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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

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: 001-36343

A10 NETWORKS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**20-1446869**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

2300 Orchard Parkway, San Jose, California 95131
(Address of Principal Executive Offices and Zip Code)

(408) 325-8668
(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, $0.00001 par value	**ATEN**	**New York Stock Exchange**

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.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	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 ☒

As of October 28, 2022, the number of outstanding shares of the registrant's common stock, par value $0.00001 per share, was 73,447,815.

A10 NETWORKS, INC.
FORM 10-Q

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "believe," "may," "will," "potentially," "estimate," "continue," "anticipate," "intend," "could," "would," "project," "plan," "expect," and similar expressions that convey uncertainty of future events or outcomes are intended to identify forward-looking statements.

These forward-looking statements include, but are not limited to, statements concerning the following:

- *the impact of the COVID-19 pandemic on our business, results of operations, financial position and liquidity;*
- *the ongoing global semiconductor shortage;*
- *our ability to provide customers with improved benefits relating to their applications;*
- *our ability to maintain an adequate rate of revenue growth and other factors contributing to such growth;*
- *our ability to successfully anticipate market needs and opportunities;*
- *our business plan and our ability to effectively manage our growth;*
- *our plans to strengthen our sales efforts;*
- *our expectations with respect to recognizing revenue related to remaining performance obligations;*
- *our plans to introduce new products;*
- *loss or delay of expected purchases by our largest end-customers;*
- *our ability to further penetrate our existing customer base;*
- *our ability to displace existing products in established markets;*
- *continued growth in markets relating to network security;*
- *our ability to timely and effectively scale and adapt our existing technology;*
- *our ability to innovate new products and bring them to market in a timely manner;*
- *our ability to conduct business internationally and any related impact on profitability;*
- *the effects of increased competition in our market and our ability to compete effectively;*
- *the effects of seasonal trends on our results of operations;*
- *our expectations concerning relationships with third parties;*
- *our expectations with respect to the realization of our tax assets and our unrecognized tax benefits;*
- *our plans with respect to the repatriation of our earnings from our foreign operations;*
- *the attraction, retention and growth of qualified employees and key personnel;*
- *our ability to maintain profitability while continuing to invest in our sales, marketing, product development, distribution channel partner programs and research and development teams;*
- *our expectations regarding our future costs and expenses;*
- *our expectations with respect to liquidity position and future capital requirements;*
- *our exploration of strategic alternatives;*
- *variations in product mix or geographic locations of our sales;*
- *our stock repurchase program and our quarterly cash dividends;*
- *our expectations regarding our properties and related costs;*
- *fluctuations in currency exchange rates;*
- *tariffs affecting us;*
- *increased cost requirements of being a public company, including related to environmental, social and governance matters, and future sales of substantial amounts of our common stock in the public markets;*
- *the cost and potential outcomes of litigation;*
- *our ability to maintain, protect, and enhance our brand and intellectual property;*
- *future acquisitions of or investments in complementary companies, products, services or technologies; and*
- *our ability to effectively integrate operations of entities we have acquired or may acquire.*

These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described in "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time such as the current COVID-19 pandemic. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following: the effects of the COVID-19 global pandemic on the Company and its business, and on the business of its business partners and customers; unanticipated changes in the markets in which the Company operates; the effects of the current macroeconomic climate (especially in light of the ongoing adverse effects of the COVID-19 global pandemic); execution risks related to closing key deals and improving our execution, the continued market adoption of our products, our ability to successfully anticipate market

needs and opportunities, our timely development of new products and features, our ability to maintain profitability, any loss or delay of expected purchases by our largest end-customers, our ability to maintain or improve our competitive position, competitive and execution risks related to cloud-based computing trends, our ability to attract and retain new end-customers and our largest end-consumers, our ability to maintain and enhance our brand and reputation, changes demanded by our customers in the deployment and payment model for our products, continued growth in markets relating to network security, the success of any future acquisitions or investments in complementary companies, products, services or technologies, the ability of our sales team to execute well, our ability to shorten our close cycles, the ability of our channel partners to sell our products, variations in product mix or geographic locations of our sales, risks associated with our presence in international markets, weaknesses or deficiencies in our internal control over financial reporting, and our ability to timely file periodic reports required to be filed under the Securities Exchange Act of 1934, as well as other risks identified in the "Risk Factors" section of this Report.

In light of these risks, uncertainties, and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Any forward-looking statements made by us in this report speak only as of the date of this report, and we do not intend to update these forward-looking statements after the filing of this report, except as required by law.

Our investor relations website is located at https://investors.A10networks.com. We use our investor relations website, our company blog (https://www.a10networks.com/blog) and our corporate Twitter account (https://twitter.com/A10Networks) to post important information for investors, including news releases, analyst presentations, and supplemental financial information, and as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Accordingly, investors should monitor our investor relations website, our company blog and our corporate Twitter account, in addition to following press releases, SEC filings and public conference calls and webcasts. We also make available, free of charge, on our investor relations website under "SEC Filings," our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports as soon as reasonably practicable after electronically filing or furnishing those reports to the SEC.

NOTE REGARDING COVID-19

In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic, and the virus continues to affect in areas where we operate and sell our products and services. In response to the pandemic, public health organizations recommended, and many local governments implemented, measures to slow and limit the transmission of the virus, including shelter in place and social distancing ordinances, which resulted in a significant deterioration of economic conditions in many of the countries in which we operate. These types of measures continue to negatively affect many of the countries where we operate. The spread of the COVID-19 virus also caused us to implement modifications on our business practices (including work-from-home policies and restrictions on travel by our employees), some of which remain in place, although to a lesser extent than at the start of the pandemic. These same circumstances may affect the operations of our contract manufacturers and many of our vendors, as their own workforce and operations are disrupted by efforts to curtail the spread of this virus. COVID-19 may result in supply shortages of our products or our ability to import, export or sell product to customers in both the U.S. and international markets. While we expect the impacts of COVID-19 to be temporary, the disruptions caused by the virus may negatively affect our revenue, results of operations, financial condition, liquidity, and capital investments in 2022.

In response to the outbreak of COVID-19, we have taken the following measures:

- Implemented work-from-home and social distancing policies for certain employees within our organization;
- Taken steps to ensure employee's ability to remotely work-from-home when feasible;
- Continue to maintain our focus on improving profitability; and
- Continue to monitor our supply chain closely.

The impact of the pandemic on our business, as well as the business of our business partners, and the additional measures that may be needed in the future in response to it, will depend on many factors beyond our control and knowledge. We will continually monitor the situation to determine what actions may be necessary or appropriate to address the impact of the pandemic, which may include actions mandated or recommended by federal, state or local authorities.

RISK FACTOR SUMMARY

Risks Related to Our Business, Operations and Industry

- *the effects of the COVID-19 pandemic;*
- *anticipating market needs and opportunities, and market adoption of our products;*
- *timely development of new products and features;*
- *maintaining profitability;*
- *variability in our operating results;*
- *our reliance on shipments at the end of the quarter;*
- *intense competition and maintaining or improving our competitive position;*
- *cloud-based computing trends;*
- *maintaining and enhancing our brand and reputation;*
- *a limited number of end-customers comprise a significant portion of revenue;*
- *changes demanded by customers in our deployment and payment models;*
- *large end-customers demanding favorable terms and conditions;*
- *fluctuations in our gross margin;*
- *significant revenue from international sources;*
- *continued expansion of our international operations;*
- *hiring, retaining and motivating qualified personnel;*
- *exploration of strategic alternatives;*
- *adverse economic conditions resulting in reduced technology spending;*
- *our dependence on third-party manufacturers;*
- *limited supply sources, supply shortages and changes;*
- *real or perceived defects, errors or vulnerabilities in our products and services;*
- *warranty claims, returns, liability and defects;*
- *undetected software and hardware errors;*
- *use of open source software;*
- *interoperability with systems developed by others;*
- *prevention of inventory excesses or shortages;*
- *our ability to sell products dependent on quality support and services;*
- *maintaining high-quality support and services;*
- *product conformity with industry standards;*
- *our dependence on information technology systems;*
- *potential future acquisitions;*
- *credit risk of distribution partners and customers; and*
- *earthquakes, fires, power outages, floods, acts of war and terrorism.*

Risks Related to Intellectual Property, Litigation, Laws and Regulations

- *litigation and claims regarding our intellectual property rights;*
- *protecting our intellectual property rights;*
- *U.K. political developments including Brexit;*
- *enhanced U.S. tariffs, import/export restrictions, Chinese regulations, trade barriers;*
- *protecting and securing confidentiality of data;*
- *costs of protecting against security breaches;*
- *our protection of personal data;*
- *sales to governmental organizations;*
- *compliance with governmental laws and regulations;*
- *governmental export and import controls;*
- *environmental laws and regulations;*
- *limitations on use of net operating loss carryforwards;*
- *changes in tax laws or regulations or, adverse outcomes to tax return examinations;*
- *changes in generally accepted accounting principles;*
- *our ability to maintain effective internal controls;*
- *our charter and Delaware law could discourage takeover attempts leading to management entrenchment;*
- *certain stockholder actions governed by the Court of Chancery of the State of Delaware; and*
- *increasing attention on environmental, social and governance matters.*

