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

FORM 10-Q

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

For the quarterly period ended December 31, 2021

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 and 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

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The number of shares outstanding of the registrant's common stock as of January 28, 2022 was 60,738,170.

F5, INC.

QUARTERLY REPORT ON FORM 10-Q

For the Quarter Ended December 31, 2021

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

F5, INC.

CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands)

	December 31, 2021	September 30, 2021
ASSETS		
Current assets		
Cash and cash equivalents	$ 512,406	$ 580,977
Short-term investments	346,548	329,630
Accounts receivable, net of allowances of $3,262 and $3,696	419,282	340,536
Inventories	20,795	22,055
Other current assets	388,942	337,902
Total current assets	1,687,973	1,611,100
Property and equipment, net	185,355	191,164
Operating lease right-of-use assets	237,341	244,934
Long-term investments	76,991	132,778
Deferred tax assets	148,333	128,193
Goodwill	2,260,407	2,216,553
Other assets, net	490,508	472,558
Total assets	$ 5,086,908	$ 4,997,280
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 58,253	$ 62,096
Accrued liabilities	314,845	341,487
Deferred revenue	1,039,515	968,669
Current portion of long-term debt	19,275	19,275
Total current liabilities	1,431,888	1,391,527
Deferred tax liabilities	2,723	2,414
Deferred revenue, long-term	536,984	521,173
Operating lease liabilities, long-term	287,596	296,945
Long-term debt	344,954	349,772
Other long-term liabilities	77,402	75,236
Total long-term liabilities	1,249,659	1,245,540
Commitments and contingencies (Note 9)		
Shareholders' equity		
Preferred stock, no par value; 10,000 shares authorized, no shares outstanding	—	—
Common stock, no par value; 200,000 shares authorized, 60,711 and 60,652 shares issued and outstanding	145,189	192,458
Accumulated other comprehensive loss	(21,215)	(20,073)
Retained earnings	2,281,387	2,187,828
Total shareholders' equity	2,405,361	2,360,213
Total liabilities and shareholders' equity	$ 5,086,908	$ 4,997,280

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

F5, INC.

CONSOLIDATED INCOME STATEMENTS
(unaudited, in thousands, except per share data)

	Three months ended December 31,	
	2021	2020
Net revenues		
Products	$ 343,149	$ 288,045
Services	343,951	336,572
Total	687,100	624,617
Cost of net revenues		
Products	81,662	67,038
Services	53,411	47,941
Total	135,073	114,979
Gross profit	552,027	509,638
Operating expenses		
Sales and marketing	234,035	214,546
Research and development	130,271	114,191
General and administrative	65,661	63,153
Restructuring charges	7,909	—
Total	437,876	391,890
Income from operations	114,151	117,748
Other expense, net	(2,431)	(683)
Income before income taxes	111,720	117,065
Provision for income taxes	18,161	29,387
Net income	$ 93,559	$ 87,678
Net income per share — basic	$ 1.54	$ 1.43
Weighted average shares — basic	60,810	61,440
Net income per share — diluted	$ 1.51	$ 1.41
Weighted average shares — diluted	61,882	62,282

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

F5, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited, in thousands)

	Three months ended December 31,	
	2021	**2020**
Net income	$ 93,559	$ 87,678
Other comprehensive (loss) income:		
Foreign currency translation adjustment	(517)	1,278
Available-for-sale securities:		
Unrealized losses on securities, net of taxes of $(74) and $(50) for the three months ended December 31, 2021 and 2020, respectively	(621)	(420)
Reclassification adjustment for realized (losses) gains included in net income, net of taxes of $2 and $0 for the three months ended December 31, 2021 and 2020, respectively	(4)	3
Net change in unrealized losses on available-for-sale securities, net of tax	(625)	(417)
Total other comprehensive (loss) income	(1,142)	861
Comprehensive income	$ 92,417	$ 88,539

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

F5, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited, in thousands)

	Common Stock		Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
	Three months ended December 31, 2020				
Balances, September 30, 2020	61,099	$ 305,453	$ (18,716)	$ 1,945,531	$ 2,232,268
Exercise of employee stock options	39	1,118	—	—	1,118
Issuance of stock under employee stock purchase plan	231	26,077	—	—	26,077
Issuance of restricted stock	297	—	—	—	—
Taxes paid related to net share settlement of equity awards	(34)	(4,481)	—	—	(4,481)
Stock-based compensation	—	58,069	—	—	58,069
Net income	—	—	—	87,678	87,678
Other comprehensive income	—	—	861	—	861
Balances, December 31, 2020	61,632	$ 386,236	$ (17,855)	$ 2,033,209	$ 2,401,590
	Three months ended December 31, 2021				
Balances, September 30, 2021	60,652	$ 192,458	$ (20,073)	$ 2,187,828	$ 2,360,213
Exercise of employee stock options	50	1,255	—	—	1,255
Issuance of stock under employee stock purchase plan	169	26,325	—	—	26,325
Issuance of restricted stock	442	—	—	—	—
Repurchase of common stock	(539)	(125,011)	—	—	(125,011)
Taxes paid related to net share settlement of equity awards	(63)	(13,595)	—	—	(13,595)
Stock-based compensation	—	63,757	—	—	63,757
Net income	—	—	—	93,559	93,559
Other comprehensive loss	—	—	(1,142)	—	(1,142)
Balances, December 31, 2021	60,711	$ 145,189	$ (21,215)	$ 2,281,387	$ 2,405,361

