on the probability assessment.

Comprehensive Income

Comprehensive income includes certain changes in equity that are excluded from net income. Specifically, unrealized gains or losses on securities and foreign currency translation adjustments. These changes are included in accumulated other comprehensive income or loss.

Recently Adopted Accounting Standards

There have been no material changes in recently issued or adopted accounting standards from those disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2022.

2. Revenue from Contracts with Customers

Capitalized Contract Acquisition Costs

The table below shows significant movements in capitalized contract acquisition costs (current and noncurrent) for the years ended September 30, 2023, 2022, and 2021 (in thousands):

	2023	2022	2021
Balance, beginning of year	$ 77,220	$ 77,836	$ 70,396
Additional capitalized contract acquisition costs	26,960	37,897	41,719
Amortization of capitalized contract acquisition costs	(37,712)	(38,513)	(34,279)
Balance, end of year	$ 66,468	$ 77,220	$ 77,836

Amortization of capitalized contract acquisition costs was $37.7 million, $38.5 million, and $34.3 million for the years ended September 30, 2023, 2022, and 2021, respectively, and is recorded in Sales and Marketing expense in the accompanying consolidated income statements. There was no impairment of any capitalized contract acquisition costs during any period presented.

Contract Balances

Timing may differ between the satisfaction of performance obligations and the invoicing and collection of amounts related to the Company's contracts with customers. Liabilities are recorded for amounts that are collected in advance of the satisfaction of performance obligations, or for contracts with customers that contain the Company's unconditional rights to consideration, for which the customer has not been billed. These liabilities are classified as current and non-current deferred revenue.

The table below shows significant movements in the deferred revenue balances (current and noncurrent) for the years ended September 30, 2023, 2022, and 2021 (in thousands):

	2023	2022	2021
Balance, beginning of year	$ 1,691,580	$ 1,489,842	$ 1,272,632
Amounts added but not recognized as revenues	1,162,698	1,167,143	1,122,081
Deferred revenue acquired through acquisition of businesses	1,800	10,591	779
Revenues recognized related to the opening balance of deferred revenue	(1,080,957)	(975,996)	(905,650)
Balance, end of year	$ 1,775,121	$ 1,691,580	$ 1,489,842

Remaining Performance Obligations

Remaining performance obligations represent the amount of the transaction price under contracts with customers that are attributable to performance obligations that are unsatisfied or partially satisfied at the reporting date. The composition of unsatisfied performance obligations consists mainly of deferred service revenue, and to a lesser extent, deferred product revenue, for which the Company has an obligation to perform, and has not yet recognized as revenue in the consolidated financial statements. As of September 30, 2023, the total non-cancelable remaining performance obligations under the Company's contracts with customers was $1.8 billion and the Company expects to recognize revenues on approximately 63.5% of these remaining performance obligations over the next 12 months, 23.5% in year two, and the remaining balance thereafter.

See Note 15 - Segment Information, for disaggregated revenue by significant customer and geographic region, as well as disaggregated product revenue by systems and software.

3. Business Combinations

Fiscal Year 2023 Acquisition of Lilac Cloud, Inc.

On January 22, 2023, the Company entered into a Merger Agreement (the “Lilac Merger Agreement”) with Lilac Cloud, Inc. ("Lilac"), a provider of innovative application delivery services. The transaction closed on February 1, 2023 with Lilac becoming a wholly-owned subsidiary of F5. The addition of Lilac’s Content Delivery Network ("CDN") technologies enhances F5’s portfolio of solutions that secure and optimize any application and Application Programming Interface ("API") anywhere. The acquired assets and assumed liabilities of Lilac were not material and the acquisition did not have a material impact to the Company's operating results.

Fiscal Year 2022 Acquisition of Threat Stack, Inc.

In September 2021, the Company entered into a Merger Agreement (the "Threat Stack Merger Agreement") with Threat Stack, Inc. ("Threat Stack"), a provider of cloud security and workload protection solutions. The transaction closed on October 1, 2021 with Threat Stack becoming a wholly-owned subsidiary of F5. The addition of Threat Stack's cloud security capabilities to F5's application and API protection solutions enhances visibility across application infrastructure and workloads to deliver more actionable security insights for customers.

Pursuant to the Threat Stack Merger Agreement, at the effective time of the Merger, the capital stock of Threat Stack and the vested outstanding and unexercised stock options in Threat Stack were cancelled and converted to the right to receive $68.9 million in cash, subject to certain adjustments and conditions set forth in the Threat Stack Merger Agreement. Transaction costs associated with the acquisition were not material.

As a result of the acquisition, the Company acquired all the assets and assumed all the liabilities of Threat Stack. The goodwill related to the Threat Stack acquisition is comprised primarily of expected synergies from combining operations and the acquired intangible assets that do not qualify for separate recognition. Goodwill related to the Threat Stack acquisition was not deductible for tax purposes. The results of operations of Threat Stack have been included in the Company's consolidated financial statements from the date of acquisition.

The allocated purchase consideration to assets acquired and liabilities assumed based on preliminary estimated fair values is presented in the following table (in thousands):

		Estimated Useful Life
Assets acquired		
Deferred tax assets	$ 14,041	
Other net tangible assets acquired, at fair value	5,481	
Cash, cash equivalents, and restricted cash	911	
Identifiable intangible assets:		
Developed technology	11,400	5 years
Customer relationships	4,400	5 years
Goodwill	43,282	
Total assets acquired	$ 79,515	
Liabilities assumed		
Deferred revenue	$ (10,591)	
Total liabilities assumed	$ (10,591)	
Net assets acquired	$ 68,924	

The measurement period for the Threat Stack acquisition lapsed during the first quarter of fiscal 2023. The Company recorded immaterial adjustments to consideration exchanged for the purchase of Threat Stack within the post-close measurement period.

The developed technology intangible asset is amortized on a straight-line basis over its estimated useful life of five years and included in cost of net product revenues. The customer relationships intangible asset is amortized on a straight-line basis over its estimated useful life of five years and included in sales and marketing expenses. The weighted-average life of the amortizable intangible assets recognized from the Threat Stack acquisition was five years as of October 1, 2021, the date the transaction closed. The estimated useful lives for the acquired intangible assets were based on the expected future cash flows associated with the respective asset.

The pro forma financial information, as well as the revenue and earnings generated by Threat Stack, were not material to the Company's operations for the periods presented.

Fiscal Year 2021 Acquisition of Volterra, Inc.

On January 5, 2021, the Company entered into a Merger Agreement (the “Volterra Merger Agreement”) with Volterra, Inc. ("Volterra"), a provider of edge-as-a-service platform solutions. The transaction closed on January 22, 2021 with Volterra becoming a wholly-owned subsidiary of F5. With the addition of Volterra’s technology platform, F5 is creating an edge platform built for enterprises and service providers that will be security-first and app-driven with unlimited scale.

Pursuant to the Volterra Merger Agreement, at the effective time of the Merger, the capital stock of Volterra and the vested outstanding and unexercised stock options in Volterra were cancelled and converted to the right to receive $427.2 million in cash, subject to certain adjustments and conditions set forth in the Volterra Merger Agreement. The unvested stock options and restricted stock units in Volterra held by continuing employees of Volterra were assumed by F5, on the terms and conditions set forth in the Volterra Merger Agreement. The Company incurred $9.5 million of transaction costs associated with the acquisition which was included in General and Administrative expenses in fiscal 2021.

As a result of the acquisition, the Company acquired all the assets and assumed all the liabilities of Volterra. The goodwill related to the Volterra acquisition is comprised primarily of expected synergies from combining operations and the acquired intangible assets that do not qualify for separate recognition. Goodwill related to the Volterra acquisition was not deductible for tax purposes. The results of operations of Volterra have been included in the Company's consolidated financial statements from the date of acquisition.

The allocated purchase consideration to assets acquired and liabilities assumed based on preliminary estimated fair values is presented in the following table (in thousands):

		Estimated Useful Life
Assets acquired		
Cash, cash equivalents, and restricted cash	$ 14,012	
Other tangible assets acquired, at fair value	7,499	
Identifiable intangible assets:		
Developed technology	59,500	7 years
Customer relationships	500	1 year
Goodwill	350,863	
Total assets acquired	432,374	
Liabilities assumed	(5,233)	
Net assets acquired	$ 427,141	

The measurement period for the Volterra acquisition lapsed during the second quarter of fiscal 2022. The Company recorded immaterial adjustments to consideration exchanged for the purchase of Volterra within the post-close measurement period.

The developed technology intangible asset is being amortized on a straight-line basis over its estimated useful life of seven years and included in cost of net product revenues. The customer relationships intangible asset was amortized on a straight-line basis over its estimated useful life of one year and included in sales and marketing expenses. The weighted-average life of the amortizable intangible assets recognized from the Volterra acquisition was 6.95 years as of January 22, 2021, the date the transaction closed. The estimated useful lives for the acquired intangible assets were based on the expected future cash flows associated with the respective asset.

The pro forma financial information, as well as the revenue and earnings generated by Volterra, were not material to the Company's operations for the periods presented.

4. Fair Value Measurements

In accordance with the authoritative guidance on fair value measurements and disclosure under GAAP, the Company determines fair value using a fair value hierarchy that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity, and the reporting entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances and expands disclosure about fair value measurements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date, essentially the exit price.