Risks Related to Capitalization and Financial Markets

• fluctuations in foreign currency exchange rates;
• ownership concentration of our common stock;
• our ability to raise additional funds and stockholder dilution;
• volatility of the price of our common stock;
• potential substantial sales of common stock in the public markets;
• reports by security and industry analysts,
• changes to our dividend program; and
• our stock repurchase programs.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A10 NETWORKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands, except par value)

	September 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 32,131	$ 78,925
Marketable securities	95,642	106,117
Accounts receivable, net of allowances of $319 and $543, respectively	73,500	61,795
Inventory	21,289	22,462
Prepaid expenses and other current assets	15,023	14,720
Total current assets	237,585	284,019
Property and equipment, net	17,958	10,692
Goodwill	1,307	1,307
Deferred tax assets, net	65,557	65,773
Other non-current assets	30,254	31,294
Total assets	$ 352,661	$ 393,085
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,045	$ 6,852
Accrued liabilities	41,472	36,101
Deferred revenue	74,762	73,132
Total current liabilities	122,279	116,085
Deferred revenue, non-current	51,405	48,499
Other non-current liabilities	18,243	19,613
Total liabilities	191,927	184,197
Commitments and contingencies (Note 2 and Note 5)		
Stockholders' equity:		
Common stock, $0.00001 par value: 500,000 shares authorized; 86,790 and 84,717 shares issued and 73,406 and 77,423 shares outstanding, respectively	1	1
Treasury stock, at cost: 13,384 and 7,294 shares, respectively	(134,934)	(55,677)
Additional paid-in-capital	460,884	446,035
Dividends paid	(15,392)	(3,880)
Accumulated other comprehensive income	(1,341)	(229)
Accumulated deficit	(148,484)	(177,362)
Total stockholders' equity	160,734	208,888
Total liabilities and stockholders' equity	$ 352,661	$ 393,085

See accompanying notes to the condensed consolidated financial statements.

A10 NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue:				
Products	$ 45,104	$ 39,815	$ 123,624	$ 104,718
Services	26,955	25,545	79,080	74,653
Total revenue	72,059	65,360	202,704	179,371
Cost of revenue:				
Products	10,191	7,859	28,342	23,160
Services	4,574	5,335	12,747	16,163
Total cost of revenue	14,765	13,194	41,089	39,323
Gross profit	57,294	52,166	161,615	140,048
Operating expenses:				
Sales and marketing	21,605	21,354	66,159	60,195
Research and development	14,360	13,578	41,483	41,050
General and administrative	5,661	6,931	17,160	17,260
Total operating expenses	41,626	41,863	124,802	118,505
Income from operations	15,668	10,303	36,813	21,543
Non-operating income (expense), net:				
Interest income	432	66	736	306
Other income (expense), net	(871)	(264)	(1,204)	(1,799)
Non-operating income (expense), net	(439)	(198)	(468)	(1,493)
Income before provision for (benefit from) income taxes	15,229	10,105	36,345	20,050
Provision for (benefit from) income taxes	3,116	(64,781)	7,467	(64,109)
Net income	$ 12,113	$ 74,886	$ 28,878	$ 84,159
Net income per share:				
Basic	$ 0.16	$ 0.97	$ 0.38	$ 1.09
Diluted	$ 0.16	$ 0.94	$ 0.37	$ 1.05
Weighted-average shares used in computing net income per share:				
Basic	75,881	77,149	76,191	76,885
Diluted	77,679	79,927	78,454	79,803

See accompanying notes to the condensed consolidated financial statements.

A10 NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	$ 12,113	$ 74,886	$ 28,878	$ 84,159
Other comprehensive income, net of tax:				
Unrealized gain (loss) on marketable securities	(135)	11	(1,112)	(96)
Comprehensive income	$ 11,978	$ 74,897	$ 27,766	$ 84,063

See accompanying notes to the condensed consolidated financial statements.

A10 NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Shares of common stock issued and outstanding				
Beginning balance	75,962	76,554	77,423	76,346
Common stock issued under employee equity incentive plans	1,164	954	2,073	2,410
Repurchase of common stock	(3,720)	—	(6,090)	(1,248)
Ending balance	73,406	77,508	73,406	77,508
Stockholders' equity				
Beginning balance	$ 194,759	$ 124,505	$ 208,888	$ 115,974
Common stock:				
Beginning balance	$ 1	$ 1	$ 1	$ 1
Common stock issued under employee equity incentive plans	—	—	—	—
Ending balance	$ 1	$ 1	$ 1	$ 1
Treasury stock, at cost:				
Beginning balance	$ (87,435)	$ (48,623)	$ (55,677)	$ (37,410)
Repurchase of common stock	(47,499)	—	(79,257)	(11,213)
Ending balance	$ (134,934)	$ (48,623)	$ (134,934)	$ (48,623)
Dividends paid:				
Beginning balance	$ (11,543)	$ —	$ (3,880)	$ —
Payments for dividends	(3,849)	—	(11,512)	—
Ending balance	$ (15,392)	$ —	$ (15,392)	$ —
Additional paid-in capital:				
Beginning balance	$ 455,539	$ 436,112	$ 446,035	$ 425,534
Common stock issued under employee equity incentive plans	1,691	172	4,662	3,750
Stock-based compensation	3,654	4,021	10,187	11,021
Ending balance	$ 460,884	$ 440,305	$ 460,884	$ 440,305
Accumulated other comprehensive income:				
Beginning balance	$ (1,206)	$ (9)	$ (229)	$ 98
Unrealized income (loss) on marketable securities, net of tax	(135)	11	(1,112)	(96)
Ending balance	$ (1,341)	$ 2	$ (1,341)	$ 2
Accumulated deficit:				
Beginning balance	$ (160,597)	$ (262,976)	$ (177,362)	$ (272,249)
Net income	12,113	74,886	28,878	84,159
Ending balance	$ (148,484)	$ (188,090)	$ (148,484)	$ (188,090)
Total stockholders' equity	$ 160,734	$ 203,595	$ 160,734	$ 203,595

See accompanying notes to the condensed consolidated financial statements.

A10 NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Nine Months Ended September 30,	
	2022	**2021**
Cash flows from operating activities:		
Net income	$ 28,878	$ 84,159
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,539	7,044
Stock-based compensation	9,818	10,848
Release of deferred tax asset valuation allowance	—	(65,417)
Other non-cash items	49	786
Changes in operating assets and liabilities:		
Accounts receivable	(11,090)	4,418
Inventory	530	1,438
Prepaid expenses and other assets	(2,574)	1,905
Accounts payable	(914)	(1,086)
Accrued liabilities	4,001	(11,309)
Deferred revenue	4,536	8,417
Net cash provided by operating activities	38,773	41,203
Cash flows from investing activities:		
Proceeds from sales of marketable securities	6,252	5,865
Proceeds from maturities of marketable securities	48,248	70,870
Purchases of marketable securities	(45,699)	(104,732)
Purchases of property and equipment	(8,261)	(3,387)
Net cash provided by (used in) investing activities	540	(31,384)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee equity incentive plans	4,662	3,750
Repurchase of common stock	(79,257)	(11,213)
Payments for dividends	(11,512)	—
Net cash used in financing activities	(86,107)	(7,463)
Net increase (decrease) in cash and cash equivalents	(46,794)	2,356
Cash and cash equivalents—beginning of period	$ 78,925	$ 83,281
Cash and cash equivalents—end of period	$ 32,131	$ 85,637
Non-cash investing and financing activities:		
Transfers between inventory and property and equipment	$ 642	$ 122
Purchases of property and equipment included in accounts payable	$ 108	$ 9

See accompanying notes to the condensed consolidated financial statements.

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

A10 Networks, Inc. (together with our subsidiaries, the "Company", "we", "our" or "us") was incorporated in California in 2004 and reincorporated in Delaware in March 2014. We are headquartered in San Jose, California and have wholly-owned subsidiaries throughout the world including Asia and Europe.

We are a leading provider of networking solutions that enable next-generation networks focused on reliability, availability, scalability and cybersecurity. Our portfolio supports customers operating in the cloud, on-premise or in hybrid environments providing rapid return on their investment as well as investment protection with best-in-class technical performance. As cyber-attacks increase in volume and complexity, we integrate security as a key attribute in our solutions that further enable our customers to continue to adapt to market trends in cloud, internet of things and the ever increasing need for more data, building upon our strong global footprint and leadership in application and network infrastructure. Our customers include leading service providers (cloud, telecommunications, multiple system operators, cable), government organizations, and enterprises.

Our product portfolio provides cybersecurity and infrastructure solutions. The portfolio consists of the following major categories; Standalone Thunder Application Delivery Controller (ADC), Carrier-Grade Network Access Translation (CGNAT)/Convergent Firewall (CFW) and Thunder Threat Protection System (TPS) for DDOS protection/Secure Socket Layer Insight (SSLi). In addition, we deliver management, automation and analytics tools including Harmony Controller and aGalaxy. Our products are offered in a variety of form factors and payment models, including physical appliances and perpetual and subscription-based software licenses, as well as pay-as-you-go licensing models and FlexPool, a flexible consumption-based software model.

We derive revenue from two sources: (i) products revenue, which includes hardware, perpetual software license and subscription offerings, which include term-based license agreements and software-as-a-service; and (ii) services revenue, which includes post contract support ("PCS"), professional services, and training. Revenue for term-based license agreements is recognized at a point in time when the Company delivers the software license to the customer and the subscription term has commenced. For our software-as-a-service offerings, our customers do not take possession of the Company's software but rather we provide access to the service via a hosting arrangement. Revenue in these arrangements is recognized ratably as the services are provided. A substantial portion of our revenue is from sales of our products and services through distribution channel partners, such as resellers and distributors. Our customers predominantly purchase PCS services in conjunction with purchases of our products. We recognize services revenue ratably over the term of the PCS contract, which is typically one year, but can be up to seven years.