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

F5, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Three months ended December 31, 2021	Three months ended December 31, 2020
Operating activities		
Net income	$ 93,559	$ 87,678
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	63,757	58,069
Depreciation and amortization	30,260	27,660
Non-cash operating lease costs	9,663	9,698
Deferred income taxes	(6,407)	(694)
Impairment of assets	6,175	6,873
Other	(1,123)	307
Changes in operating assets and liabilities (excluding effects of the acquisition of businesses):		
Accounts receivable	(77,223)	(54,416)
Inventories	1,260	1,443
Other current assets	(44,286)	(23,250)
Other assets	(21,774)	(26,654)
Accounts payable and accrued liabilities	(25,387)	(23,925)
Deferred revenue	76,065	86,193
Lease liabilities	(14,173)	(11,619)
Net cash provided by operating activities	90,366	137,363
Investing activities		
Purchases of investments	(36,205)	(42,765)
Maturities of investments	38,138	69,352
Sales of investments	34,549	—
Acquisition of businesses, net of cash acquired	(67,911)	(1,247)
Purchases of property and equipment	(10,564)	(4,697)
Net cash (used in) provided by investing activities	(41,993)	20,643
Financing activities		
Proceeds from the exercise of stock options and purchases of stock under employee stock purchase plan	27,581	27,196
Repurchase of common stock	(125,011)	—
Payments on term debt agreement	(5,000)	(5,000)
Taxes paid related to net share settlement of equity awards	(13,595)	(4,481)
Net cash (used in) provided by financing activities	(116,025)	17,715
Net (decrease) increase in cash, cash equivalents and restricted cash	(67,652)	175,721
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(861)	1,655
Cash, cash equivalents and restricted cash, beginning of period	584,333	852,826
Cash, cash equivalents and restricted cash, end of period	$ 515,820	$ 1,030,202
Supplemental disclosures of cash flow information		
Cash paid for amounts included in the measurement of operating lease liabilities	$ 16,500	$ 15,032
Cash paid for interest on long-term debt	1,252	1,370
Supplemental disclosures of non-cash activities		
Right-of-use assets obtained in exchange for lease obligations	$ 818	$ 1,614

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

F5, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Summary of Significant Accounting Policies

Description of Business

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, installation, maintenance, and other technical support services. On October 1, 2021, the Company completed its acquisition of Threat Stack, Inc. ("Threat Stack"), a provider of cloud security and workload protection solutions.

Basis of Presentation

The year-end consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, the unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for their fair statement in conformity with accounting principles generally accepted in the United States of America. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2021.

There have been no material changes to the Company's significant accounting policies as of and for the three months ended December 31, 2021.

Recently Adopted Accounting Standards

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. The new guidance requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with ASC 606, Revenue from Contracts with Customers. The Company early adopted this accounting standard update beginning in the first quarter of fiscal 2022 and it did not have a material impact on the Company's consolidated financial statements. The ongoing impact of this standard will be fact dependent on the transactions within its scope.

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 three months ended December 31, 2021 and 2020 (in thousands):

	Three months ended December 31,	
	2021	2020
Balance, beginning of period	$ 77,836	$ 70,396
Additional capitalized contract acquisition costs	10,512	9,725
Amortization of capitalized contract acquisition costs	(9,414)	(8,152)
Balance, end of period	$ 78,934	$ 71,969

Amortization of capitalized contract acquisition costs was $9.4 million and $8.2 million for the three months ended December 31, 2021 and 2020, 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 the Company has the unconditional right to transfer goods and services under contracts with customers. 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 three months ended December 31, 2021 and 2020 (in thousands):

	Three months ended December 31,	
	2021	2020
Balance, beginning of period	$ 1,489,842	$ 1,272,632
Amounts added but not recognized as revenues	441,591	421,918
Deferred revenue acquired through acquisition of businesses	10,591	—
Revenues recognized related to the opening balance of deferred revenue	(365,525)	(335,725)
Balance, end of period	$ 1,576,499	$ 1,358,825

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. As of December 31, 2021, the total non-cancelable remaining performance obligations under the Company's contracts with customers was approximately $1.6 billion and the Company expects to recognize revenues on approximately 65.9% of these remaining performance obligations over the next 12 months, 21.1% in year two, and the remaining balance thereafter.

See Note 13, Segment Information, for disaggregated revenue by significant customer and geographic region, as well as disaggregated product revenue by systems and software.

3. 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 December 31, 2021, were as follows (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2021
Cash equivalents	$ 19,265	$ 779	$ —	$ 20,044
Short-term investments				
Available-for-sale securities — certificates of deposits	—	992	—	992
Available-for-sale securities — corporate bonds and notes	—	177,093	—	177,093
Available-for-sale securities — municipal bonds and notes	—	15,359	—	15,359
Available-for-sale securities — U.S. government securities	—	135,934	—	135,934
Available-for-sale securities — U.S. government agency securities	—	17,170	—	17,170
Long-term investments				
Available-for-sale securities — corporate bonds and notes	—	48,638	—	48,638
Available-for-sale securities — municipal bonds and notes	—	2,239	—	2,239
Available-for-sale securities — U.S. government securities	—	24,341	—	24,341
Available-for-sale securities — U.S. government agency securities	—	1,773	—	1,773
Total	$ 19,265	$ 424,318	$ —	$ 443,583

The Company's financial assets measured at fair value on a recurring basis subject to the disclosure requirements at September 30, 2021, were as follows (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at September 30, 2021
Cash equivalents	$ 17,150	$ 4,397	$ —	$ 21,547
Short-term investments				
Available-for-sale securities — certificates of deposits	—	255	—	255
Available-for-sale securities — corporate bonds and notes	—	186,107	—	186,107
Available-for-sale securities — municipal bonds and notes	—	13,566	—	13,566
Available-for-sale securities — U.S. government securities	—	102,615	—	102,615
Available-for-sale securities — U.S. government agency securities	—	27,087	—	27,087
Long-term investments				
Available-for-sale securities — corporate bonds and notes	—	53,107	—	53,107
Available-for-sale securities — municipal bonds and notes	—	11,111	—	11,111
Available-for-sale securities — U.S. government securities	—	59,608	—	59,608
Available-for-sale securities — U.S. government agency securities	—	8,952	—	8,952
Total	$ 17,150	$ 466,805	$ —	$ 483,955

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.

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

The Company's non-financial assets and liabilities, which include goodwill, intangible assets, and long-lived assets, are not required to be carried at fair value on a recurring basis. These non-financial assets and liabilities 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. Included in the Company's impairment considerations for non-financial assets and liabilities in the current quarter were the potential impacts of the COVID-19 pandemic.

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 for the three months ended December 31, 2021. The Company did not recognize any impairment charges related to its intangible assets in the first quarter of fiscal 2021.