The levels of fair value hierarchy are:

Level 1: Quoted prices in active markets for identical assets and liabilities at the measurement date that the Company has the ability to access.

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs for which there is little or no market data available. These inputs reflect management's assumptions of what market participants would use in pricing the asset or liability.

Level 1 investments are valued based on quoted market prices in active markets and include the Company's cash equivalent investments. Level 2 investments, which include investments that are valued based on quoted prices in markets that are not active, broker or dealer quotations, actual trade data, benchmark yields or alternative pricing sources with reasonable levels of price transparency, include the Company's certificates of deposit, corporate bonds and notes, municipal bonds and notes, U.S. government securities, U.S. government agency securities and international government securities. Fair values for the Company's level 2 investments are based on similar assets without applying significant judgments. In addition, all of the Company's level 2 investments have a sufficient level of trading volume to demonstrate that the fair values used are appropriate for these investments.

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Company. The Company considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis

The Company's financial assets measured at fair value on a recurring basis subject to the disclosure requirements at September 30, 2023 and 2022, were as follows (in thousands):

			Gross Unrealized			Classification on Balance Sheet		
As of September 30, 2023	**Fair Value Level**	**Cost or Amortized Cost**	**Gains**	**Losses**	**Aggregate Fair Value**	**Cash and Cash Equivalents**	**Short-Term Investments**	**Long-Term Investments**
Changes in fair value recorded in other comprehensive income								
Money Market Funds	Level 1	$392,592	$ —	$ —	$392,592	$ 392,592	$ —	$ —
Corporate bonds and notes	Level 2	4,412	—	(88)	4,324	—	4,324	—
Municipal bonds and notes	Level 2	1,108	—	(9)	1,099	—	1,099	—
U.S. government securities	Level 2	—	—	—	—	—	—	—
U.S. government agency securities	Level 2	740	—	(3)	737	—	737	—
Total debt investments		$398,852	$ —	$ (100)	$398,752	$ 392,592	$ 6,160	$ —
Changes in fair value recorded in other net income (expense)								
Equity investments	*				$ 5,068	$ —	$ —	$ 5,068
Total equity investments					5,068	—	—	5,068
Total investments					$403,820	$ 392,592	$ 6,160	$ 5,068

* The fair value of this equity investment is measured at net asset value (NAV) which approximates fair value and is not classified within the fair value hierarchy.

As of September 30, 2022	Fair Value Level	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value	Classification on Balance Sheet: Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Changes in fair value recorded in other comprehensive income								
Money Market Funds	Level 1	$276,294	$ —	$ —	$276,294	$ 276,294	$ —	$ —
Corporate bonds and notes	Level 2	50,828	—	(950)	49,878	912	44,356	4,610
Municipal bonds and notes	Level 2	5,018	—	(102)	4,916	—	3,812	1,104
U.S. government securities	Level 2	84,734	—	(660)	84,074	10,120	73,954	—
U.S. government agency securities	Level 2	5,825	—	(75)	5,750	606	4,432	712
Total debt investments		$422,699	$ —	$ (1,787)	$420,912	$ 287,932	$ 126,554	$ 6,426
Changes in fair value recorded in other net income (expense)								
Equity investments	*				$ 3,118	$ —	$ —	$ 3,118
Total equity investments					3,118	—	—	3,118
Total investments					$424,030	$ 287,932	$ 126,554	$ 9,544

* The fair value of this equity investment is measured at NAV which approximates fair value and is not classified within the fair value hierarchy.

The Company uses the fair value hierarchy for financial assets and liabilities. The carrying amounts of other current financial assets and other current financial liabilities approximate fair value due to their short-term nature.

Interest income from investments was not material for the years ended September 30, 2023, 2022, and 2021. Interest income is included in other income (expense), net on the Company's consolidated income statements. Unrealized losses on investments held for a period greater than 12 months at September 30, 2023 and 2022 were not material.

The Company invests in debt securities that are rated investment grade. The Company reviews the individual debt securities in its portfolio to determine whether a credit loss exists by comparing the extent to which the fair value is less than the amortized cost and considering any changes to ratings of a debt security by a ratings agency. The Company determined that as of September 30, 2023, there were no credit losses on any investments within its portfolio.

Assets Measured and Recorded at Fair Value on a Non-Recurring Basis

The Company's non-financial long-lived assets, which include goodwill and other intangible assets, are not required to be carried at fair value on a recurring basis. These non-financial assets are measured at fair value on a non-recurring basis when there is an indicator of impairment, and they are recorded at fair value only when impairment is recognized. The Company reviews goodwill for impairment annually, during the second quarter of each fiscal year, or as circumstances indicate the possibility of impairment. The Company monitors the carrying value of tangible and intangible long-lived assets for impairment whenever events or changes in circumstances indicate its carrying amount may not be recoverable.

During the year ended September 30, 2023, the Company recorded an impairment of $3.5 million against the operating lease right-of-use asset related to its third quarter of fiscal 2023 restructuring plan, see Note 13, Restructuring Charges. The charge was reflected in the Restructuring Charges line item on the Company's consolidated income statement.

During the year ended September 30, 2022, as a result of a planned change in the use of the asset, the Company recorded an impairment of $6.2 million against the Shape trade name intangible asset, which was reflected in the Sales and Marketing line item on the Company's consolidated income statement.

During the year ended September 30, 2021, the Company recorded an impairment of $23.5 million against the operating lease right-of-use asset related to the permanent exit of six floors in its corporate headquarters and $10.3 million for tenant improvements and other fixed assets associated with the exited floors. The Company also recorded an impairment of $6.7 million against the operating lease right-of-use asset related to the integration of the former Shape headquarters in Santa Clara, California and $0.2 million for other fixed assets associated with the impaired Shape headquarters. The Company calculated the fair value of the right-of-use assets, tenant improvements and other fixed assets based on estimated future discounted cash flows and classified the fair value as a Level 3 measurement due to the significance of unobservable inputs, which included the amount and timing of estimated sublease rental receipts that the Company could reasonably obtain over the remaining lease term and the discount rate. The impairment charges for the year ended September 30, 2021 were allocated to various expense line items on the Company's consolidated income statements based on the teams that previously worked out of the exited space.

Impairment charges were allocated to the following income statement line items for the years ended September 30, 2023, 2022, and 2021 (in thousands):

	Years Ended September 30,		
	2023	2022	2021
Cost of net product revenue	$ —	$ —	$ 2,865
Cost of net service revenue	—	—	3,492
Sales and marketing	—	6,175	11,515
Research and development	—	—	12,974
General and administrative	—	—	9,852
Restructuring charges	3,455	—	—
Total impairment charges	$ 3,455	$ 6,175	$ 40,698

The Company did not recognize any other impairment charges related to non-financial long-lived assets for the years ended September 30, 2023, 2022, and 2021.

5. Balance Sheet Details

Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of the Company's cash and cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total cash, cash equivalents and restricted cash shown in the Company's consolidated statements of cash flows for the periods presented (in thousands):

	September 30,	
	2023	2022
Cash and cash equivalents	$ 797,163	$ 758,012
Restricted cash included in other assets, net	3,672	4,195
Total cash, cash equivalents and restricted cash	$ 800,835	$ 762,207

Inventories

Inventories consist of the following (in thousands):

	September 30,	
	2023	2022
Finished goods	$ 11,699	$ 10,164
Raw materials	24,175	58,201
	$ 35,874	$ 68,365

Other Current Assets

Other current assets consist of the following (in thousands):

	September 30,	
	2023	2022
Unbilled receivables	$ 374,113	$ 319,707
Prepaid expenses	84,506	57,340
Capitalized contract acquisition costs	31,206	34,658
Other[1]	64,919	77,609
	$ 554,744	$ 489,314

(1) As of September 30, 2023 and 2022, includes a deposit of $36.2 million and $57.0 million, respectively, used to support the working capital needs of the Company's primary contract manufacturer's procurement of components used in the manufacturing of system hardware.

Property and Equipment

Property and equipment consist of the following (in thousands):

	September 30,	
	2023	2022
Computer equipment	$ 189,555	$ 168,204
Software	78,184	86,036
Office furniture and equipment	44,525	41,619
Leasehold improvements	185,225	173,689
	497,489	469,548
Accumulated depreciation and amortization	(327,067)	(301,366)
	$ 170,422	$ 168,182

Depreciation and amortization expense totaled approximately $53.3 million, $56.0 million, and $61.3 million for the fiscal years ended September 30, 2023, 2022 and 2021, respectively.

There were no property and equipment impairment charges for the years ended September 30, 2023 and 2022, respectively. During the year ended September 30, 2021, the Company recorded an impairment of $10.3 million for leasehold improvements and other fixed assets associated with the permanent exit of six floors in its corporate headquarters. The Company also recorded an impairment of $0.2 million for fixed assets associated with the integration of the former Shape headquarters in Santa Clara, California. The impairment charges for the year ended September 30, 2021 were allocated to various expense line items on the Company's consolidated income statements based on the teams that previously worked out of the exited space.