We sell our products globally to service providers and enterprises that depend on data center applications and networks to generate revenue and manage operations efficiently. We report two customer verticals: service providers and enterprises and we report customer revenues in three broad geographic regions: the Americas, APJ and EMEA regions. In the three months ended March 31, 2022, we changed the way we present revenue by geographic region. The Americas region comprises the United States and all other countries in America (excluding the United States). The APJ region comprises Japan and all other countries in APAC (excluding Japan). We believe this vertical and revised geographic view aligns with how we manage the business and maps our product portfolio to customer verticals. This change in the way we report revenue had no impact to our key metrics including operations, comprehensive income and accumulated deficit.

Our end-customers operate in a variety of industries, including telecommunications, technology, industrial, retail, financial, gaming, education and government. Since inception, our customer base has grown rapidly. As of September 30, 2022, we have sold our products to more than 7,950 end-customers worldwide since our inception.

We sell substantially all of our solutions through our high-touch sales organization as well as distribution channel partners, including distributors, value-added resellers and system integrators, and fulfill nearly all orders globally through such partners. We believe this sales approach allows us to obtain the benefits of channel distribution, such as expanding our market coverage, while still maintaining face-to-face relationships with our end-customers. We outsource the manufacturing of our hardware products to original design manufacturers. We perform quality assurance and testing at our San Jose, Taiwan and Japan distribution centers, as well as at our manufacturers' locations.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include those of A10 Networks, Inc. and its subsidiaries after elimination of all intercompany accounts and transactions.

We have prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC" or the "Commission"). As permitted under these rules and regulations, we have condensed or omitted certain financial information and footnote disclosures we normally include in our annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The unaudited condensed consolidated balance sheet as of December 31, 2021 has been derived from our audited financial statements, which are included in our 2021 Annual Report on Form 10-K for the year ended December 31, 2021 on file with the SEC (the "2021 Annual Report").

These financial statements have been prepared on the same basis as our annual financial statements and, in management's opinion, reflect all adjustments consisting only of normal recurring adjustments that are necessary for a fair presentation of our financial information. Our interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year.

These financial statements and accompanying notes should be read in conjunction with the financial statements and accompanying notes thereto in the 2021 Annual Report.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Those estimates and assumptions affect revenue recognition and deferred revenue, the allowance for doubtful accounts, the sales return reserve, the valuation of inventory, the fair value of marketable securities, contingencies and litigation, accrued liabilities, deferred commissions and the determination of fair value of stock-based compensation. These estimates are based on information available as of the date of the condensed consolidated financial statements.

Significant Accounting Policies

The Company's significant accounting policies are disclosed in Part II – Item 8, "Financial Statements and Supplementary Data" of the Company's Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC on March 8, 2022. There have been no material changes to the Company's significant accounting policies during the nine months ended September 30, 2022.

Concentration of Credit Risk and Significant Customers

Financial instruments that potentially subject us to concentrations of credit risk consist of cash, cash equivalents, marketable securities and accounts receivable. Our cash, cash equivalents and marketable securities are held and invested in high-credit quality financial instruments by recognized financial institutions and are subject to minimum credit risk.

Our accounts receivable are unsecured and represent amounts due to us based on contractual obligations of our customers. We mitigate credit risk in respect to accounts receivable by performing periodic credit evaluations based on a number of factors, including past transaction experience, evaluation of credit history and review of the invoicing terms of the contract. We generally do not require our customers to provide collateral to support accounts receivable.

Significant customers, including distribution channel partners and direct customers (end-customers), are those which represent 10% or more of our total revenue for each period presented or our gross accounts receivable balance as of each respective balance sheet date.

Revenues from our significant customers as a percentage of our total revenue are as follows:

Customers	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Customer A (a distribution channel partner)	*	13%	*	10%
Customer B (an end-customer)	10%	*	10%	*
Customer C (an end-customer)	*	10%	13%	*

* represents less than 10% of total revenue

As of September 30, 2022, one customer accounted for 24% of our total gross accounts receivable. As of December 31, 2021, two customers accounted for 14% and 11%, respectively, of our total gross accounts receivable.

Recently Adopted Accounting Pronouncements

Effective January 1, 2020, the Company adopted Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), as amended, using a modified retrospective approach, with certain exceptions allowed. The standard amends the guidance for measuring and recording credit losses on financial assets measured at amortized cost by replacing the incurred-loss model with an expected-loss model. This new standard also requires that credit losses related to available-for-sale debt securities be recorded as an allowance through net income rather than by reducing the carrying amount under the current, other-than-temporary-impairment model. The adoption of ASU 2016-13 did not have a significant impact on the Company's condensed consolidated financial statements.

In January 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). ASU 2017-04 simplifies the accounting for goodwill impairments by eliminating the requirement to compare the implied fair value of goodwill with its carrying amount as part of step two of the goodwill impairment test referenced in ASC 350, *Intangibles – Goodwill and Other*. As a result, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. However, the impairment loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In January 2020, the Company adopted ASU 2017-04, and the adoption did not have a significant impact on the Company's condensed consolidated financial statements.

Effective January 1, 2020, the Company adopted ASU No. 2018-13, *Fair Value Measurement (Topic 820 – Changes to the Disclosure Requirements for the Fair Value Measurement)* ("ASU 2018-13"). Under ASU 2018-13, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The adoption of ASU 2018-13 did not have a significant impact on the Company's condensed consolidated financial statements.

In November 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The amendments in this update improve consistent application of and simplify U.S. GAAP for Topic 740 by clarifying and amending existing guidance for, among other items, intra-period allocation, reporting tax law changes and losses in interim periods, state and local taxes not fully based on income and recognition of deferred tax liability related to certain transactions. There is also new guidance related to consolidated group reporting and tax impacts resulting from business combinations. The Company adopted this guidance effective January 1, 2021 and the adoption of this guidance did not have a significant impact on the Company's condensed consolidated financial statements.

In October 2020, the FASB issued ASU No. 2020-10, *Codification Improvements*. The amendments in this ASU improve the consistency of the codification and reorganize the guidance into appropriate sections providing less opportunities for disclosures to be missed. The amendments in this update do not change U.S. GAAP and are not expected to result in a significant change in practice. The Company adopted this guidance on January 1, 2021 and the adoption of this guidance did not have a significant impact on the Company's condensed consolidated financial statements.

2. Leases

The Company leases various operating spaces in the United States, Asia and Europe under non-cancellable operating lease arrangements that expire on various dates through July 2027. These arrangements require us to pay certain operating expenses, such as taxes, repairs and insurance, and contain renewal and escalation clauses.

The table below presents the Company's right-of-use assets and lease liabilities as of September 30, 2022 (in thousands):

	September 30, 2022
Operating leases	
Right-of-use assets:	
Other non-current assets	$ 22,388
Total right-of-use assets	$ 22,388
Lease liabilities:	
Accrued liabilities	$ 4,653
Other non-current liabilities	17,972
Total operating lease liabilities	$ 22,625

The aggregate future lease payments for non-cancelable operating leases as of September 30, 2022 were as follows (in thousands):

Remainder of 2022	$ 1,309
2023	5,314
2024	5,438
2025	4,953
2026	4,892
Thereafter	2,441
Total lease payments	24,347
Less: imputed interest	(1,722)
Present value of lease liabilities	$ 22,625

The components of lease costs were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Operating lease costs	$ 1,085	$ 4,069	$ 3,248	$ 8,171
Short-term lease costs	126	394	417	853
Total lease costs	$ 1,211	$ 4,463	$ 3,665	$ 9,024

Average lease terms and discount rates for the Company's operating leases were as follows:

	September 30, 2022
Weighted-average remaining term (years)	4.64
Weighted-average discount rate	3.2%

Supplemental cash flow information for the Company's operating leases were as follows (in thousands):

	Nine Months Ended September 30,	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	3,855
Right-of-use assets obtained in exchange for new lease liabilities	$	—

3. Marketable Securities and Fair Value Measurements

Marketable Securities

Marketable securities, classified as available-for-sale, consisted of the following (in thousands):

	September 30, 2022				December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate securities	$ 30,928	$ —	$ (730)	$ 30,198	$ 62,588	$ 1	$ (168)	$ 62,421
U.S. Treasury and agency securities	41,217	—	(502)	40,715	13,904	—	(59)	13,845
Commercial paper	16,524	—	—	16,524	23,570	—	—	23,570
Asset-backed securities	8,314	—	(109)	8,205	6,285	—	(4)	6,281
Total	$ 96,983	$ —	$ (1,341)	$ 95,642	$ 106,347	$ 1	$ (231)	$ 106,117

During the three and nine months ended September 30, 2022 and 2021, we did not reclassify any amount to earnings from accumulated other comprehensive income related to unrealized gains or losses.

The following table summarizes the cost and estimated fair value of marketable securities based on stated effective maturities as of September 30, 2022 (in thousands):

	Amortized Cost	Fair Value
Less than 1 year	$ 89,300	$ 88,265
Mature in 1 - 3 years	7,683	7,377
Total	$ 96,983	$ 95,642

All available-for-sale securities have been classified as current because they are available for use in current operations.