In the first quarter of fiscal 2021, the Company 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. Impairment charges for the first quarter of fiscal 2021 also included $0.2 million for other fixed assets associated with the Shape headquarters in Santa Clara, California. 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 three months ended December 31, 2020 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 three months ended December 31, 2021 and 2020 (in thousands):

	Three months ended December 31, 2021	Three months ended December 31, 2020
Cost of net product revenue	$ —	$ 1,968
Cost of net service revenue	—	1
Sales and marketing	6,175	1,259
Research and development	—	3,129
General and administrative	—	516
Total impairment charges	$ 6,175	$ 6,873

During the three months ended December 31, 2021 and 2020, the Company did not recognize any impairment charges related to goodwill.

4. Short-Term and Long-Term Investments

Short-term investments consist of the following (in thousands):

December 31, 2021	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposits	$ 992	$ —	$ —	$ 992
Corporate bonds and notes	177,248	10	(165)	177,093
Municipal bonds and notes	15,377	—	(18)	15,359
U.S. government securities	136,091	—	(157)	135,934
U.S. government agency securities	17,193	—	(23)	17,170
	$ 346,901	$ 10	$ (363)	$ 346,548

September 30, 2021	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposits	$ 255	$ —	$ —	$ 255
Corporate bonds and notes	186,043	116	(52)	186,107
Municipal bonds and notes	13,570	1	(5)	13,566
U.S. government securities	102,607	12	(4)	102,615
U.S. government agency securities	27,096	—	(9)	27,087
	$ 329,571	$ 129	$ (70)	$ 329,630

Long-term investments consist of the following (in thousands):

December 31, 2021	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds and notes	$ 48,845	$ —	$ (207)	$ 48,638
Municipal bonds and notes	2,262	—	(23)	2,239
U.S. government securities	24,426	—	(85)	24,341
U.S. government agency securities	1,783	—	(10)	1,773
	$ 77,316	$ —	$ (325)	$ 76,991

September 30, 2021	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds and notes	$ 53,128	$ 13	$ (34)	$ 53,107
Municipal bonds and notes	11,114	1	(4)	11,111
U.S. government securities	59,614	2	(8)	59,608
U.S. government agency securities	8,957	—	(5)	8,952
	$ 132,813	$ 16	$ (51)	$ 132,778

Interest income from investments was $0.3 million and $1.1 million for the three months ended December 31, 2021 and 2020, respectively. Interest income is included in other income (expense), net on the Company's consolidated income statements.

The following table summarizes investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for more than 12 months as of December 31, 2021 (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
December 31, 2021	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate bonds and notes	$ 196,228	$ (372)	$ —	$ —	$ 196,228	$ (372)
Municipal bonds and notes	16,144	(41)	—	—	16,144	(41)
U.S. government securities	160,275	(242)	—	—	160,275	(242)
U.S. government agency securities	18,943	(33)	—	—	18,943	(33)
Total	$ 391,590	$ (688)	$ —	$ —	$ 391,590	$ (688)

The following table summarizes investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for more than 12 months as of September 30, 2021 (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
September 30, 2021	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate bonds and notes	$ 151,986	$ (86)	$ —	$ —	$ 151,986	$ (86)
Municipal bonds and notes	13,764	(9)	—	—	13,764	(9)
U.S. government securities	77,401	(12)	—	—	77,401	(12)
U.S. government agency securities	31,384	(14)	—	—	31,384	(14)
Total	$ 274,535	$ (121)	$ —	$ —	$ 274,535	$ (121)

The Company invests in securities that are rated investment grade. The Company reviews the individual 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 security by a ratings agency. The Company determined that as of December 31, 2021, there were no credit losses on any investments within its portfolio.

5. Business Combinations

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 is expected to enhance 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 approximately $68.9 million in cash, subject to certain adjustments and conditions set forth in the Threat Stack Merger

Agreement. In addition, the Company incurred $1.5 million of transaction costs associated with the acquisition which was included in General and Administrative expenses in the fourth fiscal quarter of 2021 and first fiscal quarter of 2022.

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 is not expected to be 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	$ 13,366	
Other net tangible assets acquired, at fair value	5,481	
Cash, cash equivalents, and restricted cash	912	
Identifiable intangible assets:		
Developed technology	11,400	5 years
Customer relationships	4,400	5 years
Goodwill	43,956	
Total assets acquired	$ 79,515	
Liabilities assumed		
Deferred revenue	$ (10,591)	
Total liabilities assumed	$ (10,591)	
Net assets acquired	$ 68,924	

The initial allocation of the purchase price was based on preliminary valuations and assumptions and is subject to change within the measurement period. The Company expects to finalize the allocation of the purchase price as soon as practicable and no later than one year from the acquisition date.

The developed technology intangible asset will be 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 will be 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.

Since the Threat Stack acquisition was completed on October 1, 2021, the F5 and Threat Stack teams have been executing a plan to integrate ongoing operations. 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 approximately $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 is not expected to be 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	351,417	
Total assets acquired	432,928	
Liabilities assumed	(5,686)	
Net assets acquired	$ 427,242	

The measurement period for the Volterra acquisition will lapse during the second quarter of fiscal 2022.

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 is being 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.

Since the Volterra acquisition was completed on January 22, 2021, the F5 and Volterra teams have been executing a plan to integrate ongoing operations. 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.

6. 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):

	December 31, 2021	September 30, 2021
Cash and cash equivalents	$ 512,406	$ 580,977
Restricted cash included in other assets, net	3,414	3,356
Total cash, cash equivalents and restricted cash	$ 515,820	$ 584,333

Inventories

Inventories consist of the following (in thousands):

	December 31, 2021	September 30, 2021
Finished goods	$ 15,734	$ 13,081
Raw materials	5,061	8,974
	$ 20,795	$ 22,055

Other Current Assets

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

	December 31, 2021	September 30, 2021
Unbilled receivables	$ 236,042	$ 215,396
Prepaid expenses	94,024	59,636
Capitalized contract acquisition costs	34,689	34,265
Other	24,187	28,605
	$ 388,942	$ 337,902

Other Assets

Other assets, net consist of the following (in thousands):

	December 31, 2021	September 30, 2021
Intangible assets	$ 237,528	$ 237,178
Unbilled receivables	171,787	158,885
Capitalized contract acquisition costs	44,245	43,571
Other	36,948	32,924
	$ 490,508	$ 472,558

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 31, 2021	September 30, 2021
Payroll and benefits	$ 149,552	$ 179,147
Operating lease liabilities, current	46,889	49,286
Income and other tax accruals	51,669	44,075
Other	66,735	68,979
	$ 314,845	$ 341,487

Other Long-term Liabilities

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

	December 31, 2021	September 30, 2021
Income taxes payable	$ 68,234	$ 66,081
Other	9,168	9,155
	$ 77,402	$ 75,236

7. 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 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 are recorded as a reduction to the carrying value of the principal amount of the debt.