Goodwill

Changes in the carrying amount of goodwill during fiscal years 2023 and 2022 are summarized as follows (in thousands):

Balance, September 30, 2021	$ 2,216,553
Acquisition of Threat Stack, Inc.	43,956
Other	(1,227)
Balance, September 30, 2022	2,259,282
Other business acquisitions	29,396
Balance, September 30, 2023	$ 2,288,678

Other Assets

Other assets consist of the following (in thousands):

	September 30,	
	2023	2022
Intangible assets	$ 150,969	$ 200,288
Unbilled receivables	202,838	224,780
Capitalized contract acquisition costs	35,263	42,561
Other	55,543	48,493
	$ 444,613	$ 516,122

Intangible assets are included in other assets on the consolidated balance sheets and consist of the following (in thousands):

	September 30, 2023			September 30, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	$ 319,368	$ (190,135)	$ 129,233	$ 319,436	$ (151,332)	$ 168,104
Customer relationships	45,642	(33,298)	12,344	46,142	(25,630)	20,512
Patents and trademarks	13,699	(9,658)	4,041	23,504	(19,255)	4,249
Trade names	15,473	(10,122)	5,351	24,973	(17,550)	7,423
Non-compete covenants	1,960	(1,960)	—	2,260	(2,260)	—
	$ 396,142	$ (245,173)	$ 150,969	$ 416,315	$ (216,027)	$ 200,288

There were no intangible asset impairment charges for the year ended September 30, 2023. During the year ended September 30, 2022, as a result of a planned change in the use of the asset, the Company recorded an impairment of $6.2 million against the Shape trade name intangible asset, which was reflected in the Sales and Marketing line item on the Company's consolidated income statement.

Amortization expense related to intangible assets was $29.1 million, $36.4 million, and $48.7 million for the fiscal years ended September 30, 2023, 2022 and 2021, respectively.

For intangible assets held as of September 30, 2023, amortization expense for the five succeeding fiscal years is as follows (in thousands):

2024	$ 50,914
2025	39,477
2026	34,723
2027	16,541
2028	4,106
	$ 145,761

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	September 30,	
	2023	2022
Payroll and benefits	$ 152,898	$ 165,437
Operating lease liabilities, current	41,421	42,523
Income and other tax accruals	34,504	41,217
Other	54,067	60,642
	$ 282,890	$ 309,819

Other Long-term Liabilities

Other long-term liabilities consist of the following (in thousands):

	September 30,	
	2023	2022
Income taxes payable	$ 73,751	$ 59,553
Other	8,822	8,157
	$ 82,573	$ 67,710

6. Debt Facilities

Term Credit Agreement

In connection with the acquisition of Shape, on January 24, 2020, the Company entered into a Term Credit Agreement ("Term Credit Agreement") with certain institutional lenders that provides for a senior unsecured term loan facility in an aggregate principal amount of $400.0 million (the "Term Loan Facility"). The Term Loan Facility had an original maturity date of January 24, 2023 with quarterly installments equal to 1.25% of the original principal amount. Borrowings under the Term Loan Facility bore interest at a rate equal to LIBOR, plus an applicable margin of 1.125% to 1.75% depending on the Company's leverage ratio. The proceeds from the Term Loan Facility were primarily used to finance the acquisition of Shape and related expenses. In connection with the Term Loan Facility, the Company incurred $2.2 million in debt issuance costs, which were recorded as a reduction to the carrying value of the principal amount of the debt.

On December 15, 2022, the Company voluntarily prepaid, in full, all borrowings under the Term Loan Facility, including the outstanding principal balance of $350.0 million, and all accrued, but unpaid interest outstanding of $3.0 million. All remaining debt issuance costs were amortized to interest expense associated with the prepayment. As a result of the payoff of its Term Loan Facility, the Company was released of any and all obligations, maintenance of covenants, and indebtedness under the Term Credit Agreement. The weighted average interest rate on the principal amount under the Term Loan Facility outstanding balance was 4.072% for the period of October 1, 2022 to December 15, 2022.

As of September 30, 2022, $350.0 million of principal amount under the Term Loan Facility was outstanding, excluding unamortized debt issuance costs of $0.2 million. The outstanding principal amount was included in current liabilities on the Company's consolidated balance sheet as of September 30, 2022. The weighted average interest rate on the principal amount under the Term Loan Facility outstanding balance was 2.190% and 1.361% for the fiscal years ended September 30, 2022 and 2021, respectively.

Revolving Credit Agreement

On January 31, 2020, the Company entered into a Revolving Credit Agreement (the "Revolving Credit Agreement") that provides for a senior unsecured revolving credit facility in an aggregate principal amount of $350.0 million (the "Revolving Credit Facility"). The Company has the option to increase commitments under the Revolving Credit Facility from time to time, subject to certain conditions, by up to $150.0 million. Historically, borrowings under the Revolving Credit Facility bore interest at a rate equal to, at the Company's option, (a) LIBOR, adjusted for customary statutory reserves, plus an applicable margin of 1.125% to 1.75% depending on the Company's leverage ratio, or (b) an alternate base rate determined in accordance with the Revolving Credit Agreement, plus an applicable margin of 0.125% to 0.750% depending on the Company's leverage ratio. On May 26, 2023, the Company amended the Revolving Credit Agreement as a result of the cessation of the LIBOR borrowing reference rate. The amendment modified and directly replaced the LIBOR borrowing reference rate within the Revolving Credit Agreement to the Secured Overnight Financing Rate ("SOFR"). After the amendment, borrowings under the Revolving Credit

Facility bear interest at a rate equal to, at the Company's option, (a) SOFR plus 0.10%, plus an applicable margin of 1.125% to 1.75% depending on the Company's leverage ratio, or (b) an alternate base rate determined in accordance with the Revolving Credit Agreement, plus an applicable margin of 0.125% to 0.750% depending on the Company's leverage ratio. The Revolving Credit Agreement also requires payment of a commitment fee calculated at a rate per annum of 0.125% to 0.300% depending on the Company's leverage ratio on the undrawn portion of the Revolving Credit Facility. Commitment fees incurred during fiscal years 2023, 2022 and 2021 were not material.

The Revolving Credit Facility matures on January 31, 2025, at which time any remaining outstanding principal of borrowings under the Revolving Credit Facility is due. The Company has the option to request up to two extensions of the maturity date in each case for an additional period of one year. Among certain affirmative and negative covenants provided in the Revolving Credit Agreement, there is a financial covenant that requires the Company to maintain a leverage ratio, calculated as of the last day of each fiscal quarter, of consolidated total indebtedness to consolidated EBITDA. As of September 30, 2023, the Company was in compliance with all covenants. As of September 30, 2023, there were no outstanding borrowings under the Revolving Credit Facility, and the Company had available borrowing capacity of $350.0 million.

7. Leases

The majority of the Company's operating lease payments relate to its corporate headquarters in Seattle, Washington, which includes approximately 515,000 square feet of office space. The lease commenced in April 2019 and expires in 2033 with an option for renewal. The Company also leases additional office and lab space for product development and sales and support personnel in the United States and internationally. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The components of the Company's operating lease expenses for the years ended September 30, 2023, 2022, and 2021 were as follows (in thousands):

	Fiscal year ended September 30,		
	2023	2022	2021
Operating lease expense	$ 47,036	$ 47,302	$ 47,993
Short-term lease expense	2,986	2,465	2,953
Variable lease expense	23,139	23,209	25,200
Total lease expense	$ 73,161	$ 72,976	$ 76,146

Variable lease expense primarily consists of common area maintenance, real estate taxes and parking expenses.

Supplemental balance sheet information related to the Company's operating leases was as follows (in thousands, except lease term and discount rate):

	September 30,	
	2023	2022
Operating lease right-of-use assets, net	$ 195,471	$ 227,475
Operating lease liabilities, current[1]	41,421	42,523
Operating lease liabilities, long-term	239,565	272,376
Total operating lease liabilities	$ 280,986	$ 314,899
Weighted average remaining lease term (in years)	8.6	9.2
Weighted average discount rate	2.77 %	2.66 %

(1) Current portion of operating lease liabilities is included in accrued liabilities on the Company's consolidated balance sheets.

As of September 30, 2023, the future operating leases payments for each of the next five years and thereafter is as follows (in thousands):

Fiscal Years Ending September 30:	Operating Lease Payments
2024	$ 48,709
2025	41,095
2026	31,559
2027	30,394
2028	28,340
Thereafter	138,797
Total lease payments	318,894
Less: imputed interest	(37,908)
Total lease liabilities	$ 280,986

Operating lease liabilities above do not include sublease income. As of September 30, 2023, the Company expects to receive sublease income of approximately $14.7 million, which consists of $7.3 million to be received in fiscal year 2024 and $7.4 million to be received over the two fiscal years thereafter.

During the year ended September 30, 2023, the Company recorded an impairment of $3.5 million against the operating lease right-of-use asset related to its third quarter of fiscal 2023 restructuring plan, see Note 13, Restructuring Charges. There were no impairments against right-of-use assets for the year ended September 30, 2022. During the year ended September 30, 2021, the Company recorded an impairment of $23.5 million against the operating lease right-of-use asset related to the exit of six floors in its corporate headquarters. The Company also recorded an impairment of $6.7 million against the right-of-use asset related to the integration of the former Shape headquarters in Santa Clara, California.