Marketable securities in an unrealized loss position as of September 30, 2022 consisted of the following (in thousands):

	Less Than 12 Months		12 Months or More		Total	
As of September 30, 2022	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate securities	$ 30,198	$ (730)	$ —	$ —	$ 30,198	$ (730)
U.S. Treasury and agency securities	39,716	(502)	—	—	39,716	(502)
Asset-backed securities	8,205	(109)	—	—	8,205	(109)
	$ 78,119	$ (1,341)	$ —	$ —	$ 78,119	$ (1,341)

Marketable securities in an unrealized loss position as of December 31, 2021 consisted of the following (in thousands):

As of December 31, 2021	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate securities	$ 62,012	$ (168)	$ —	$ —	$ 62,012	$ (168)
U.S. Treasury and agency securities	13,845	(59)	—	—	13,845	(59)
Asset-backed securities	6,281	(4)	—	—	6,281	(4)
	$ 82,138	$ (231)	$ —	$ —	$ 82,138	$ (231)

Based on evaluation of securities that have been in a continuous loss position, we did not recognize any other-than-temporary impairment charges during the three and nine months ended September 30, 2022 and 2021.

Fair Value Measurements

The following is a summary of our cash, cash equivalents and marketable securities measured at fair value on a recurring basis (in thousands):

	September 30, 2022				December 31, 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash	$ 31,877	$ —	$ —	$ 31,877	$ 62,021	$ —	$ —	$ 62,021
Cash equivalents	254	—	—	254	16,904	—	—	16,904
Corporate securities	—	30,198	—	30,198	—	62,421	—	62,421
U.S. Treasury and agency securities	—	40,715	—	40,715	—	13,845	—	13,845
Commercial paper	—	16,524	—	16,524	—	23,570	—	23,570
Asset-backed securities	—	8,205	—	8,205	—	6,281	—	6,281
Total	$ 32,131	$ 95,642	$ —	$ 127,773	$ 78,925	$ 106,117	$ —	$ 185,042

There were no transfers between Level 1 and Level 2 fair value measurement categories during the three and nine months ended September 30, 2022 and 2021.

4. Condensed Consolidated Financial Statement Details

Inventory

Inventory consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Raw materials	$ 11,933	$ 10,774
Finished goods	9,356	11,688
Total inventory	$ 21,289	$ 22,462

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Prepaid expenses	$ 4,795	$ 4,326
Deferred contract acquisition costs	7,805	7,399
Other	2,423	2,995
Total prepaid expenses and other current assets	$ 15,023	$ 14,720

Property and Equipment, Net

Property and equipment, net, consisted of the following (in thousands):

	Useful Life	September 30, 2022	December 31, 2021
	(in years)		
Equipment	1 - 5	$ 26,810	$ 25,407
Software	1 - 3	865	807
Furniture and fixtures	1 - 7	562	545
Leasehold improvements	Lease term	3,237	3,231
Construction in process		9,807	4,823
Property and equipment, gross		41,281	34,813
Less: accumulated depreciation		(23,323)	(24,121)
Property and equipment, net		$ 17,958	$ 10,692

Construction in process primarily consists of deferred software development costs related to several projects that are expected to take longer than one year to complete. We expect the first of these projects to be available for release to customers in the fourth quarter of 2022.

Depreciation expense on property and equipment was $0.7 million and $0.6 million for the three-month periods ended September 30, 2022 and 2021, respectively, and was $2.0 million for each of the nine-month periods ended September 30, 2022 and 2021.

Intangible Assets

Purchased intangible assets, which included developed technology and patents, were fully amortized as of December 31, 2021. Amortization expense related to these purchased intangible assets was $0.4 million and $0.7 million for the three and nine months ended September 30, 2021, respectively.

Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Accrued compensation and benefits	$ 23,251	$ 24,003
Accrued tax liabilities	6,930	1,020
Lease liability	4,653	3,983
Other	6,638	7,095
Total accrued liabilities	$ 41,472	$ 36,101

Deferred Revenue

Deferred revenue consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Deferred revenue:		
Products	$ 9,794	$ 6,164
Services	116,373	115,467
Total deferred revenue	126,167	121,631
Less: current portion	(74,762)	(73,132)
Non-current portion	$ 51,405	$ 48,499

5. Commitments and Contingencies

Lease Commitments

We lease various operating spaces in the United States, Asia and Europe under non-cancelable operating lease arrangements that expire on various dates through July 2027. These arrangements require us to pay certain operating expenses, such as taxes, repairs and insurance, and contain renewal and escalation clauses. We recognize rent expense under these arrangements on a straight-line basis over the term of the lease. See Note 2 – *Leases* for the Company's aggregate future lease payments for the Company's non-cancelable operating leases as of September 30, 2022.

Rent expense was $1.2 million and $1.3 million for the three months ended September 30, 2022 and 2021, respectively, and was $3.7 million and $4.1 million for the nine months ended September 30, 2022 and 2021, respectively.

Purchase Commitments

We have open purchase commitments with third-party contract manufacturers with facilities in Taiwan to supply nearly all of our finished goods inventories, spare parts, and accessories. These purchase orders are expected to be paid within one year of the issuance date. We had open purchase commitments with manufacturers in Taiwan totaling $37.9 million as of September 30, 2022.

Guarantees and Indemnifications

In the normal course of business, we provide indemnifications to customers against claims of intellectual property infringement made by third parties arising from the use of our products. Other guarantees or indemnification arrangements include guarantees of product and service performance, and standby letters of credit for lease facilities and corporate credit cards. We have not recorded a liability related to these indemnification and guarantee provisions and our guarantees and indemnification arrangements have not had any significant impact on our condensed consolidated financial statements to date.

6. Equity Incentive Plans, Stock-Based Compensation and Stock Repurchase Program

Equity Incentive Plans

2014 Equity Incentive Plan

The 2014 Equity Incentive Plan (the "2014 Plan") provides for the granting of stock options, restricted stock awards, restricted stock units ("RSUs"), performance-based RSUs ("PSUs"), stock appreciation rights, performance units and performance shares to our employees, consultants and members of our Board of Directors.

The shares authorized for the 2014 Plan increase annually by the lesser of (i) 8,000,000 shares, (ii) 5% of the outstanding shares of common stock on the last day of our immediately preceding fiscal year, or (iii) such other lesser amount as determined by our Board of Directors. Since November 2020, our Board of Directors determined the number of shares

authorized under the 2014 Plan were sufficient for the time being and decided not to increase the number of shares authorized in 2021 and in 2022. As of September 30, 2022, we had 13,293,128 shares available for future grant under the 2014 Plan.

2014 Employee Stock Purchase Plan

In October 2018, the Board of Directors approved amending the 2014 Employee Stock Purchase Plan (the "Amended 2014 Purchase Plan") in order to, among other things, reduce the maximum contribution participants can make under the plan from 15% to 10% of eligible compensation. The Amended 2014 Purchase Plan also reflects revised offering periods, which were changed from 24 months to six months in duration and that begin on or about December 1 and June 1 each year, starting in December 2018. As of September 30, 2022, the Company had 1,251,660 shares available for future issuance under the Amended 2014 Purchase Plan.

Stock-Based Compensation

A summary of our stock-based compensation expense is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Stock-based compensation by type of award:				
Stock awards	$ 3,168	$ 3,671	8,803	10,039
Employee stock purchase rights	337	287	1,015	809
	$ 3,505	$ 3,958	$ 9,818	$ 10,848
Stock-based compensation by category of expense:				
Cost of revenue	$ 434	$ 351	$ 1,155	$ 1,197
Sales and marketing	1,193	1,148	3,335	3,181
Research and development	826	916	2,455	2,923
General and administrative	1,052	1,543	2,873	3,547
	$ 3,505	$ 3,958	$ 9,818	$ 10,848

As of September 30, 2022, the Company had $30.6 million of unrecognized stock-based compensation expense related to unvested stock-based awards, including ESPP under our Amended 2014 Purchase Plan, which will be recognized over a weighted-average period of 2.41 years.

Stock Options

The following table summarizes our stock option activities and related information:

	Number of Shares (thousands)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (thousands)
Outstanding as of December 31, 2021	871	$ 6.13		
Exercised	(494)	6.00		
Outstanding as of September 30, 2022	377	6.30	1.57	$ 2,632
Vested and exercisable as of September 30, 2022	377	$ 6.30	1.57	$ 2,632

As of September 30, 2022, the aggregate intrinsic value represents the excess of the closing price of our common stock of $13.27 over the exercise price of the outstanding in-the-money options.

The intrinsic value of options exercised was $2.8 million and $3.1 million during the three months ended September 30, 2022 and 2021, respectively, and was $4.5 million and $4.8 million during the nine months ended September 30, 2022 and 2021, respectively.

Stock Awards

The Company has granted RSUs to its employees, consultants and members of its Board of Directors, and PSUs to certain executives and employees. The Company's PSUs have market performance-based vesting conditions as well as service-based vesting conditions. As of September 30, 2022, there were 2,515,276 RSUs and 815,162 PSUs outstanding.