Borrowings under the Term Loan Facility bear 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 Term Credit Agreement, plus an applicable margin of 0.125% to 0.750% depending on the Company's leverage ratio. Interest on the outstanding principal of borrowings is currently due quarterly in arrears. As of December 31, 2021, the margin for LIBOR-based loans was 1.125% and the margin for alternate base rate loans was 0.125%.

The Term Loan Facility matures on January 24, 2023 with quarterly installments (commencing with the first full fiscal quarter ended after January 24, 2020) equal to 1.25% of the original principal amount of the Term Loan Facility. The remaining outstanding principal of borrowings under the Term Loan Facility is due upon maturity on January 24, 2023. Borrowings under the Term Loan Facility may be voluntarily prepaid, in whole or in part, without penalty or premium. Borrowings repaid or prepaid under the Term Loan Facility may not be reborrowed.

Among certain affirmative and negative covenants provided in the Term 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. This covenant may result in a higher interest rate on its outstanding principal borrowings on the Term Loan Facility in future periods, depending on the Company's performance. As of December 31, 2021, the Company was in compliance with all covenants.

As of December 31, 2021, $365.0 million of principal amount under the Term Loan Facility was outstanding, excluding unamortized debt issuance costs of $0.8 million. The weighted average interest rate on the principal amount under the Term Loan Facility outstanding balance was 1.282% and 1.390% for the three months ended December 31, 2021 and 2020, respectively. The following table presents the scheduled principal maturities as of December 31, 2021 (in thousands):

Fiscal Years Ending September 30:	Amount
2022 (remainder)	$ 15,000
2023	350,000
Total	$ 365,000

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. Borrowings under the Revolving Credit Facility bear 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. 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 the three months ended December 31, 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 December 31, 2021, the Company was in compliance with all covenants. As of December 31, 2021, there were no outstanding borrowings under the Revolving Credit Facility, and the Company had available borrowing capacity of $350.0 million.

8. 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 three months ended December 31, 2021 and 2020 were as follows (in thousands):

	Three months ended December 31,	
	2021	2020
Operating lease expense	$ 11,914	$ 12,181
Short-term lease expense	556	986
Variable lease expense	6,244	7,026
Total lease expense	$ 18,714	$ 20,193

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):

	December 31, 2021	September 30, 2021
Operating lease right-of-use assets, net	$ 237,341	$ 244,934
Operating lease liabilities, current[1]	46,889	49,286
Operating lease liabilities, long-term	287,596	296,945
Total operating lease liabilities	$ 334,485	$ 346,231
Weighted average remaining lease term (in years)	9.6	9.7
Weighted average discount rate	2.60 %	2.60 %

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

As of December 31, 2021, the future operating lease payments for each of the next five years and thereafter is as follows (in thousands):

Fiscal Years Ending September 30:	Operating Lease Payments
2022 (remainder)	$ 41,840
2023	50,162
2024	41,519
2025	33,599
2026	26,583
2027	26,224
Thereafter	164,890
Total lease payments	384,817
Less: imputed interest	(50,332)
Total lease liabilities	$ 334,485

Operating lease liabilities above do not include sublease income. As of December 31, 2021, the Company expects to receive sublease income of approximately $17.5 million, which consists of $5.1 million to be received for the remainder of fiscal 2022 and $12.4 million to be received over the three fiscal years thereafter. In the first quarter of fiscal 2021, the Company 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. There were no impairments against right-of-use assets for the three months ended December 31, 2021.

As of December 31, 2021, the Company had no significant operating leases that were executed but not yet commenced.

9. Commitments and Contingencies

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 certain other employees, 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 generally 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. Accrued warranty costs as of December 31, 2021 and September 30, 2021 were not material.

Commitments

As of December 31, 2021, the Company's principal commitments consisted of borrowings under the Term Loan Facility and obligations outstanding under operating leases. Refer to Note 7 for the scheduled principal maturities of the Term Loan Facility as of December 31, 2021.

The Company leases its facilities under operating leases that expire at various dates through 2033. There have been no material changes in the Company's lease obligations compared to those discussed in Note 8 to its annual consolidated financial statements.

Legal Proceedings

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 asserts 26 causes of action against the various defendants, including copyright infringement, violation of trademark law, tortious interference, conspiracy, and fraud. The complaint seeks damages, disgorgement of profits, fees and costs, 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 all claims asserted against them in the lawsuit. While these motions were pending, the Court ordered Lynwood to select ten of its twenty-six claims to litigate through trial while the remaining sixteen claims would be stayed pending resolution of the ten selected claims.

On March 25 and 30, 2021, the Court dismissed the ten selected claims and granted Lynwood leave to cure the deficiencies in its complaint though it expressed doubt about Lynwood's ability to do so. The Court further ruled that Lynwood may not add new causes of action or add new parties without stipulation or leave of court, and that unless Lynwood corrects "all the defects" identified in the Court's orders and the Company's and other defendants' motions to dismiss, the Court will dismiss the ten claims with prejudice. On April 6, the Court referred the parties to private mediation to be completed by June 1, 2021. Pursuant to the Court's order, the parties held a private mediation on May 27, 2021. The matter did not resolve.

On April 29, Lynwood filed its amended complaint, 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 claims Lynwood had selected to proceed to litigate through trial, reserving their right to move to dismiss the 16 stayed claims once the Court lifts the stay. The motion to dismiss was set to be heard by the Court on October 14, 2021, but on October 11, 2021, the Court vacated the hearing and gave notice that it will decide the motion on the papers without oral argument.