As of September 30, 2023, the Company had no significant operating leases that were executed but not yet commenced.

8. Income Taxes

The United States and international components of income before income taxes are as follows (in thousands):

	Years Ended September 30,		
	2023	2022	2021
United States	$ 268,314	$ 217,323	$ 189,398
International	217,674	168,070	197,539
	$ 485,988	$ 385,393	$ 386,937

The provision for income taxes consists of the following (in thousands):

	Years Ended September 30,		
	2023	2022	2021
Current			
U.S. federal	$ 115,170	$ 35,259	$ 53,107
State	18,359	14,592	16,686
Foreign	66,053	54,079	62,832
Total	199,582	103,930	132,625
Deferred			
U.S. federal	(89,280)	(28,721)	(61,739)
State	(18,576)	(11,332)	(15,294)
Foreign	(686)	(644)	104
Total	(108,542)	(40,697)	(76,929)
	$ 91,040	$ 63,233	$ 55,696

The effective tax rate differs from the U.S. federal statutory rate as follows (in thousands):

	Years Ended September 30,		
	2023	2022	2021
Income tax provision at statutory rate	$ 102,058	$ 80,933	$ 81,257
State taxes, net of federal benefit	6,806	6,012	5,118
Tax impact of foreign operations	(20,230)	(21,435)	(26,881)
Research and development and other credits	(19,198)	(18,917)	(18,055)
Stock-based and other compensation	20,145	15,070	12,740
Other	1,459	1,570	1,517
	$ 91,040	$ 63,233	$ 55,696

The Company does not maintain an indefinite reinvestment assertion on unremitted foreign earnings and has recorded a deferred tax liability for any estimated foreign, federal, or state tax liabilities associated with a future repatriation of foreign earnings.

The Company benefits from tax incentive arrangements in certain foreign jurisdictions, one of which expired in fiscal year 2021 and the rest of which expire in fiscal years 2026 to 2034. The tax incentive agreements are conditional upon meeting certain operational, employment, and investment requirements. These arrangements decreased foreign taxes by $6.0 million, $8.5 million and $6.0 million, and increased diluted earnings per common share by $0.10, $0.14 and $0.10 for the years ended September 30, 2023, 2022 and 2021, respectively.

The tax effects of the temporary differences that give rise to the deferred tax assets and liabilities are as follows (in thousands):

	Years Ended September 30,	
	2023	2022
Deferred tax assets		
Net operating loss carry-forwards	$ 40,201	$ 42,849
Capitalized research and development costs	267,744	158,206
Accrued compensation and benefits	11,995	14,068
Stock-based compensation	8,875	10,389
Deferred revenue	42,544	32,244
Lease liabilities	62,405	67,520
Other accruals and reserves	22,723	18,797
Tax credit carryforwards	23,883	28,858
Depreciation	531	505
	480,901	373,436
Valuation allowance	(43,942)	(46,136)
	436,959	327,300
Deferred tax liabilities		
Purchased intangibles	(55,519)	(57,350)
Depreciation	(28,113)	(22,278)
Deferred costs	(11,031)	(12,987)
Lease assets	(41,709)	(45,948)
Other accruals and reserves	(9,916)	(8,153)
	(146,288)	(146,716)
Net deferred tax assets	$ 290,671	$ 180,584

At September 30, 2023, the Company had foreign net operating loss carryforwards of approximately $56.9 million that can be carried forward indefinitely, and $0.3 million that will expire in fiscal years 2038 to 2039. The Company had $79.8 million of federal net operating loss carryforwards, of which $56.4 million can be carried forward indefinitely and $23.4 million that will expire in fiscal years 2033 to 2038. The annual utilization of the federal net operating loss carryforwards is limited under Internal Revenue Code Section 382. The Company also had $238.8 million of state net operating loss carryforwards, of which $47.0 million can be carried forward indefinitely and $191.8 million will expire in fiscal years 2029 to 2043. In addition, there are $0.2 million of foreign credit carryforwards that can be carried forward indefinitely, $3.2 million of foreign credit carryforwards that will expire in fiscal years 2024 to 2039, $3.2 million of federal credit carryforwards that will expire in fiscal years 2033 to 2041, $30.2 million of state tax credit carryforwards that can be carried forward indefinitely, and $3.7 million of state tax credit carryforwards that will expire in fiscal years 2032 to 2038. Management believes that it is more likely than not that the benefit from certain foreign net operating loss and credit carryforwards and state tax net operating loss and credit carryforwards will not be realized. In recognition of this risk, the Company has provided a valuation allowance on the deferred tax assets relating to these carryforwards. The net change in the total valuation allowance was a decrease of $2.2 million and an increase of $5.7 million for years ended September 30, 2023 and 2022, respectively.

The Company recognizes the financial statement impact of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest impact that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

The following table provides a reconciliation of the beginning and ending amount of unrecognized tax benefits in fiscal years 2023, 2022 and 2021 (in thousands):

	2023	2022	2021
Balance, beginning of period	$ 66,840	$ 70,814	$ 51,767
Gross increases related to prior period tax positions	4,270	4,816	14,867
Gross decreases related to prior period tax positions	(70)	(10,538)	—
Gross increases related to current period tax positions	9,224	10,203	12,595
Decreases relating to settlements with tax authorities	(300)	—	(321)
Reductions due to lapses of statute of limitations	(797)	(8,455)	(8,094)
Balance, end of period	$ 79,167	$ 66,840	$ 70,814

The total amount of gross unrecognized tax benefits was $79.2 million, $66.8 million, and $70.8 million as of September 30, 2023, 2022, and 2021, respectively, of which, $51.2 million, $43.2 million, and $39.2 million, if recognized, would affect the effective tax rate. There is a reasonable possibility that the Company's unrecognized tax benefits will change within twelve months due to audit settlements or the expiration of statute of limitations, but the Company does not expect the change to be material to the consolidated financial statements.

The Company recognizes interest and, if applicable, penalties (not included in the "unrecognized tax benefits" table above) for any uncertain tax positions. Interest and penalties are recorded as a component of income tax expense. In the years ended September 30, 2023, 2022 and 2021, the Company recorded approximately a $3.3 million increase, $1.5 million decrease and $1.4 million increase, respectively, of interest and penalty expense related to uncertain tax positions. As of September 30, 2023 and 2022, the Company had a cumulative balance of accrued interest and penalties on unrecognized tax positions of $6.2 million and $2.9 million, respectively.

The Company and its subsidiaries are subject to U.S. federal income tax as well as the income tax of multiple state and foreign jurisdictions. The Company has concluded all U.S. federal income tax matters for fiscal years through September 30, 2018. Major jurisdictions where there are wholly owned subsidiaries of F5, Inc. which require income tax filings include the United Kingdom, Singapore, Israel, and India. The earliest periods open for review by local taxing authorities are fiscal years 2022 for the United Kingdom, 2018 for Singapore, 2013 for Israel, and 2018 for India. The Company is currently under audit by the Internal Revenue Service for fiscal year 2019, by various states for fiscal years 2015 through 2022, and by various foreign jurisdictions including India for fiscal years 2018 to 2022, Israel for fiscal years 2013 to 2017, Saudi Arabia for fiscal years 2015 to 2020, and Singapore for fiscal years 2019 to 2020.

9. Shareholders' Equity

Common Stock Repurchase

On July 25, 2022, the Company announced that its Board of Directors authorized an additional $1.0 billion for its common stock share repurchase program. This authorization is incremental to the existing $5.4 billion program, initially approved in October 2010 and expanded in subsequent fiscal years. Acquisitions for the share repurchase programs will be made from time to time in private transactions, accelerated share repurchase programs, or open market purchases as permitted by securities laws and other legal requirements. The programs can be terminated at any time.

On February 3, 2021, the Company entered into Accelerated Share Repurchase ("ASR") agreements with two financial institutions under which the Company paid an aggregate of $500 million. The ASR agreements were accounted for as two separate transactions (1) a repurchase of common stock and (2) an equity-linked contract on the Company's own stock. Upon execution of the ASR agreements, the Company received an initial delivery of 2.1 million shares for an aggregate price of $400 million, based on the market price of $194.91 per share of the Company's common stock on the date of the transaction. The initial shares received by the Company were retired immediately upon receipt. The equity-linked contract for the remaining $100 million, representing remaining shares to be delivered by the financial institutions under the ASR agreements, was recorded to common stock as of March 31, 2021 and was settled in the third quarter of fiscal 2021 with the Company receiving 449,049 additional shares, which were retired immediately upon receipt. The total ASR resulted in a repurchase of 2.5 million shares of the Company's common stock at a volume weighted average repurchase price, less an agreed upon discount, of $199.90 per share. The shares received by the Company were retired, accounted for as a reduction to stockholder's equity in the consolidated balance sheets, and treated as a repurchase of common stock for purposes of calculating earnings per share. The Company was not required to make any additional cash payments or delivery of common stock to the financial institutions upon settlement of the agreements.

The following table summarizes the Company's repurchases and retirements of its common stock under its Stock Repurchase Program, including the ASR (in thousands, except per share data):

	Years Ended September 30,		
	2023	2022	2021
Shares repurchased	2,454	2,611	2,501
Average price per share	$ 142.62	$ 191.47	$ 199.90
Amount repurchased	$ 350,049	$ 500,023	$ 500,000

As of September 30, 2023, the Company had $922 million remaining authorized to purchase shares under its share repurchase program.