The following table summarizes our stock award activities and related information:

	Number of Shares (thousands)	Weighted-Average Grant Date Fair Value Per Share	Weighted-Average Remaining Vesting Term (years)	Aggregate Fair Value (thousands)
Nonvested as of December 31, 2021	3,717	$ 8.56		
Granted	1,485	13.62		
Released	(1,445)	7.93		
Canceled	(426)	9.32		
Nonvested as of September 30, 2022	3,331	$ 10.99	1.74	$ 44,195

The aggregate fair value of stock awards released was $7.6 million and $9.2 million for the three months ended September 30, 2022 and 2021, respectively, and was $11.5 million and $17.1 million for the nine months ended September 30, 2022 and 2021, respectively.

Stock Repurchase Program

On September 17, 2020, the Company's Board of Directors approved a stock repurchase program of up to $50 million of its common stock over a period of twelve months. This repurchase program was active for twelve months and expired in the second half of 2021. On October 28, 2021, the Company announced its Board of Directors authorized a new stock repurchase program of up to $100 million of its common stock over a period of twelve months (the "2021 Program"). On November 1, 2022, the Company announced its Board of Directors authorized a new stock repurchase program of up to $50 million of its common stock over a period of twelve months (the "2022 Program").

During the three months ended September 30, 2022, the Company repurchased 3.7 million shares for a total cost of $47.5 million under the 2021 Program, of which 3.5 million shares were purchased in a privately negotiated transaction for a total cost of $44.6 million. During the nine months ended September 30, 2022, the Company repurchased 6.1 million shares for a total cost of $79.3 million under the 2021 Program. Under both programs, repurchased shares are held in treasury at cost. The Company's stock repurchase programs do not obligate it to acquire any specific number of shares. Shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act. To date, all repurchases under both programs have occurred in the open market and through privately negotiated transactions. Since approving the 2021 Program, the Company has repurchased 6.6 million shares for a total cost of $86.3 million through September 30, 2022 and the Company had $13.7 million available to repurchase shares under the 2021 Program as of September 30, 2022. The 2021 Program expired in October 2022 and the new 2022 Program went into effect.

7. Net Income Per Share

Basic net income per share is computed using the weighted average number of common shares outstanding for the period. Diluted net income per share applying the treasury stock method is computed using the weighted average number of common shares outstanding for the period plus potential dilutive common shares, including stock options, RSUs, PSUs and employee stock purchase rights, unless the potential common shares are anti-dilutive.

Basic and diluted net income per share are calculated as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Basic and diluted net income per share				
Numerator:				
Net income	$ 12,113	$ 74,886	$ 28,878	$ 84,159
Denominator:				
Weighted-average shares outstanding - basic	75,881	77,149	76,191	76,885
Effect of dilutive potential common shares from stock options, stock awards and employee stock purchase plan	1,798	2,778	2,263	2,918
Weighted-average shares outstanding - diluted	77,679	79,927	78,454	79,803
Net income per share:				
Basic	$ 0.16	$ 0.97	$ 0.38	$ 1.09
Diluted	$ 0.16	$ 0.94	$ 0.37	$ 1.05

The following table presents common shares related to potentially dilutive shares excluded from the calculation of diluted net income (loss) per share as their effect would have been anti-dilutive (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Stock options, restricted stock units and employee stock purchase rights	4	3	84	235

8. Income Taxes

We recorded income tax expense of $3.1 million and income tax benefit of $64.8 million for the three months ended September 30, 2022 and 2021, respectively, and we recorded an income tax provision of $7.5 million and an income tax benefit of $64.1 million for the nine months ended September 30, 2022 and 2021, respectively. The main component of the income tax benefit in 2021 is related to the valuation allowance release in the three months ended September 30, 2022. Income tax expense in 2022 is primarily U.S. state and federal taxes. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases using tax rates expected to be in effect during the years in which the basis differences reverse.

Recognition of deferred tax assets is appropriate when the realization of these assets is more likely than not. Primarily based upon a strong earnings history and expectation of future taxable income, with the exception of certain state tax attributes, we believe that a significant amount of the deferred tax assets would be realized on a more likely than not basis as of September 30, 2021. Therefore, we released the valuation allowance on our U.S. deferred tax assets except for state credits in 2021. For the three and nine months ended September 30, 2022, we recorded no change in our net valuation allowance.

We had $7.7 million of unrecognized tax benefits as of September 30, 2022. We do not anticipate a material change to our unrecognized tax benefits over the next twelve months. Unrecognized tax benefits may change during the next twelve months for items that arise in the ordinary course of business.

Accrued interest and penalties related to unrecognized tax benefits are recognized as part of our provision for income taxes in our condensed consolidated statements of operations.

We are subject to taxation in the United States, various states, and several foreign jurisdictions. Because we have net operating loss and credit carryforwards, there are open statutes of limitations in which federal, state, and foreign taxing authorities may examine our tax returns for all years from 2005 through the current period. We are currently under examination for transfer pricing practices in Japan for the years 2019 through 2021, which we expect to be concluded by the end of 2022.

On December 22, 2017, the Tax Act was signed into law. The Tax Act significantly revised the U.S. tax code generally effective January 1, 2018. Beginning in 2022 the Tax Act requires capitalization of research and development costs. We currently believe that this provision will not materially impact our income tax provision.

On June 29, 2020, the California Governor signed Assembly Bill 85, which includes several tax measures, provides for a three-year suspension of the use of net operating losses for medium and large businesses and a three-year limit on the use of business incentive tax credits to offset no more than $5 million of tax per year. The three-year term was subsequently revised to a two-year term and has been accounted for in our income tax provision.

9. Geographic Information

We report customer revenues in three broad geographic regions: the Americas, APJ and EMEA regions. In the three months ended March 31, 2022, we changed the way we present revenue by geographic region. The Americas region comprises the United States and all other countries in America (excluding the United States). The APJ region comprises Japan and all other countries in APAC (excluding Japan). We believe this vertical and revised geographic view aligns with how we manage the business and maps our product portfolio to customer verticals. This change in the way we report revenue had no impact to our key metrics including operations, comprehensive income and accumulated deficit.

The following table depicts the disaggregation of revenue by geographic region based on the ship to location of our customers and is consistent with how we evaluate our financial performance (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Americas	**$ 35,995**	**$ 32,261**	**$ 107,506**	**$ 87,367**
United States	*29,219*	*27,227*	*92,149*	*71,484*
Americas-other	*6,776*	*5,034*	*15,357*	*15,883*
APJ	**24,860**	**22,111**	**64,263**	**65,332**
APAC	*9,487*	*6,794*	*23,700*	*20,832*
Japan	*15,373*	*15,317*	*40,563*	*44,500*
EMEA	**11,204**	**10,988**	**30,935**	**26,672**
Total revenue	$ 72,059	$ 65,360	$ 202,704	$ 179,371

The following table is a summary of our long-lived assets which include property and equipment, net and operating lease right-of-use assets based on the physical location of the assets (in thousands):

	September 30, 2022	December 31, 2021
United States	$ 36,866	$ 32,255
Japan	1,959	422
India	856	513
Other	665	368
Total	$ 40,346	$ 33,558

10. Revenue

Contract Balances

The following table reflects contract balances with customers (in thousands):

	September 30, 2022	December 31, 2021
Accounts receivable, net	$ 73,500	$ 61,795
Deferred revenue, current	74,762	73,132
Deferred revenue, non-current	51,405	48,499

We receive payments from customers based upon billing cycles. Invoice payment terms usually range from 30 to 90 days.

Accounts receivable are recorded when the right to consideration becomes unconditional.

Contract assets include amounts related to our contractual right to consideration for performance obligations not yet billed and are included in prepaid and other current assets in the condensed consolidated balance sheets. The amounts were immaterial as of September 30, 2022 and December 31, 2021.

Deferred revenue primarily consists of amounts that have been invoiced but not yet been recognized as revenue and consists of performance obligations pertaining to support and subscription services. We recognized revenue of $20.3 million and $23.6 million during the three months ended September 30, 2022 and 2021, respectively, related to deferred revenues at the beginning of the respective periods. We recognized revenue of $59.5 million and $54.1 million during the nine months ended September 30, 2022 and 2021, respectively, related to deferred revenues at the beginning of the respective periods.

Deferred Contract Acquisition Costs

We capitalize certain contract acquisition costs consisting of incremental sales commissions incurred to obtain customer contracts. Deferred commissions related to product revenues are recognized upon transfer of control to customers. Deferred commissions related to services revenue are recognized as the related performance obligations are met. Deferred commissions that will be recognized during the succeeding 12-month period are recorded as prepaid expenses and other current assets, and the remaining portion is recorded as other non-current assets. Amortization of deferred commissions is included in sales and marketing expense.

As of September 30, 2022, the current and non-current portions of deferred contract acquisition costs were $7.8 million and $4.6 million, respectively. As of December 31, 2021, the current and non-current portions of deferred contract acquisition costs were $7.4 million and $4.5 million, respectively. Related amortization expense was $2.7 million and $1.9 million for the three months ended September 30, 2022 and 2021, respectively, and was $6.8 million and $5.4 million for the nine months ended September 30, 2022 and 2021, respectively.

We had no impairment loss in relation to the costs capitalized and no asset impairment charges related to contract assets during the three and nine months ended September 30, 2022 and 2021.

Remaining Performance Obligations

Remaining performance obligations represent contracted revenues that are non-cancellable and have not yet been recognized due to unsatisfied or partially satisfied performance obligations, which include deferred revenues and amounts that will be invoiced and recognized as revenues in future periods.