This case has recently been assigned to a new judge. The new judge has not indicated when the motion will be ruled upon.

Proven Networks LLC Litigations

Proven Networks LLC ("Proven") is a non-practicing entity (NPE) whose sole business is acquiring patents and filing lawsuits alleging infringement of those patents to extract licensing fees. Proven acquired a portfolio of Alcatel-Lucent patents and asserted various patents from that portfolio against more than a dozen technology companies in courts in California and Texas, in the International Trade Commission and in foreign courts. Proven brought three actions against the Company, one in California, one in the International Trade Commission, and one in Germany. These cases against the Company were resolved through a global settlement that was not material to the Company, the terms of which are confidential.

10. Income Taxes

The Company's tax provision for interim periods is determined using an estimated annual effective tax rate, adjusted for discrete items in the related period.

The effective tax rate was 16.3% and 25.1% for the three months ended December 31, 2021 and 2020, respectively. The decrease in the effective tax rate for the three months ended December 31, 2021 as compared to the three months ended December 31, 2020 is primarily due to the tax impact of stock based compensation.

At December 31, 2021, the Company had $72.7 million of unrecognized tax benefits that, if recognized, would affect the effective tax rate. It is anticipated that the Company's existing liabilities for unrecognized tax benefits will change within the next twelve months due to audit settlements or the expiration of statutes of limitations. The Company does not expect these changes to be material to the consolidated financial statements. The Company recognizes interest and, if applicable, penalties for any uncertain tax positions as a component of income tax expense.

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, 2017. Major jurisdictions where there are wholly owned subsidiaries of F5, Inc. which require income tax filings include the United Kingdom, Singapore, and Israel. The earliest periods open for review by local taxing authorities are fiscal years 2020 for the United Kingdom, 2017 for Singapore, and 2013 for Israel. The Company is currently under audit by various states for fiscal years 2015 through 2019, and by various foreign jurisdictions including Israel for fiscal years 2013 to 2018, Saudi Arabia for fiscal years 2015 to 2020, and India for fiscal years 2019 to 2020. Within the next four fiscal quarters, the statute of limitations will begin to close on the fiscal year 2018 federal income tax return, fiscal years 2017 and 2018 state income tax returns, and fiscal years 2015 to 2020 foreign income tax returns.

11. Shareholders' Equity

Common Stock Repurchase

On October 31, 2018, 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 $4.4 billion program, initially approved in October 2010 and expanded in each fiscal year thereafter. 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.

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

	Three months ended December 31,	
	2021	**2020**
Shares repurchased	539	—
Average price per share	$ 232.14	$ —
Amount repurchased	$ 125,011	$ —

As of December 31, 2021, the Company had $647.5 million remaining authorized to purchase shares under its share repurchase program.

12. 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):

	Three months ended December 31,	
	2021	**2020**
Numerator		
Net income	$ 93,559	$ 87,678
Denominator		
Weighted average shares outstanding — basic	60,810	61,440
Dilutive effect of common shares from stock options and restricted stock units	1,072	842
Weighted average shares outstanding — diluted	61,882	62,282
Basic net income per share	$ 1.54	$ 1.43
Diluted net income per share	$ 1.51	$ 1.41

Anti-dilutive stock-based awards excluded from the calculations of diluted earnings per share were not material for the three months ended December 31, 2021 and 2020.

13. Segment Information

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: the development, marketing and sale of application security and delivery services across multi-cloud environments.

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 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):

	Three months ended December 31,	
	2021	**2020**
Americas:		
United States	$ 381,289	$ 320,343
Other	21,702	22,793
Total Americas	402,991	343,136
EMEA	162,062	162,084
Asia Pacific	122,047	119,397
	$ 687,100	$ 624,617

The Company generates revenues from the sale of products and services. 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):

	Three months ended December 31,	
	2021	**2020**
Net product revenues		
Systems revenue	$ 180,157	$ 178,571
Software revenue	162,992	109,474
Total net product revenue	$ 343,149	$ 288,045

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

	Three months ended December 31,	
	2021	**2020**
Ingram Micro, Inc.	18.7 %	18.1 %
Synnex Corporation	12.2 %	10.0 %

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

	December 31, 2021	**September 30, 2021**
United States	$ 147,012	$ 153,030
EMEA	20,953	20,526
Other countries	17,390	17,608
	$ 185,355	$ 191,164

14. Restructuring Charges

In the first quarter of fiscal 2022, the Company initiated a restructuring plan to match strategic and financial objectives and optimize resources for long term growth, including a reduction in force program affecting approximately 70 positions. The

Company recorded a restructuring charge of $7.9 million in the first quarter of fiscal 2022. The Company does not expect to record any significant future charges related to the restructuring plan.

During the three months ended December 31, 2021, the following activity was recorded (in thousands):

	Employee Severance, Benefits and Related Costs
Accrued expenses, October 1, 2021	$ —
Restructuring charges	7,909
Cash payments	(4,027)
Accrued expenses, December 31, 2021	$ 3,882

Item 2. 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 in Part II, 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 (primarily the United States); 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.* The majority of our revenues are derived from sales of our application security and delivery products including our BIG-IP appliances and VIPRION chassis and related software modules and our software-only Virtual Editions; Local Traffic Manager (LTM), DNS Services (formerly Global Traffic Manager); Advanced Firewall Manager (AFM) and Policy Enforcement Manager (PEM), that leverage the unique performance characteristics of our hardware and software architecture; and products that incorporate acquired technology, including Application Security Manager (ASM) and Access Policy Manager (APM); NGINX Plus and NGINX Controller; Shape Defense and Enterprise Defense; and the Secure Web Gateway and Silverline DDoS and Application security offerings which are sold to customers on a subscription basis. We also derive revenues from the sales of global services including annual maintenance contracts, training and consulting services. We carefully monitor the sales mix of our revenues within each reporting period. We believe customer acceptance rates of our new products and feature enhancements are indicators of future trends. We also consider overall revenue concentration by customer and by geographic region as additional indicators of current and future trends. Near term, we expect worsening global supply chain constraints will result in a shortfall in our ability to meet customer demand for our hardware-based solutions, thereby impacting revenues from systems sales.