10. Stock-based Compensation

The Company recognized $236.7 million, $249.2 million and $243.3 million of stock-based compensation expense for the fiscal years ended September 30, 2023, 2022 and 2021, respectively. The income tax benefit recognized on stock-based compensation within income tax expense was $44.7 million, $47.3 million and $44.1 million for the fiscal years ended September 30, 2023, 2022 and 2021, respectively. As of September 30, 2023, there was $162.7 million of total unrecognized stock-based compensation cost, the substantial majority of which will be recognized over approximately two years. Going forward, stock-based compensation expenses may increase as the Company issues additional equity-based awards to continue to attract and retain key employees. On October 31, 2023, the Company's Board of Directors and Talent and Compensation Committee approved 1,256,510 RSUs to employees and executive officers pursuant to the Company's annual equity awards program.

Company has adopted a number of stock-based compensation plans as discussed below.

2011 Employee Stock Purchase Plan. In April 2012, the Board of Directors amended and restated the Company's 1999 Employee Stock Purchase Plan, or the Employee Stock Purchase Plan. A total of 12,000,000 shares of common stock have been reserved for issuance under the Employee Stock Purchase Plan. The Employee Stock Purchase Plan permits eligible employees to acquire shares of the Company's common stock through periodic payroll deductions of up to 15% of base compensation. No employee may purchase more than 10,000 shares during an offering period. In addition, no employee may purchase more than $25,000 worth of stock, determined by the fair market value of the shares at the time such option is granted, in one calendar year. The Employee Stock Purchase Plan has been implemented in a series of offering periods, each 6 months in duration. The price at which the common stock may be purchased is 85% of the lesser of the fair market value of the Company's common stock on the first day of the applicable offering period or on the last day of the respective purchase period. As of September 30, 2023 there were 2,444,575 shares available for awards under the Employee Stock Purchase Plan.

In determining the fair value of the right to purchase under the Employee Stock Purchase Plan, the Company uses the Black-Scholes option pricing model that employs the following key assumptions:

	Employee Stock Purchase Plan Years Ended September 30,		
	2023	2022	2021
Risk-free interest rate	3.18% - 4.90%	0.05% - 0.62%	0.07% - 0.13%
Expected dividend	—	—	—
Expected term	0.5 years	0.5 years	0.5 years
Expected volatility	33.02% - 38.15%	26.34% - 31.57%	29.67% - 37.22%

Acquisition Related Incentive Plans. In May 2019, the Company adopted the Nginx Acquisition Equity Incentive Plan, or the Nginx Acquisition Plan. The Nginx Acquisition Plan provided for discretionary grants of stock options and stock units for employees, directors and consultants of Nginx, Inc. to whom the Company offered employment in connection with the Company’s acquisition of Nginx. A total of 183,061 shares of common stock were reserved for issuance under the Nginx Acquisition Plan. Upon certain changes in control of the Company, the surviving entity will either assume or substitute all outstanding stock awards under the Nginx Acquisition Plan or the vesting of 50% of the stock awards shall be accelerated. During the fiscal year 2023, the Company issued no stock options or restricted stock units under the Nginx Acquisition Plan. As of September 30, 2023, there were no options outstanding and 19 stock units outstanding. The Company terminated the Nginx Acquisition Plan effective October 31, 2019 and no additional shares may be issued from the Nginx Acquisition Plan.

In connection with the Company’s acquisition of Nginx, Inc. in the third quarter of fiscal year 2019, the Company assumed the Nginx Inc. 2011 Share Plan, or the Nginx Plan. Unvested options to acquire Nginx's common stock and unvested stock units with respect to Nginx’s common stock were converted into options to acquire the Company’s common stock and stock units with respect to the Company’s stock in connection with the acquisition. A total of 302,634 shares of common stock were reserved for issuance under the Nginx Plan (including converted options and stock units). The Nginx Plan provided for grants of stock options, stock awards and stock units to persons who were employees, officers, directors and consultants to Nginx, Inc. prior to May 8, 2019. During the fiscal year 2023, the Company issued no stock options or restricted stock units under the Nginx Plan. As of September 30, 2023, there were options to purchase 6,010 shares outstanding and no stock units outstanding. The Company terminated the Nginx Plan effective October 31, 2019 and no additional shares may be issued from the Nginx Plan.

In January 2020, the Company adopted the Shape Acquisition Equity Incentive Plan, or the Shape Acquisition Plan. The Shape Acquisition Plan provided for discretionary grants of stock options and stock units for employees, directors and consultants of Shape Security, Inc. to whom the Company offered employment in connection with the Company’s acquisition of Shape. A total of 450,000 shares of common stock were reserved for issuance under the Shape Acquisition Plan. Upon certain changes in control of the Company, the surviving entity will either assume or substitute all outstanding stock awards under the Shape Acquisition Plan or the vesting of 50% of the stock awards shall be accelerated. During the fiscal year 2023, the Company issued no stock options or restricted stock units under the Shape Acquisition Plan. As of September 30, 2023, there were no options outstanding and 20,754 stock units outstanding. The Company terminated the Shape Acquisition Plan effective December 28, 2020 and no additional shares may be issued from the Shape Acquisition Plan.

In connection with the Company’s acquisition of Shape Security, Inc. in the second quarter of fiscal year 2020, the Company assumed the Shape 2011 Stock Plan, or the Shape Plan. Unvested options to acquire Shape’s common stock and unvested stock units with respect to Shape’s common stock were converted into options to acquire the Company’s common stock and stock units with respect to the Company’s stock in connection with the acquisition. A total of 501,085 shares of common stock were reserved for issuance under the Shape Plan (including converted options and stock units). The Shape Plan provided for grants of stock options, stock awards and stock units to persons who were employees, officers, directors and consultants to Shape Security, Inc. prior to January 24, 2020. During the fiscal year 2023, the Company issued no stock options or restricted stock units under the Shape Plan. As of September 30, 2023, there were options to purchase 51,144 shares outstanding and no stock units outstanding. The Company terminated the Shape Plan effective December 28, 2020 and no additional shares may be issued from the Shape Plan.

In January 2021, the Company adopted the Volterra Acquisition Equity Incentive Plan, or the Volterra Acquisition Plan. The Volterra Acquisition Plan provided for discretionary grants of stock options and stock units for employees, directors and consultants of Volterra, Inc. to whom the Company offered employment in connection with the Company's acquisition of Volterra. A total of 140,000 shares of common stock were reserved for issuance under the Volterra Acquisition Plan. Upon certain changes in control of the Company, the surviving entity will either assume or substitute all outstanding stock awards under the Volterra Acquisition Plan or the vesting of 50% of the stock awards shall be accelerated. During the fiscal year 2023, the Company issued no stock options or restricted stock units under the Volterra Acquisition Plan. As of September 30, 2023, there were no options outstanding and 39,472 stock units outstanding. The Company terminated the Volterra Acquisition Plan effective October 29, 2021 and no additional shares may be issued from the Volterra Acquisition Plan.

In connection with the Company's acquisition of Volterra, Inc. in the second quarter of fiscal year 2021, the Company assumed the Volterra 2017 Stock Plan, or the Volterra Plan. Unvested options to acquire Volterra's common stock and unvested stock units with respect to Volterra's common stock were converted into options to acquire the Company's common stock and stock units with respect to the Company's stock in connection with the acquisition. A total of 261,696 shares of common stock were reserved for issuance under the Volterra Plan (including converted options and stock units). The Volterra Plan provided for grants of stock options, stock awards and stock units to persons who were employees, officers, directors and consultants to Volterra, Inc. prior to January 22, 2021. During the fiscal year 2023, the Company issued no stock options or restricted stock units under the Volterra Plan. As of September 30, 2023, there were options to purchase 46,778 shares outstanding and 7,171 stock units outstanding. The Company terminated the Volterra Plan effective October 29, 2021 and no additional shares may be issued from the Volterra Plan.

In November 2021, the Company adopted the Threat Stack Acquisition Equity Incentive Plan, or the Threat Stack Acquisition Plan. The Threat Stack Acquisition Plan provided for discretionary grants of stock options and stock units for employees, directors and consultants of Threat Stack to whom the Company offered employment in connection with the Company's acquisition of Threat Stack. A total of 35,000 shares of common stock were reserved for issuance under the Threat Stack Acquisition Plan. Upon certain changes in control of the Company, the surviving entity will either assume or substitute all outstanding stock awards under the Threat Stack Acquisition Plan or the vesting of 50% of the stock awards shall be accelerated. During the fiscal year 2023, the Company issued no stock options or restricted stock units under the Threat Stack Acquisition Plan. As of September 30, 2023, there were no options outstanding and 6,915 stock units outstanding. The Company terminated the Threat Stack Acquisition Equity Incentive Plan effective January 10, 2022 and no additional shares may be issued from the Threat Stack Acquisition Plan.