We expect to recognize revenue on the remaining performance obligations as follows (in thousands):

	September 30, 2022
Within 1 year	$ 74,762
Next 2 to 3 years	40,864
Thereafter	10,541
Total	$ 126,167

11. Subsequent Events

On November 1, 2022, the Company announced its Board of Directors declared a quarterly cash dividend. The dividend, in the amount of $0.06 per share outstanding, will be paid on December 1, 2022 to shareholders of record on November 15, 2022 as a return of capital. Future dividends will be subject to further review and approval by the Board in accordance with applicable law. The Board reserves the right to adjust or withdraw the quarterly dividend in future periods as it reviews the Company's capital allocation strategy from time-to-time.

Also on November 1, 2022, the Company announced its Board of Directors authorized a new, $50 million share repurchase program under which the Company may repurchase up to $50 million of its outstanding common stock during the next 12 months. Under the share repurchase program, the Company is authorized to repurchase shares of common stock in the open market, privately negotiated transactions, in block trades or a combination of the foregoing. The Board will review the share repurchase program periodically and may authorize adjustment of its term and size. The Company plans to fund repurchases from its existing cash balance and cash provided by operating activities.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations ("MD&A") should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this document. In addition to historical information, the MD&A contains forward-looking statements that reflect our plans, estimates, and beliefs that involve significant risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to those differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly in "Risk Factors," and "Note Regarding Forward-Looking Statements."

Overview

We are a leading provider of networking solutions that enable next-generation networks focused on reliability, availability, scalability and cybersecurity. Our portfolio supports customers operating in the cloud, on-premise or in hybrid environments providing rapid return on their investment as well as investment protection with best-in-class technical performance. As cyber-attacks increase in volume and complexity, we integrate security as a key attribute in our solutions that further enable our customers to continue to adapt to market trends in cloud, internet of things and the ever-increasing need for more data, building upon our strong global footprint and leadership in application and network infrastructure. Our customers include leading service providers (cloud, telecommunications, multiple system operators, cable), government organizations, and enterprises.

Our product portfolio provides cybersecurity and infrastructure solutions. The portfolio consists of the following major categories; Standalone Thunder Application Delivery Controller (ADC), Carrier-Grade Network Access Translation (CGNAT)/Convergent Firewall (CFW) and Thunder Threat Protection System (TPS) for DDOS protection/Secure Socket Layer Insight (SSLi). In addition, we deliver management, automation and analytics tools including Harmony Controller and aGalaxy. Our products are offered in a variety of form factors and payment models, including physical appliances and perpetual and subscription-based software licenses, as well as pay-as-you-go licensing models and FlexPool, a flexible consumption-based software model.

We derive revenue from two sources: (i) products revenue, which includes hardware, perpetual software license and subscription offerings, which include term-based license agreements and software-as-a-service; and (ii) services revenue, which includes post contract support ("PCS"), professional services, and training. Revenue for term-based license agreements is recognized at a point in time when the Company delivers the software license to the customer and the subscription term has commenced. For our software-as-a-service offerings, our customers do not take possession of the Company's software but rather we provide access to the service via a hosting arrangement. Revenue in these arrangements is recognized ratably as the services are provided. A substantial portion of our revenue is from sales of our products and services through distribution channel partners, such as resellers and distributors. Our customers predominantly purchase PCS services in conjunction with purchases of our products.

We sell our products globally to service providers and enterprises that depend on data center applications and networks to generate revenue and manage operations efficiently. We report two customer verticals: service providers and enterprises and we report customer revenues in three broad geographic regions: the Americas, APJ and EMEA regions. In the three months ended March 31, 2022, we changed the way we present revenue by geographic region. The Americas region comprises the United States and all other countries in America (excluding the United States). The APJ region comprises Japan and all other countries in APAC (excluding Japan). We believe this vertical and revised geographic view aligns with how we manage the business and maps our product portfolio to customer verticals. This change in the way we report revenue had no impact to our key metrics including operations, comprehensive income and accumulated deficit.

Our end-customers operate in a variety of industries, including telecommunications, technology, industrial, retail, financial, gaming, education and government. Since inception, our customer base has grown rapidly. As of September 30, 2022, we have sold our products to more than 7,950 customers worldwide since our inception.

We sell substantially all of our solutions through our high-touch sales organization as well as distribution channel partners, including distributors, value-added resellers and system integrators, and fulfill nearly all orders globally through such partners. We believe this sales approach allows us to obtain the benefits of channel distribution, such as expanding our market coverage, while still maintaining face-to-face relationships with our end-customers. We outsource the manufacturing of our hardware products to original design manufacturers. We perform quality assurance and testing at our San Jose, Taiwan and Japan distribution centers, as well as at our manufacturers' locations.

During the three months ended September 30, 2022, (i) 50% of our total revenue was generated from the Americas region, of which 41% was generated from the United States, (ii) 34% from the APJ region, of which 21% was generated from Japan, and (iii) 16% from the EMEA region. During the three months ended September 30, 2021, (i) 49% of our total revenue was generated from the Americas region, of which 42% was generated from the United States, (ii) 34% from the APJ region, of which 23% was generated from Japan, and (iii) 17% from the EMEA region. One of our priorities is to strengthen our sales efforts in North America. Our enterprise customers accounted for 38% and 35% of our total revenue during the three months ended September 30, 2022 and 2021, respectively, and our service provider customers accounted for 62% and 65% of our total revenue during the three months ended September 30, 2022 and 2021, respectively.

As a result of the nature of our target market and the current stage of our development, a substantial portion of our revenue comes from a limited number of large customers, including service providers and enterprise customers, in any period. Purchases by our ten largest end-customers accounted for 36% and 45% of our total revenue for the three months ended September 30, 2022 and 2021, respectively. Sales to these large end-customers have typically been characterized by large but irregular purchases with long sales cycles. The timing of these purchases and the delivery of the purchased products are difficult to predict. Consequently, any acceleration or delay in anticipated product purchases by or deliveries to our largest customers could materially impact our revenue and operating results in any quarterly period. This may cause our quarterly revenue and operating results to fluctuate from quarter to quarter and make them difficult to predict.

As of September 30, 2022, we had $32.1 million of cash and cash equivalents and $95.6 million of marketable securities. Cash provided by operating activities was $38.8 million during the nine months ended September 30, 2022, compared to $41.2 million of cash provided by operating activities in the same period of 2021.

We intend to continue to invest for long-term growth. We have invested and expect to continue to invest in our product development efforts to deliver new products and additional features in our current products to address customer needs. In addition, we may expand our global sales and marketing organizations, expand our distribution channel partner programs and increase awareness of our solutions on a global basis. Our investments in growth in these areas may affect our short-term profitability.

Results of Operations

A summary of our condensed consolidated statements of operations for the three and nine months ended September 30, 2022 and 2021 is as follows (dollars in thousands):

	Three Months Ended September 30,					
	2022		2021		Increase (Decrease)	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent
Revenue:						
Products	$ 45,104	62.6 %	$ 39,815	60.9 %	$ 5,289	13.3 %
Services	26,955	37.4	25,545	39.1	1,410	5.5
Total revenue	72,059	100.0	65,360	100.0	6,699	10.2
Cost of revenue:						
Products	10,191	14.1	7,859	12.0	2,332	29.7
Services	4,574	6.3	5,335	8.1	(761)	(14.3)
Total cost of revenue	14,765	20.5	13,194	20.2	1,571	11.9
Gross profit	57,294	79.5	52,166	79.8	5,128	9.8
Operating expenses:						
Sales and marketing	21,605	30.0	21,354	32.7	251	1.2
Research and development	14,360	19.9	13,578	20.8	782	5.8
General and administrative	5,661	7.9	6,931	10.6	(1,270)	(18.3)
Total operating expenses	41,626	57.8	41,863	64.0	(237)	(0.6)
Income from operations	15,668	21.7	10,303	15.8	5,365	52.1
Non-operating income (expense), net:						
Interest income	432	0.6	66	0.1	366	554.5
Other income (expense), net	(871)	(1.2)	(264)	(0.4)	(607)	229.9
Non-operating income (expense), net	(439)	(0.6)	(198)	(0.3)	(241)	121.7
Income before provision for (benefit from) income taxes	15,229	21.1	10,105	15.5	5,124	50.7
Provision for (benefit from) income taxes	3,116	4.3	(64,781)	(99.1)	67,897	(104.8)
Net income	$ 12,113	16.8 %	$ 74,886	114.6 %	$ (62,773)	(83.8)%

	Nine Months Ended September 30,					
	2022		2021		Increase (Decrease)	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent
Revenue:						
Products	$ 123,624	61.0 %	$ 104,718	58.4 %	$ 18,906	18.1 %
Services	79,080	39.0	74,653	41.6	4,427	5.9
Total revenue	202,704	100.0	179,371	100.0	23,333	13.0
Cost of revenue:						
Products	28,342	14.0	23,160	12.9	5,182	22.4
Services	12,747	6.3	16,163	9.0	(3,416)	(21.1)
Total cost of revenue	41,089	20.3	39,323	21.9	1,766	4.5
Gross profit	161,615	79.7	140,048	78.1	21,567	15.4
Operating expenses:						
Sales and marketing	66,159	32.6	60,195	33.6	5,964	9.9
Research and development	41,483	20.5	41,050	22.9	433	1.1
General and administrative	17,160	8.5	17,260	9.5	(100)	(0.6)
Total operating expenses	124,802	61.6	118,505	66.1	6,297	5.3
Income from operations	36,813	18.2	21,543	12.0	15,270	70.9
Non-operating income (expense), net:						
Interest income	736	0.4	306	0.2	430	140.5
Other income (expense), net	(1,204)	(0.6)	(1,799)	(1.0)	595	(33.1)
Non-operating income (expense), net	(468)	(0.2)	(1,493)	(0.8)	1,025	(68.7)
Income before provision for (benefit from) income taxes	36,345	17.9	20,050	11.2	16,295	81.3
Provision for (benefit from) income taxes	7,467	3.7	(64,109)	(35.7)	71,576	(111.6)
Net income	$ 28,878	14.2 %	$ 84,159	46.9 %	$ (55,281)	(65.7)%

Revenue

We derive revenue from two sources: (i) products revenue, which includes hardware, perpetual software license and subscription offerings, which include term-based license agreements and software-as-a-service; and (ii) services revenue, which includes post contract support ("PCS"), professional services, and training.