- *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. Our margins have remained relatively stable; however, 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 from quarter to quarter and represent significant indicators we monitor on a regular basis.
- *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 the first three months of fiscal year 2022 was primarily due to $125.0 million of cash required for the repurchase of shares and $68.0 million in cash paid for the acquisition of Threat Stack in the first quarter of fiscal 2022. The decrease in cash and investments for the first quarter of fiscal 2022 was partially offset by cash provided by operating activities of $90.4 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 December 31, 2021, 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 the first quarter of fiscal year 2022 due to the growth of our subscriptions business, including the acquired deferred revenue associated with the Threat Stack acquisition. Our days sales outstanding for the first quarter of fiscal year 2022 was 55. Days sales outstanding is calculated by dividing ending accounts receivable by revenue per day for a given quarter.

Summary of Critical Accounting Policies and Estimates

The preparation of our financial condition and results of operations requires us to make judgments and estimates that may have a significant impact upon our financial results. We believe that, of our significant accounting policies, the following require estimates and assumptions that require complex, subjective judgments by management, which can materially impact reported results: revenue recognition, accounting for business combinations and accounting for leases. Actual results may differ from these estimates under different assumptions or conditions.

There were no material changes to our critical accounting policies and estimates compared to the critical accounting policies and estimates described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Form 10-K for the fiscal year ended September 30, 2021. Refer to the "Recently Adopted Accounting Standards" section of Note 1 in this Quarterly Report on Form 10-Q for a summary of the new accounting policies.

COVID-19 Update

Management has prioritized a human-first approach to the COVID-19 pandemic. For F5, this means ensuring the health and safety of employees, their families and our communities. Further, this approach extends to our customers as we look for ways that we can support their operations during this crisis.

Our analysis shows COVID-19 did not have a significant impact on our results of operations for the quarter ended December 31, 2021. We continue to monitor the ongoing uncertainty related to the global pandemic on our business and financial outlook. Global supply chain constraints in the wake of the COVID-19 pandemic continue to reduce our visibility into component availability, and lead times are increasing for components necessary for our hardware-based solutions. We are undertaking efforts to mitigate supply chain constraints, but worsening component availability is expected to cause lengthening lead times on shipments of products to customers, delaying our ability to fulfill some hardware orders. In addition, we are conducting business with substantial modifications to employee travel, employee work locations, and virtualization or cancellation of certain sales and marketing events, among other modifications. We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state or local authorities, or that we determine are in the best interests of our employees, customers, partners, suppliers and stockholders. It is not clear what the potential effects any such alterations or modifications may have on our business, including the effects on our customers and prospects, or on our financial results.

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 Quarterly Report on Form 10-Q.

	Three months ended December 31,	
	2021	2020
	(in thousands, except percentages)	
Net revenues		
Products	$ 343,149	$ 288,045
Services	343,951	336,572
Total	$ 687,100	$ 624,617
Percentage of net revenues		
Products	49.9 %	46.1 %
Services	50.1	53.9
Total	100.0 %	100.0 %

Net Revenues. Total net revenues increased 10.0% for the three months ended December 31, 2021, from the comparable period in the prior year. Overall revenue growth for the three months ended December 31, 2021, was primarily due to the increases in both product and service revenue. The product revenue increase was driven by software revenue increases, specifically from our software-as-a-service product offerings and our subscription-based offerings, which include software sold via our flexible consumption program or multi-year subscriptions. Service revenues increased as a result of our increased installed base of products. In addition, our stand-alone security product revenue and our global services revenue associated with security continued to grow in the first quarter of fiscal 2022. Revenues outside of the United States represented 44.5% of total net revenues for the three months ended December 31, 2021, compared to 48.7% for the same period in the prior year.

Net Product Revenues. Net product revenues increased 19.1% for the three months ended December 31, 2021, from the comparable period in the prior year. The increase of $55.1 million in net product revenues for the three months ended December 31, 2021 was due to an increase in both software and systems revenue compared to the same period in the prior year.

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

	Three months ended December 31,	
	2021	2020
Net product revenues		
Systems revenue	$ 180,157	$ 178,571
Software revenue	162,992	109,474
Total net product revenue	$ 343,149	$ 288,045
Percentage of net product revenues		
Systems revenue	52.5 %	62.0 %
Software revenue	47.5	38.0
Total net product revenue	100.0 %	100.0 %

Net Service Revenues. Net service revenues increased 2.2% for the three months ended December 31, 2021, from the comparable period in the prior year. The increases in service revenue were 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:

	Three months ended December 31, 2021	Three months ended December 31, 2020
Ingram Micro, Inc.	18.7 %	18.1 %
Synnex Corporation	12.2 %	10.0 %

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

	December 31, 2021	September 30, 2021
Ingram Micro, Inc.	17.8 %	12.6 %
Synnex Corporation	14.4 %	11.9 %
Carahsoft Technology	—	11.5 %

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

	Three months ended December 31, 2021	Three months ended December 31, 2020
	(in thousands, except percentages)	
Cost of net revenues and gross profit		
Products	$ 81,662	$ 67,038
Services	53,411	47,941
Total	135,073	114,979
Gross profit	$ 552,027	$ 509,638
Percentage of net revenues and gross margin (as a percentage of related net revenue)		
Products	23.8 %	23.3 %
Services	15.5	14.2
Total	19.7	18.4
Gross margin	80.3 %	81.6 %

Cost of Net Product Revenues. Cost of net product revenues consists 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 $14.6 million, or 21.8% for the three months ended December 31, 2021, from the comparable period in the prior year. The increase in cost of net product revenues was primarily due to component cost increases, expedite fees, and other costs related to actions we are taking to mitigate supply chain constraints.

Cost of Net Service Revenues. Cost of net service revenues consists of the salaries and related benefits of our professional services staff, travel, facilities and depreciation expenses. For the three months ended December 31, 2021, cost of net service revenues as a percentage of net service revenues was 15.5%, compared to 14.2% for the comparable period in the prior year. Professional services headcount at the end of December 2021 increased to 1,037 from 967 at the end of December 2020.