In February 2023, the Company adopted the Lilac Acquisition Equity Incentive Plan, or the Lilac Acquisition Plan. The Lilac Acquisition Plan provided for discretionary grants of stock options and stock units for employees, directors and consultants of Lilac Cloud, Inc. to whom the Company offered employment in connection with the Company's acquisition of Lilac. A total of 55,000 shares of common stock were reserved for issuance under the Lilac Acquisition Plan. Upon certain changes in control of the Company, the surviving entity will either assume or substitute all outstanding stock awards under the Lilac Acquisition Plan or the vesting of 50% of the stock awards shall be accelerated. During the fiscal year 2023, the Company issued no stock options and 47,904 restricted stock units under the Lilac Acquisition Plan. As of September 30, 2023, there were no options outstanding and 47,904 stock units outstanding. The Company terminated the Lilac Acquisition Plan effective October 31, 2023 and no additional shares may be issued from the Lilac Acquisition Plan.

In connection with the Company's acquisition of Lilac Cloud, Inc. in the second quarter of fiscal year 2023, the Company assumed the Lilac Cloud 2018 Equity Incentive Plan, or the Lilac Plan. Unvested options to acquire Lilac's common stock and unvested stock units with respect to Lilac's common stock were converted into options to acquire the Company's common stock and stock units with respect to the Company's stock in connection with the acquisition. A total of 4,485 shares of common stock were reserved for issuance under the Lilac Plan (including converted options and stock units). The Lilac Plan provided for grants of stock options, stock awards and stock units to persons who were employees, officers, directors and consultants to Lilac Cloud, Inc. prior to February 1, 2023. During the fiscal year 2023, the Company issued 2,051 stock options and no restricted stock units under the Lilac Plan. As of September 30, 2023, there were options to purchase 1,936 shares outstanding and no stock units outstanding. The Company terminated the Lilac Plan effective October 31, 2023 and no additional shares may be issued from the Lilac Plan.

F5, Inc. Incentive Plan. In March 2022, the Company adopted the F5, Inc. Incentive Plan, or the Plan, which amended and restated the 2014 Incentive Plan. The Plan provides for discretionary grants of stock options, stock units and other equity and cash-based awards for employees, including officers, directors and consultants. A total of 27,880,000 shares of common stock have been reserved for issuance under the Plan. Upon certain changes in control of the Company, all outstanding and unvested options or stock awards under the Plan will vest at the rate of 50%, unless assumed or substituted by the acquiring entity. During the fiscal year 2023, the Company issued no stock options, 131,491 performance stock units and 1,448,427 restricted stock units under the Plan. As of September 30, 2023, there were no options outstanding, 199,918 performance stock units outstanding, 1,225,386 restricted stock units outstanding and 5,287,273 shares available for new awards under the Plan.

A summary of restricted stock unit activity under the Plan is as follows:

	Performance Stock Units		Restricted Stock Units	
	Outstanding Performance Stock Units	Weighted Average Grant Date Fair Value	Outstanding Restricted Stock Units	Weighted Average Grant Date Fair Value
Balance, September 30, 2022	208,116	$ 169.99	1,137,619	$ 184.59
Units granted	131,491	145.02	1,448,427	145.10
Units vested	(92,677)	144.69	(1,113,259)	147.10
Units cancelled	(47,012)	171.07	(247,401)	162.80
Balance, September 30, 2023	199,918	$ 159.37	1,225,386	$ 156.89

A majority of the restricted stock units the Company grants to its employees vest quarterly over a two-year period. The performance stock units, restricted stock units and stock options under all plans were granted during fiscal years 2023, 2022 and 2021 with a per-share weighted average fair value of $144.78, $206.13 and $145.89, respectively. The fair value of performance stock units and restricted stock units vested during fiscal years 2023, 2022 and 2021 was $195.9 million, $262.4 million and $261.9 million, respectively. In determining the fair value of the portion of the performance awards based on Total Shareholder Return, the Company uses a Monte Carlo simulation model that employs the following key assumptions:

				Expected Volatility		
Grant Date	Fair Value per Share	Expected Term (in years)	Risk-Free Interest Rate	F5	Index Members	Expected Dividend
November 1, 2022						
Tranche 1	$ 157.36	0.91	4.66 %	37.17 %	35.56 %	—
Tranche 2	$ 173.68	1.91	4.51 %	31.84 %	31.74 %	—
Tranche 3	$ 194.41	2.91	4.44 %	35.50 %	40.59 %	—

As of September 30, 2023, the following annual equity grants for executive officers or a portion thereof are outstanding:

Grant Date	RSUs Granted	Vesting Schedule	Vesting Period	Date Fully Vested
November 1, 2022	240,808	Quarterly, Annually[1,2]	3 years	November 1, 2025
November 1, 2021	160,384	Quarterly, Annually[1,2]	3 years	November 1, 2024
November 2, 2020	257,568	Quarterly, Annually[1]	3 years	November 1, 2023
November 1, 2019	228,616	Quarterly, Annually[1]	3 years	November 1, 2022

(1) 50% of the annual equity grant vests in equal quarterly increments and 50% is subject to the Company achieving specified annual performance goals.

(2) For the Company's Chief Executive Officer, 40% of the annual equity grant vests in equal quarterly increments and 60% is subject to the Company achieving specified annual performance goals.

A summary of stock option activity under all of the Company's plans is as follows:

	Options Outstanding	
	Number of Shares	Weighted Average Exercise Price per Share
Balance, September 30, 2022	164,796	$ 33.34
Options granted	2,051	4.55
Options exercised	(56,516)	26.38
Options cancelled	(4,463)	61.35
Balance, September 30, 2023	105,868	$ 35.31

All stock options granted in fiscal years 2023 and 2021 were replacement awards of those assumed as part of business acquisitions. There were no stock options granted in fiscal year 2022.

The total intrinsic value of options exercised during fiscal 2023, 2022 and 2021 was $6.9 million, $25.6 million and $25.6 million, respectively.

A summary of options outstanding that are exercisable and that have vested and are expected to vest as of September 30, 2023 is as follows:

	Number of Shares	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price per Share	Aggregate Intrinsic Value(1)
				(In thousands)
Stock options outstanding	105,868	5.62	$ 35.31	$ 13,321
Exercisable	99,067	5.54	$ 35.47	$ 12,449
Vested and expected to vest	105,561	5.61	$ 35.36	$ 13,277

(1) Aggregate intrinsic value represents the difference between the fair value of the Company's common stock underlying these options at September 30, 2023 and the related exercise prices.

As of September 30, 2023, equity based awards (including stock options and restricted stock units) are available for future issuance as follows:

	Awards Available for Grant
Balance, September 30, 2022	2,072,778
Granted	(1,629,873)
Cancelled	349,715
Additional shares reserved (terminated), net	4,504,183
Balance, September 30, 2023	5,296,803

11. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of common and dilutive common stock equivalent shares outstanding during the period. The Company's nonvested restricted stock units do not have nonforfeitable rights to dividends or dividend equivalents and are not considered participating securities that should be included in the computation of earnings per share under the two-class method.

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

	Years Ended September 30,		
	2023	2022	2021
Numerator			
Net income	$ 394,948	$ 322,160	$ 331,241
Denominator			
Weighted average shares outstanding — basic	59,909	60,274	60,707
Dilutive effect of common shares from stock options and restricted stock units	361	823	1,350
Weighted average shares outstanding — diluted	60,270	61,097	62,057
Basic net income per share	$ 6.59	$ 5.34	$ 5.46
Diluted net income per share	$ 6.55	$ 5.27	$ 5.34

Anti-dilutive stock-based awards excluded from the calculations of diluted earnings per share were not material for the years ended September 30, 2023, 2022 and 2021.

12. Commitments and Contingencies

Purchase Obligations

In October 2022, the Company entered into an unconditional purchase commitment with one of its suppliers for the delivery of systems components. Under the terms of the agreement, the Company is obligated to purchase $10 million of component inventory annually, with a total committed amount of $40 million over a four-year term. As of September 30, 2023, the Company had no remaining purchase commitments under the first year of the agreement. The Company's total non-cancelable long-term purchase commitments outstanding as of September 30, 2023 was $30.0 million.

Litigation

Lynwood Investment CY Limited v. F5 Networks et al.

On June 8, 2020, Lynwood Investment CY Limited ("Lynwood") filed a lawsuit in the United States District Court for the Northern District of California against the Company and certain affiliates, along with other defendants. In its complaint, Lynwood claims to be the assignee of all rights and interests of Rambler Internet Holding LLC ("Rambler"), and alleges that the intellectual property in the NGINX software originally released by the co-founder of NGINX in 2004 belongs to Rambler (and therefore Lynwood, by assignment) because the software was created and developed while the co-founder was employed by Rambler. Lynwood asserted 26 causes of action against the various defendants, including copyright infringement, violation of trademark law, tortious interference, conspiracy, and fraud. The complaint sought damages, disgorgement of profits, declarations of copyright and trademark ownership, trademark cancellations, and injunctive relief. Lynwood also initiated several trademark opposition and cancellation proceedings before the Trademark Trial and Appeal Board of the United States Patent and Trademark Office, which have all since been suspended.

In August and October 2020, the Company and the other defendants filed motions to dismiss Lynwood's case. On March 25 and 30, 2021, the Court granted the Company's and the other defendants' motions to dismiss with leave to amend. Lynwood filed its amended complaint on April 29, 2021, seeking the same relief against the Company and other defendants. On May 27, 2021, the Company and other defendants filed a consolidated motion to dismiss.