Our products revenue primarily consists of revenue from sales of our hardware appliances upon which our software is installed. Such software includes our ACOS software platform plus one or more of our ADC, CGN, TPS, SSLi or CFW solutions. Purchase of a hardware appliance includes a perpetual license to the included software. Additionally, an immaterial portion of our products revenue comes from subscription revenue. We offer several products by subscription, primarily through either term-based license agreements or as a service through our cloud-based platform. With respect to sales of our hardware appliances, we recognize products revenue upon transfer of control, generally at the time of shipment, provided that all other revenue recognition criteria have been met. Revenue for term-based license agreements is recognized at a point in time when we deliver the software license to the customer and the subscription term has commenced. For our software-as-a-service offerings, our customers do not take possession of our software but rather we provide access to the service via a hosting arrangement. Revenue in these arrangements is recognized ratably as the services are provided. As a percentage of revenue, our products revenue may vary from quarter to quarter based on, among other things, the timing of orders and delivery of products, cyclicality and seasonality, changes in currency exchange rates and the impact of significant transactions with unique terms and conditions.

We generate services revenue from sales of post contract support ("PCS"), which is bundled with sales of products and technical services. We offer tiered PCS services under renewable, fee-based PCS contracts, primarily including technical support, hardware repair and replacement parts, and software upgrades on a when-and-if-available basis. We recognize services revenue ratably over the term of the PCS contract, which is typically one year, but can be up to seven years.

A summary of our total revenue is as follows (dollars in thousands):

	Three Months Ended September 30,					
	2022		2021		Increase (Decrease)	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent
Revenue:						
Products	$ 45,104	63 %	$ 39,815	61 %	$ 5,289	13 %
Services	26,955	37	25,545	39	1,410	6
Total revenue	$ 72,059	100 %	$ 65,360	100 %	$ 6,699	10 %
Revenue by geographic region:						
Americas	**$ 35,995**	**50 %**	**$ 32,261**	**49 %**	**$ 3,734**	**12 %**
United States	*29,219*	*41 %*	*27,227*	*42 %*	*1,992*	*7 %*
Americas-other	*6,776*	*9 %*	*5,034*	*8 %*	*1,742*	*35 %*
APJ	**24,860**	**34 %**	**22,111**	**34 %**	**2,749**	**12 %**
APAC	*9,487*	*13 %*	*6,794*	*10 %*	*2,693*	*40 %*
Japan	*15,373*	*21 %*	*15,317*	*23 %*	*56*	*— %*
EMEA	**11,204**	**16 %**	**10,988**	**17 %**	**216**	**2**
Total revenue	$ 72,059	100 %	$ 65,360	100 %	$ 6,699	10 %

	Nine Months Ended September 30,					
	2022		2021		Increase (Decrease)	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent
Revenue:						
Products	$ 123,624	61 %	$ 104,718	58 %	$ 18,906	18 %
Services	79,080	39	74,653	42	4,427	6
Total revenue	$ 202,704	100 %	$ 179,371	100 %	$ 23,333	13 %
Revenue by geographic region:						
Americas	**$ 107,506**	**53 %**	**$ 87,367**	**49 %**	**$ 20,139**	**23 %**
United States	*92,149*	*45 %*	*71,484*	*40 %*	*20,665*	*29 %*
Americas-other	*15,357*	*8 %*	*15,883*	*9 %*	*(526)*	*(3) %*
APJ	**64,263**	**32 %**	**65,332**	**36 %**	**(1,069)**	**(2)%**
APAC	*23,700*	*12 %*	*20,832*	*12 %*	*2,868*	*14 %*
Japan	*40,563*	*20 %*	*44,500*	*25 %*	*(3,937)*	*(9) %*
EMEA	**30,935**	**15 %**	**26,672**	**15 %**	**4,263**	**16**
Total revenue	$ 202,704	100 %	$ 179,371	100 %	$ 23,333	13 %

Total revenue increased $6.7 million, or 10%, during the three months ended September 30, 2022, compared to the same period of 2021. Changes in revenue was due primarily to (i) a $3.7 million increase in the Americas region, comprised of an increase in the United States of $2.0 million and an increase in Americas-other of $1.7 million, (ii) a $2.7 million increase in the APJ region, comprised of an increase in APAC of $2.7 million and an increase in JAPAN of $56 thousand and (iii) a $0.2

million increase in the EMEA region. The overall increase in revenue was attributable to a $4.0 million increase in revenue from Enterprise customers and a $2.7 million increase in revenue from Service Provider customers during the three months ended September 30, 2022 compared to the same period of 2021. Products revenue increased $5.3 million, of which $3.0 million was from the APJ region and $2.5 million was from the Americas region, while services revenue increased $1.4 million, of which $1.2 million was from the Americas region during the three months ended September 30, 2022, compared to the same period of 2021.

Total revenue increased $23.3 million, or 13%, during the nine months ended September 30, 2022, compared to the same period of 2021. Changes in revenue was due primarily to (i) a $20.1 million increase in the Americas region, comprised of an increase in the United States of $20.7 million and a decrease in Americas-other of $0.5 million, (ii) a $1.1 million decrease in the APJ region, comprised of a decrease in Japan of $3.9 million and an increase in APAC of $2.9 million and (iii) a $4.3 million increase in the EMEA region. The overall increase in revenue was attributable to a $17.7 million increase in revenue from Service Provider customers and a $5.6 million increase in revenue from Enterprise customers during the nine months ended September 30, 2022 compared to the same period of 2021. Products revenue increase $18.9 million, of which $17.0 million was from the Americas region, while services revenue increased $4.4 million, of which $3.2 million was from the Americas region in the nine months ended September 30, 2022, compared to the same period of 2021.

Products revenue increased $5.3 million, or 13%, during the three months ended September 30, 2022 compared to the same period of 2021, driven by increased demand from our Enterprise customers in the EMEA and Americas regions.

Products revenue increased $18.9 million, or 18%, during the nine months ended September 30, 2022 compared to the same period of 2021, driven by increased demand from our service provider customers in the Americas region, partially offset by decreased demand from our service provider customers in the APJ region.

Services revenue increased $1.4 million, or 6%, during the three months ended September 30, 2022, and grew by $4.4 million, or 6%, during the nine months ended September 30, 2022, compared to the same periods of 2021, primarily attributable to an increase in PCS sales as a result of our growing installed customer base, especially in our Americas and EMEA regions.

During the three months ended September 30, 2022, $36.0 million, or 50% of total revenue, was generated from the Americas region, and during the three months ended September 30, 2021, $32.3 million, or 49% of total revenue, was generated from the Americas region, which represents a 12% increase in revenue compared to the same period of 2021. The increase was primarily due to higher products revenue driven by higher demand from our service provider customers.

During the nine months ended September 30, 2022, $107.5 million, or 53% of total revenue, was generated from the Americas region, and during the nine months ended September 30, 2021, $87.4 million, or 48% of total revenue, was generated from the Americas region, which represents a 23% increase in revenue compared to the same period of 2021. The increase was primarily due to higher products revenue driven by higher demand from our service provider customers.

During the three months ended September 30, 2022, $24.9 million, or 34% of total revenue, was generated from the APJ region, and during the three months ended September 30, 2021, $22.1 million, or 34% of total revenue, was generated from the APJ region, which represents an 12% increase compared to the same period of 2021. The increase was primarily due to higher products revenue driven by higher demand from our service provider customers.

During the nine months ended September 30, 2022, $64.3 million, or 32% of total revenue, was generated from the APJ region, and during the nine months ended September 30, 2021, $65.3 million, or 36% of total revenue, was generated from the APJ region, which represents an 2% decrease compared to the same period of 2021. The decrease was primarily due to lower services revenue driven by lower demand from our enterprise customers.

During the three months ended September 30, 2022, $11.2 million, or 16% of total revenue, was generated from the EMEA region, and during the three months ended September 30, 2021, $11.0 million, or 17% of total revenue, was generated from the EMEA region, which represents a 2% increase compared to the same period of 2021. The increase was primarily due to higher services revenue driven by an increase in demand from our enterprise customers.

During the nine months ended September 30, 2022, $30.9 million, or 15% of total revenue, was generated from the EMEA region, and during the nine months ended September 30, 2021, $26.7 million, or 15% of total revenue, was generated from the EMEA region, which represents a 16% increase compared to the same period of 2021. The increase was due to higher products and services revenue driven by an increase in demand from our enterprise customers.