	Three months ended December 31,	
	2021	2020
	(in thousands, except percentages)	
Operating expenses		
Sales and marketing	$ 234,035	$ 214,546
Research and development	130,271	114,191
General and administrative	65,661	63,153
Restructuring charges	7,909	—
Total	$ 437,876	$ 391,890
Operating expenses (as a percentage of net revenue)		
Sales and marketing	34.1 %	34.3 %
Research and development	19.0	18.3
General and administrative	9.5	10.1
Restructuring charges	1.1	—
Total	63.7 %	62.7 %

Sales and Marketing. Sales and marketing expenses consist of 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 expenses increased $19.5 million, or 9.1% for the three months ended December 31, 2021, from the comparable period in the prior year. The increase in sales and marketing expense was primarily due to an increase of $10.9 million in personnel costs for the three months ended December 31, 2021, from the comparable period in the prior year. Sales and marketing expenses for the first quarter of fiscal 2022 also included an impairment charge of $6.2 million related to the write-off of the Shape trade name intangible asset. Sales and marketing headcount at the end of December 2021 increased to 2,430 from 2,398 at the end of December 2020. Sales and marketing expenses included stock-based compensation expense of $26.8 million for the three months ended December 31, 2021, compared to $25.2 million for the same period in the prior year.

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 expenses increased $16.1 million, or 14.1% for the three months ended December 31, 2021, from the comparable period in the prior year. For the three months ended December 31, 2021, personnel costs increased $14.1 million from the comparable period in the prior year due to growth in research and development headcount, including employees from the acquisitions of Volterra and Threat Stack. Research and development headcount at the end of December 2021 increased to 1,947 from 1,801 at the end of December 2020. Research and development expenses included stock-based compensation expense of $18.6 million for the three months ended December 31, 2021, compared to $15.0 million for the same period in the prior year.

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, facilities and depreciation expenses. General and administrative expenses increased $2.5 million, or 4.0% for the three months ended December 31, 2021, from the comparable period in the prior year. For the three months ended December 31, 2021, personnel costs increased $4.0 million, from the comparable period in the prior year due to growth in general and administrative headcount. The increase in general and administrative expenses for the three months ended December 31, 2021 were partially offset by a decrease of $1.5 million in professional fees, from the comparable period in the prior year. General and administrative headcount at the end of December 2021 increased to 856 from 735 at the end of December 2020. General and administrative expenses included stock-based compensation expense of $10.9 million for the three months ended December 31, 2021, compared to $10.5 million for the same period in the prior year.

Restructuring Charges. In the first fiscal quarter of 2021, we completed a restructuring plan to align strategic and financial objectives and optimize resources for long term growth. As a result of these initiatives, we recorded a restructuring charge of $7.9 million related to a reduction in workforce that is reflected in our results for the three months ended December 31, 2021.

	Three months ended December 31,	
	2021	2020
	(in thousands, except percentages)	
Other income and income taxes		
Income from operations	$ 114,151	$ 117,748
Other expense, net	(2,431)	(683)
Income before income taxes	111,720	117,065
Provision for income taxes	18,161	29,387
Net income	$ 93,559	$ 87,678
Other income and income taxes (as percentage of net revenue)		
Income from operations	16.6 %	18.9 %
Other expense, net	(0.3)	(0.1)
Income before income taxes	16.3	18.7
Provision for income taxes	2.7	4.7
Net income	13.6 %	14.0 %

Other Expense, Net. Other expense, net consists primarily of interest income and expense and foreign currency transaction gains and losses. The decrease in other expense, net for the three months ended December 31, 2021 was primarily due to an increase in foreign currency loss of $1.0 million compared to the same period in the prior year. In addition, interest income from our investments decreased $0.9 million for the three months ended December 31, 2021 compared to the same period in the prior year.

Provision for income taxes. The effective tax rate was 16.3% and 25.1% for the three months ended December 31, 2021 and 2020, respectively. The decrease in the effective tax rate for the three months ended December 31, 2021 as compared to the three months ended December 31, 2020 is primarily due to the tax impact of stock-based compensation.

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. Our net deferred tax assets at December 31, 2021 and September 30, 2021 were $145.6 million and $125.8 million, respectively. The net deferred tax assets include valuation allowances of $46.6 million and $40.4 million as of December 31, 2021 and September 30, 2021, respectively, which are primarily related to certain state and foreign net operating losses and tax credit carryforwards.

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, the impact of stock-based compensation, 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

Cash and cash equivalents, short-term investments and long-term investments totaled $935.9 million as of December 31, 2021, compared to $1,043.4 million as of September 30, 2021, representing a decrease of $107.5 million. The decrease was primarily due to $125.0 million of cash required 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 partially offset by cash provided by operating activities of $90.4 million for the three months ended December 31, 2021.

Cash provided by operating activities for the first three months of fiscal year 2022 resulted from net income of $93.6 million combined with changes in operating assets and liabilities, as adjusted for various non-cash items including stock-based compensation, deferred revenue, depreciation, impairment and amortization charges. Cash provided by operating activities for the first quarter of fiscal 2022 decreased from the comparable period in the prior year for two primary reasons. First, we had strong multi-year subscription sales in the first quarter of fiscal year 2022, which are generally sold on three-year terms. Multi-year subscriptions are billed on an annual basis with the remainder recognized on the balance sheet as unbilled assets. Second, during the quarter we had significant prepayments with our contract manufacturer associated with components for future hardware-based solution builds.

Cash from operations could be affected by various risks and uncertainties, including, but not limited to, the effects of the COVID-19 pandemic and other risks detailed in Part 1, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended September 30, 2021. 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 used in investing activities was $42.0 million for the three months ended December 31, 2021, compared to cash provided by investing activities of $20.6 million for the same period in the prior year. Investing activities include purchases, sales and maturities of available-for-sale securities, business acquisitions and capital expenditures. The amount of cash used in investing activities for the three months ended December 31, 2021 was primarily the result of $68.0 million in cash paid for the acquisition of Threat Stack in the first quarter of fiscal 2022, 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 $116.0 million for the three months ended December 31, 2021, compared to cash provided by financing activities of $17.7 million for the same period in the prior year. Our financing activities for the three months ended December 31, 2021 primarily consisted of $125.0 million of cash used to repurchase shares, as well as $13.6 million in cash used for taxes related to net share settlement of equity awards, and $5.0 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 $27.6 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 December 31, 2021, there were no outstanding borrowings under the Revolving Credit Facility, and we had available borrowing capacity of $350.0 million.