The Court granted the consolidated motion to dismiss without leave to amend on August 16, 2022 and entered final judgment against Lynwood on September 9, 2022. On September 14, 2022, Lynwood filed a notice of appeal to the Ninth Circuit Court of Appeals to appeal the dismissal. Lynwood filed its opening brief on December 16, 2022. The Company filed its opening appellate brief on April 10, 2023, and Lynwood filed its reply on May 31, 2023.

Following the Court's order granting the consolidated motion to dismiss and final judgment in the Company's favor, the Court subsequently granted the Company attorneys' fees of over $0.8 million, which Lynwood appealed to the Ninth Circuit Court of Appeals. The Appeal is ongoing. Both the dismissal appeal and the fees appeal are set to be heard by the Ninth Circuit Court of Appeals on December 7, 2023.

In addition to the above matters, the Company is subject to a variety of legal proceedings, claims, investigations, and litigation arising in the ordinary course of business, including intellectual property litigation. Management believes that the Company has meritorious defenses to the allegations made in its pending cases and intends to vigorously defend these lawsuits; however, the Company is unable to currently determine if an unfavorable outcome is probable or estimate any potential amount or range of possible loss of these or similar matters. There are many uncertainties associated with any litigation and these actions or other third-party claims against the Company may cause it to incur costly litigation and/or substantial settlement charges that could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

The Company records an accrual for loss contingencies for legal proceedings when it believes that an unfavorable outcome is both (a) probable and (b) the amount or range of any possible loss is reasonably estimable. The Company has not recorded any accrual for loss contingencies associated with such legal proceedings or the investigations discussed above.

13. Restructuring Charges

In the third quarter of fiscal 2023, the Company initiated a restructuring plan to better align strategic and financial objectives, optimize operations, and drive efficiencies for long-term growth and profitability, including a reduction in force affecting approximately 620 employees, or approximately 9% of the Company’s global workforce as of April 19, 2023. This included $53.2 million in severance benefits costs and related employer payroll taxes, and $3.5 million in charges related to the reduction of its leased facility space. The Company incurred $56.7 million in restructuring costs in the third quarter of fiscal 2023. For the year ended September 30, 2023, cash paid for severance benefits costs and related employer payroll taxes was $49.7 million. Remaining accrued expenses for the third quarter of fiscal 2023 restructuring plan was $3.5 million as of September 30, 2023. The Company does not expect to record any significant future charges related to the third quarter of fiscal 2023 restructuring plan.

In the first quarters of fiscal 2023 and 2022, the Company initiated restructuring plans to match strategic and financial objectives and optimize resources for long term growth, including a reduction in force program. In the first quarter of fiscal 2023, the Company recorded a restructuring charge of $8.7 million. The Company did not record any significant future charges related to the first quarter of fiscal 2023 restructuring plan. In the first quarter of fiscal 2022, the Company recorded a restructuring charge of $7.9 million. The Company did not record any significant subsequent charges related to the first quarter of fiscal 2022 restructuring plan.

Charges related to employee severance, benefits, and related costs; as well as charges related to the reduction of the Company’s leased facilities are reflected in the restructuring charges line item on the Company's consolidated income statements.

14. Employee Benefit Plans

The Company has a 401(k) savings plan whereby eligible employees may voluntarily contribute a percentage of their compensation. The Company may, at its discretion, match a portion of the employees’ eligible contributions. Contributions by the Company to the plan during the years ended September 30, 2023, 2022, and 2021 were approximately $13.7 million, $14.0 million and $13.2 million, respectively. Contributions made by the Company vest over four years.

15. Segment Information

Revenues by Geographic Location and Other Information

The Company does business in three main geographic regions: the Americas (primarily the United States); Europe, the Middle East, and Africa ("EMEA"); and the Asia Pacific region ("APAC"). The Company’s chief operating decision-maker reviews financial information presented on a consolidated basis accompanied by information about net product revenues and revenues by geographic region. The Company’s foreign offices conduct sales, marketing and support activities. Revenues are attributed by geographic location based on the location of the customer.

The following presents revenues by geographic region (in thousands):

	Years Ended September 30,		
	2023	2022	2021
Americas:			
United States	$ 1,487,416	$ 1,487,144	$ 1,365,625
Other	96,958	85,711	92,111
Total Americas	1,584,374	1,572,855	1,457,736
EMEA	741,598	634,759	667,219
Asia Pacific	487,197	488,231	478,461
	$ 2,813,169	$ 2,695,845	$ 2,603,416

The Company continues to offer its products through a range of consumption models, from physical systems to software solutions and managed services. The following presents net product revenues by systems and software (in thousands):

	Years Ended September 30,		
	2023	2022	2021
Net product revenues			
Systems revenue	$ 670,652	$ 651,902	$ 748,192
Software revenue	663,986	665,215	498,892
Total net product revenue	$ 1,334,638	$ 1,317,117	$ 1,247,084

The following distributors of the Company's products accounted for more than 10% of total net revenue:

	Years Ended September 30,		
	2023	2022	2021
Ingram Micro, Inc.	15.6 %	20.0 %	19.2 %
Synnex Corporation	15.0 %	13.4 %	11.1 %

The following distributors of the Company's products accounted for more than 10% of total receivables:

	September 30,	
	2023	2022
Ingram Micro, Inc.	—	12.9 %
Synnex Corporation	16.0 %	12.6 %
Carahsoft Technology Corporation	10.1 %	16.2 %

The Company tracks assets by physical location. Long-lived assets consist of property and equipment, net, and are shown below (in thousands):

	September 30,	
	2023	2022
Americas:		
United States	$ 125,736	$ 134,699
Other	2,592	1,773
Total Americas	128,328	136,472
EMEA	24,336	17,376
Asia Pacific	17,758	14,334
	$ 170,422	$ 168,182

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that required information is recorded, processed, summarized and reported within the required timeframe, as specified in the rules set forth by the Securities Exchange Commission. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2023 and, based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2023.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management conducted an assessment of the effectiveness of our internal control over financial reporting as of September 30, 2023. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework (2013)*. Based on the results of this assessment and on those criteria, management concluded that our internal control over financial reporting was effective as of September 30, 2023.

The effectiveness of the Company's internal control over financial reporting as of September 30, 2023, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control over Financial Reporting

During the fourth fiscal quarter, there were no changes to our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Item 9B. ***Other Information***

Rule 10b5-1 and Non-Rule 10b5-1 Trading Arrangements

During the three months ended September 30, 2023, certain of our officers and directors adopted or terminated Rule 10b5-1 trading arrangements as follows:

On August 11, 2023, Frank Pelzer, EVP, Chief Financial Officer, adopted a written plan intended to satisfy the affirmative defense of Rule 10b5-1(c) that is designed to be in effect until October 25, 2024 with respect to the sale of 11,300 Company shares.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

Certain information required by this item regarding the Company's directors and executive officers is incorporated herein by reference to the sections entitled "Board of Directors — Nominees and Continuing Directors," and "— Director Nomination," "Corporate Governance — Governance — Committees of the Board — Audit & Risk Oversight Committee" and "— Code of Ethics for Senior Financial Officers" and "Security Ownership of Certain Beneficial Owners and Management — Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement that will be furnished to the SEC no later than January 29, 2024 (the "Proxy Statement"). Additional information regarding the Company's directors and executive officers is set forth in Item 1 of Part I of this Annual Report on Form 10-K under the caption "Directors and Executive Officers of the Registrant."

Item 11. *Executive Compensation*

The information required by this item is incorporated by reference to the sections entitled "Executive Compensation" and "Corporate Governance — Committees of the Board — Talent and Compensation Committee" and "— Compensation Committee Interlocks and Insider Participation" and "— Compensation Committee Report" in the Proxy Statement.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters*

The information required by this item is incorporated by reference to the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this item is incorporated by reference to the sections entitled "Board of Directors — Director Independence" and "Corporate Governance — Related Person Transactions Policy and Procedures" and "— Certain Relationships and Related Person Transactions" in the Proxy Statement.

Item 14. *Principal Accountant Fees and Services*

The information required by this item is incorporated by reference to the section entitled "Executive Compensation — Fees Paid to PricewaterhouseCoopers LLP" and "— Audit & Risk Oversight Committee Pre-Approval Procedures" and "— Annual Independence Determination" in the Proxy Statement.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) Documents filed as part of this report are as follows:

1. *Consolidated Financial Statements:*

Our Consolidated Financial Statements are listed in the Index to Consolidated Financial Statements.

2. *Financial Statement Schedule:*

Financial statement schedules have been omitted because the information required to be set forth therein is not applicable, material, or is shown in the Consolidated Financial Statements or the notes hereto.

3. *Exhibits:*

The required exhibits are included at the end of this Annual Report on Form 10-K and are described in the Exhibit Index immediately preceding the first exhibit.

Item 16. ***Form 10-K Summary***

Not applicable.