Obligations and Commitments

As of December 31, 2021, our principal commitments consisted of borrowings under the Term Loan Facility and obligations outstanding under operating leases.

In connection with the acquisition of Shape, on January 24, 2020, we 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 proceeds from the Term Loan Facility were primarily used to finance the acquisition of Shape and related expenses. As of December 31, 2021, $365.0 million of principal amount under the Term Loan Facility was outstanding. There is a financial covenant that requires us to maintain a leverage ratio, calculated as of the last day of each fiscal quarter, of consolidated total indebtedness to consolidated EBITDA. This covenant may result in a higher interest rate on our outstanding principal borrowings on the Term Loan Facility in future periods, depending on the Company's performance. We will monitor the effect that the COVID-19 pandemic may have on our leverage ratio calculation but do not believe there will be a material impact to the interest payable on our borrowings under the Term Loan Facility. Refer to Note 7 of our Consolidated Financial Statements for the scheduled principal maturities of the Term Loan Facility as of December 31, 2021.

We lease our facilities under operating leases that expire at various dates through 2033. There have been no material changes in our principal lease commitments compared to those discussed in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021.

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.

Recent Accounting Pronouncements

The anticipated impact of recent accounting pronouncements is discussed in Note 1 to the accompanying Notes to Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. We maintain an investment portfolio of various holdings, types, and maturities. Our primary objective for holding fixed income securities is to achieve an appropriate investment return consistent with preserving principal and managing risk. At any time, a sharp rise in market interest rates could have a material adverse impact on the fair value of our fixed income investment portfolio. Conversely, declines in interest rates, including the impact from lower credit spreads, could have a material adverse impact on interest income for our investment portfolio. Our fixed income investments are held for purposes other than trading. Our fixed income investments were not leveraged as of December 31, 2021. We monitor our interest rate and credit risks, including our credit exposures to specific rating categories and to individual issuers. As of December 31, 2021, 42.3% of our fixed income securities balance consisted of U.S. government and U.S. government agency securities. We believe the overall credit quality of our portfolio is strong.

Refer to Note 7 of our Consolidated Financial Statements for information on our recent borrowings under the Term Loan Facility. Borrowings under the Term Loan Facility bear interest at a rate equal to, at our option, (a) LIBOR, adjusted for customary statutory reserves, plus an applicable margin of 1.125% to 1.75% depending on our leverage ratio, or (b) an alternate base rate determined in accordance with the Term Credit Agreement, plus an applicable margin of 0.125% to 0.750% depending on our leverage ratio.

The Term Loan Facility requires us to maintain a leverage ratio financial covenant, calculated as of the last day of each fiscal quarter, of consolidated total indebtedness to consolidated EBITDA. This covenant may result in a higher interest rate on our outstanding principal borrowings on the Term Loan Facility in future periods, depending on the Company's performance. At any time, a sharp rise in market interest rates could have a material adverse impact on the interest payable on outstanding principal borrowings on our Term Loan Facility. We monitor our interest rate and credit risks, which include the effect that the COVID-19 pandemic may have on interest rates on principal borrowings under the Term Loan Facility. As of December 31, 2021, we have not noted any adverse impacts to interest rates that would have a material impact to interest owed on principal borrowings.

Foreign Currency Risk. The majority of our sales and expenses are denominated in U.S. dollars and as a result, we have not experienced significant foreign currency transaction gains and losses to date.

Management believes there have been no material changes to our quantitative and qualitative disclosures about market risk during the three month period ended December 31, 2021, compared to those discussed in our Annual Report on Form 10-K for the year ended September 30, 2021.

Item 4. 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")) which 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 December 31, 2021 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 December 31, 2021.

Changes in Internal Control over Financial Reporting

During the first 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 control over financial reporting.

Although the majority of F5's global workforce is working remotely as a result of the COVID-19 pandemic, there were no material changes to our existing internal controls over financial reporting as a result of this.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

See Note 9 - Commitments and Contingencies of the Notes to Financial Statements (Part I, Item 1 of this Form 10-Q) for information regarding legal proceedings in which we are involved.

Item 1A. Risk Factors

There have been no material changes to our risk factors from those described in Part 1, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended September 30, 2021, which was filed with the Securities and Exchange Commission on November 16, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On October 31, 2018, 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 $4.4 billion program, initially approved in October 2010 and expanded in each fiscal year. 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. As of December 31, 2021, the Company had $647.5 million remaining authorized to purchase shares under its share repurchase program.

Shares repurchased and retired for the three months ended December 31, 2021 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]
October 1, 2021 — October 31, 2021	—	—	—	$ 772,511
November 1, 2021 — November 30, 2021	583,969	$ 230.37	520,839	$ 651,562
December 1, 2021 — December 31, 2021	17,668	$ 229.87	17,668	$ 647,500

(1) Includes 63,130 shares withheld from restricted stock units that vested in the first quarter of fiscal 2022 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.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number		Exhibit Description
3.1	—	Fourth Amended and Restated Articles of Incorporation of the Registrant (1)
3.2	—	Eighth Amended and Restated Bylaws of the Registrant (2)
10.1	—	F5 Networks, Inc. Threat Stack Acquisition Equity Incentive Plan (3) §
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
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.

(1) Incorporated by reference from Current Report on Form 8-K dated November 15, 2021 and filed with the SEC on November 15, 2021.
(2) Incorporated by reference from Current Report on Form 8-K dated November 15, 2021 and filed with the SEC on November 15, 2021.
(3) Incorporated by reference from Registration Statement on Form S-8 File No. 333-260656.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 4th day of February, 2022.

F5, INC.

By: /s/ FRANCIS J. PELZER

Francis J. Pelzer
Executive Vice President,
Chief Financial Officer
(principal financial officer and principal accounting officer)