EXHIBIT INDEX

Exhibit Number			Exhibit Description
2.1		—	Merger Agreement, dated December 19, 2019, by and among F5 Networks, Inc., Silhouette Merger Sub, Inc., Shape Security, Inc., and Shareholder Representative Services LLC(1)+
2.2		—	Merger Agreement dated as of January 5, 2021, by and among the Registrant, Voyager Merger Sub Corporation, Volterra, Inc., and Shareholder Representative Services LLC(2)+
3.1		—	Fourth Amended and Restated Articles of Incorporation of the Registrant(3)
3.2		—	Eighth Amended and Restated Bylaws adopted November 12, 2021(4)
4.1		—	Description of the Registrant's Securities(5)
4.2		—	Specimen Common Stock Certificate(6)
10.1	*	—	First Amendment to Revolving Credit Agreement (including the Revolving Credit Agreement, as amended), dated as of May 26, 2023, between F5, Inc. and JPMorgan Chase Bank, N.A., as the Administrative Agent
10.2		—	Office Lease Agreement between the Registrant and Fifth & Columbia Investors, LLC dated May 3, 2017(7)
10.3		—	Form of Indemnification Agreement between the Registrant and each of its directors and certain of its officers(8) §
10.4		—	F5, Inc. Employee Stock Purchase Plan, as amended and restated(9) §
10.5		—	Form of Change of Control Agreement between the Registrant and the executive officers(10) §
10.6		—	F5, Inc. Incentive Plan, as amended and restated(9) §
10.7		—	Nginx, Inc. 2011 Share Plan(11) §
10.8		—	Nginx, Inc. Acquisition Equity Incentive Plan(11) §
10.9		—	Nginx, Inc. Acquisition Equity Incentive Plan Award Agreement(12) §
10.10		—	F5 Networks, Inc. Assumed Shape 2011 Stock Plan(13) §
10.11		—	F5 Networks, Inc. Shape Acquisition Equity Incentive Plan(13) §
10.12		—	Form of 2014 Incentive Plan Award Agreement (Accelerated Vesting) as revised November 2019(14) §
10.13		—	F5 Networks, Inc. Assumed Volterra, Inc. Amended and Restated 2017 Stock Plan(15) §
10.14		—	F5 Networks, Inc. Volterra Acquisition Equity Incentive Plan(15) §
10.15		—	F5 Networks, Inc. Assumed Volterra, Inc. 2019 Restricted Stock Unit Sub-Plan France (sub-plan to the F5 Networks, Inc. Assumed Volterra, Inc. Amended and Restated 2017 Stock Plan)(15) §
10.16		—	F5 Networks, Inc. Threat Stack Acquisition Equity Incentive Plan(16) §
10.17		—	Offer Letter from the Registrant to François Locoh-Donou(17) §
10.18		—	F5, Inc. Assumed Lilac Cloud 2018 Equity Incentive Plan(18) §
10.19		—	F5, Inc. Lilac Acquisition Equity Incentive Plan(18) §
21.1	*	—	Subsidiaries of the Registrant
23.1	*	—	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
31.1	*	—	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	*	—	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	*	—	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
97	*	—	F5, Inc. Incentive Compensation Recovery Policy §
101.INS	*	—	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	*	—	Inline XBRL Taxonomy Extension Schema Document
101.CAL	*	—	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	*	—	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	*	—	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	*	—	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	*	—	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

§ Indicates a management contract or compensatory plan or arrangement.

+ Schedules and annexes have been omitted pursuant to Item 601(a)(5) of Regulation S-K. A copy of any omitted schedule and/or annex will be furnished supplementally to the Securities and Exchange Commission upon request.

(1) Incorporated by reference from Current Report on Form 8-K dated December 19, 2019 and filed with the SEC on December 24, 2019.
(2) Incorporated by reference from Current Report on Form 8-K dated January 5, 2021 and filed with the SEC on January 7, 2021.
(3) Incorporated by reference from Current Report on Form 8-K dated November 12, 2021 and filed with the SEC on November 15, 2021.
(4) Incorporated by reference from Current Report on Form 8-K dated November 12, 2021 and filed with the SEC on November 15, 2021.
(5) Incorporated by reference from Annual Report on Form 10-K for the year ended September 30, 2022.
(6) Incorporated by reference from Exhibit 4.1 of Registration Statement on Form S-1, File No. 333-75817.
(7) Incorporated by reference from Current Report on Form 8-K dated May 3, 2017 and filed with the SEC on May 3, 2017.
(8) Incorporated by reference from Exhibit 10.1 of Registration Statement on Form S-1, File No. 333-75817.
(9) Incorporated by reference from Current Report on Form 8-K dated March 9, 2023 and filed with the SEC on March 10, 2023.
(10) Incorporated by reference from Current Report on Form 8-K dated April 29, 2009 and filed with the SEC on May 4, 2009.
(11) Incorporated by reference from Registration Statement on Form S-8 File No. 333-231802.
(12) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended June 30, 2019.
(13) Incorporated by reference from Registration Statement on Form S-8 File No. 333-236228.
(14) Incorporated by reference from Annual Report on Form 10-K for the year ended September 30, 2020.
(15) Incorporated by reference from Registration Statement on Form S-8 File No. 333-252616.
(16) Incorporated by reference from Registration Statement on Form S-8 File No. 333-260656.
(17) Incorporated by reference from Current Report on Form 8-K dated January 27, 2017 and filed with the SEC on January 30, 2017.
(18) Incorporated by reference from Registration Statement on Form S-8 File No. 333-269532.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

F5, INC.

By: /s/ FRANÇOIS LOCOH-DONOU
François Locoh-Donou
Chief Executive Officer and President

Dated: November 14, 2023

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
By: /s/ FRANÇOIS LOCOH-DONOU François Locoh-Donou	Chief Executive Officer, President, and Director (principal executive officer)	November 14, 2023
By: /s/ FRANCIS J. PELZER Francis J. Pelzer	Executive Vice President, Chief Financial Officer (principal financial officer and principal accounting officer)	November 14, 2023
By: /s/ ALAN HIGGINSON Alan Higginson	Director	November 14, 2023
By: /S/ ELIZABETH L. BUSE Elizabeth L. Buse	Director	November 14, 2023
By: /S/ MICHAEL DREYER Michael Dreyer	Director	November 14, 2023
By: /S/ PETER KLEIN Peter Klein	Director	November 14, 2023
By: /S/ NIKHIL MEHTA Nikhil Mehta	Director	November 14, 2023
By: /S/ MARIE E. MYERS Marie E. Myers	Director	November 14, 2023
By: /S/ SRIPADA SHIVANANDA Sripada Shivananda	Director	November 14, 2023
By: /S/ MICHAEL MONTOYA Michael Montoya	Director	November 14, 2023
By: /S/ MARIANNE BUDNIK Marianne Budnik	Director	November 14, 2023
By: /S/ MICHEL COMBES Michel Combs	Director	November 14, 2023
By: /S/ TAMI ERWIN Tami Erwin	Director	November 14, 2023

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Board of Directors

Marianne N. Budnik
Chief Marketing Officer,
VAST Data

Elizabeth L. Buse
Board Member,
U.S. Bancorp

Michel Combes
Executive Vice President,
Claure Group

Michael L. Dreyer
Retired Chief Operations Officer,
Silicon Valley Bank

Tami Erwin
Board Member,
John Deere and
York Space Systems

Alan J. Higginson
Chair of the Board,
F5, Inc.
Former Chair of the Board,
Hubspan, Inc.

Peter S. Klein
Retired Chief Financial Officer,
Microsoft

François Locoh-Donou
President and Chief Executive
Officer,
F5, Inc.

Nikhil Mehta
Chief Executive Officer,
Gainsight, Inc.

Michael F. Montoya
Chief Information Security Officer,
Equinix

Sripada Shivananda
Executive Vice President and
Chief Technology Officer,
PayPal Holdings, Inc.

Corporate Officers

François Locoh-Donou
President and Chief Executive
Officer

Tom Fountain
Executive Vice President of Global
Services and Chief Strategy Officer

Frank Pelzer
Executive Vice President and Chief
Financial Officer

Scot Rogers
Executive Vice President and
General Counsel

Kara Sprague
Executive Vice President
and Chief Product Officer

Chad Whalen
Executive Vice President of
Worldwide Sales

Shareholder Information

Annual Shareholders Meeting
March 14, 2024
11:00 a.m. Pacific Time
Virtual Meeting Location:
www.virtualshareholdermeeting.
com/FFIV2024

Corporate Headquarters
801 5th Ave
Seattle, WA 98104
206.272.5555

NASDAQ Listing
NASDAQ Symbol – FFIV

Investor Relations
206.272.7049
s.dulong@f5.com
www.f5.com

Independent Auditor
PricewaterhouseCoopers LLP
Seattle, WA

Transfer Agent
Equinity Trust Company
800.937.5449

About F5

F5 is a multi-cloud application services and security company committed to bringing a better digital world to life. F5 partners with the world's largest, most advanced organizations to secure and optimize every app and API anywhere—on premises, in the cloud, or at the edge. F5 enables organizations to provide exceptional, secure digital experiences for their customers and continuously stay ahead of threats. For more information, go to f5.com. (NASDAQ: FFIV).

You can also follow @F5 on X or visit us on LinkedIn and Facebook to learn about F5, its partners, and technologies.

F5, Inc. | 801 5th Avenue | Seattle, WA 98104 | 206.272.5555 | www.f5.com