Cost of Revenue, Gross Profit and Gross Margin

Cost of Revenue

Cost of products revenue is primarily comprised of cost of third-party manufacturing services and cost of inventory for the hardware component of our products. Cost of products revenue also includes warehouse personnel costs, shipping costs, inventory write-downs, certain allocated facilities and information technology infrastructure costs, and expenses associated with logistics and quality control.

Cost of services revenue is primarily comprised of personnel costs for our technical support and training teams. Cost of services revenue also includes the costs of inventory used to provide hardware replacements to end- customers under PCS contracts and certain allocated facilities and information technology infrastructure costs.

A summary of our cost of revenue is as follows (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2022	2021	Amount	Percent
Cost of revenue:				
Products	$ 10,191	$ 7,859	$ 2,332	29.7 %
Services	4,574	5,335	(761)	(14.3)
Total cost of revenue	$ 14,765	$ 13,194	$ 1,571	11.9 %

	Nine Months Ended September 30,		Increase (Decrease)	
	2022	2021	Amount	Percent
Cost of revenue:				
Products	$ 28,342	$ 23,160	$ 5,182	22.4 %
Services	12,747	16,163	(3,416)	(21.1)
Total cost of revenue	$ 41,089	$ 39,323	$ 1,766	4.5 %

Products cost of revenue increased 29.7% and 22.4% during the three and nine months ended September 30, 2022, respectively, compared to the same periods of 2021, primarily driven by increase in products revenue, as well as changes in geographic mix and product mix.

Services cost of revenue decreased 14.3% and 21.1% during the three and nine months ended September 30, 2022, respectively, compared to the same periods of 2021, primarily driven by the mix of services delivered, which include technical support, training and service costs.

Gross Margin

Gross margin may vary and be unpredictable from period to period due to a variety of factors. These may include the mix of revenue from each of our regions, the mix of our products sold within a period, discounts provided to customers, inventory write-downs and foreign currency exchange rates.

Our sales are generally denominated in U.S. Dollars; however, in Japan, our sales are denominated in Japanese Yen.

Any of the factors noted above can generate either a favorable or unfavorable impact on gross margin.

A summary of our gross profit and gross margin is as follows (dollars in thousands):

	Three Months Ended September 30,					
	2022		2021		Increase (Decrease)	
	Amount	Gross Margin	Amount	Gross Margin	Amount	Gross Margin
Gross profit:						
Products	$ 34,913	77.4 %	$ 31,956	80.3 %	$ 2,957	(2.9)%
Services	22,381	83.0	20,210	79.1	2,171	3.9
Total gross profit	$ 57,294	79.5 %	$ 52,166	79.8 %	$ 5,128	(0.3)%

	Nine Months Ended September 30,					
	2022		2021		Increase (Decrease)	
	Amount	Gross Margin	Amount	Gross Margin	Amount	Gross Margin
Gross profit:						
Products	$ 95,282	77.1 %	$ 81,558	77.9 %	$ 13,724	(0.8)%
Services	66,333	83.9	58,490	78.3	7,843	5.6
Total gross profit	$ 161,615	79.7 %	$ 140,048	78.1 %	$ 21,567	1.6 %

Products gross margin decreased 2.9% and 0.8% during the three and nine months ended September 30, 2022, respectively, compared to the same periods of 2021, primarily driven by changes in product and geographic mix. The decrease in products revenue in the EMEA region also contributed to the decrease in products gross margin.

Services gross margin increased 3.9% and 5.6% during the three and nine months ended September 30, 2022, respectively, compared to the same periods of 2021, primarily driven by the mix of services delivered, which include technical support, training and service costs.

Operating Expenses

Our operating expenses consist of sales and marketing, research and development and general and administrative expenses. The largest component of our operating expenses is personnel costs which consist of wages, benefits, bonuses, and, with respect to sales and marketing expenses, sales commissions. Personnel costs also include stock-based compensation.

A summary of our operating expenses is as follows (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2022	2021	Amount	Percent
Operating expenses:				
Sales and marketing	$ 21,605	$ 21,354	$ 251	1.2 %
Research and development	14,360	13,578	782	5.8
General and administrative	5,661	6,931	(1,270)	(18.3)
Total operating expenses	$ 41,626	$ 41,863	$ (237)	(0.6)%

	Nine Months Ended September 30,		Increase (Decrease)	
	2022	2021	Amount	Percent
Operating expenses:				
Sales and marketing	$ 66,159	$ 60,195	$ 5,964	9.9 %
Research and development	41,483	41,050	433	1.1
General and administrative	17,160	17,260	(100)	(0.6)
Total operating expenses	$ 124,802	$ 118,505	$ 6,297	5.3 %

Sales and Marketing

Sales and marketing expenses are our largest functional category of operating expenses and primarily consist of personnel costs. Sales and marketing expenses also include the cost of marketing programs, trade shows, consulting services, promotional materials, demonstration equipment, depreciation and certain allocated facilities and information technology infrastructure costs.

Sales and marketing operating expenses increased $0.3 million, or 1.2%, in the three months ended September 30, 2022, and increased $6.0 million, or 9.9%, in the nine months ended September 30, 2022, compared to the same periods in 2021, primarily due to an increase in employee headcount resulting in higher personnel costs.

In 2022, we expect sales and marketing expenses to increase from 2021 levels in line with overall revenue growth as we apply a disciplined approach to focus our investments in areas that offer the greatest opportunities.

Research and Development

Research and development efforts are focused on new product development and on developing additional functionality for our existing products. These expenses primarily consist of personnel costs, and, to a lesser extent, prototype materials,

depreciation and certain allocated facilities and information technology infrastructure costs. We expense research and development costs as incurred.

Research and development operating expenses increased $0.8 million, or 5.8%, in the three months ended September 30, 2022, and increased $0.4 million, or 1.1%, in the nine months ended September 30, 2022, compared to the same periods in 2021, primarily due to an increase in consulting costs as we outsource certain research and development functions.

In 2022, we expect research and development expenses to increase from 2021 levels reflecting strategic investments in our growth priorities, including cybersecurity technology.

General and Administrative

General and administrative expenses primarily consist of personnel costs, professional services and office expenses. General and administrative personnel costs include executive, finance, human resources, information technology, facility and legal related expenses. Professional services primarily consist of fees for outside accounting, tax, external legal counsel (including litigation), recruiting and other administrative services.

General and administrative operating expenses decreased $1.3 million, or 18.3%, in the three months ended September 30, 2022, and decreased $0.1 million, or 0.6%, in the nine months ended September 30, 2022, compared to the same periods in 2021, primarily due to a decrease in employee headcount resulting in lower personnel costs.

In 2022, we expect general and administrative expenses to remain stable as we apply a disciplined approach to focus our investments in areas that offer the greatest opportunities.

Non-Operating Income (Expense), Net

Non-Operating income (expense), net, consists primarily of foreign currency exchange gains and losses, partially offset by interest income earned on our cash and cash equivalents and marketable securities.

Non-operating income (expense), net, had an unfavorable change of $0.2 million and a favorable change of $1.0 million for the three and nine months ended September 30, 2022, respectively, compared to the same periods of 2021. The unfavorable change for the three months ended September 30, 2022 was primarily driven by an unfavorable change in foreign exchange gains and losses as we incurred $0.6 million of foreign exchange losses. The favorable change for the nine months ended September 30, 2022 was primarily driven by a favorable change in foreign exchange gains and losses as we incurred $0.6 million of foreign exchange gains. Foreign currency exchange gains and losses are primarily as a result of fluctuations in the Japanese Yen versus the U.S. Dollar. Interest income increased $0.4 million for each of the three- and nine-month periods ended September 30, 2022, respectively, compared to the same periods of 2021.

Provision for Income Taxes

We recorded income tax provision of $3.1 million and an income tax benefit of $64.8 million for the three months ended September 30, 2022 and 2021, respectively, and we recorded income tax provision of $7.5 million and an income tax benefit of $64.1 million for the nine months ended September 30, 2022 and 2021, respectively. Our income tax provision for the three and nine months ended September 30, 2022 primarily consisted of U.S. federal and state taxes. The Company had maintained a full valuation allowance on its U.S. deferred tax assets since inception, which primarily consist of U.S. net operating loss (“NOL”) and tax credit carryforwards. A valuation allowance was recorded against our gross deferred tax asset balance as of December 31, 2020. For the three months ended September 30, 2021, we recorded a net valuation allowance release of $62.9 million, plus other related adjustments, for a total of $65.4 million as a discrete tax benefit. This was based on management’s reassessment of the amount of its deferred tax assets that are more likely than not to be realized.

Liquidity and Capital Resources

As of September 30, 2022, we had cash and cash equivalents of $32.1, including $2.7 million held outside the United States in our foreign subsidiaries, and $95.6 million of marketable securities. We currently do not have any plans to repatriate our earnings from our foreign operations. As of September 30, 2022, we had working capital of $115.3 million, accumulated deficit of $148.5 million and total stockholders’ equity of $160.7 million. Our marketable securities are highly liquid and are classified as available for sale should the Company decide to quickly raise cash at any time in the future.

We plan to continue to invest for long-term growth, and our investment may increase. We believe that our existing cash and cash equivalents and marketable securities will be sufficient to meet our anticipated cash needs for at least the next 12 months and beyond. Our future capital requirements will depend on many factors, including our growth rate, the expansion of sales and marketing activities, the timing and extent of spending to support development efforts, the introduction of new and enhanced product and service offerings and the continuing market acceptance of our products. In the event that additional financing is required from outside sources, we may not be able to raise such financing on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results and financial condition could be adversely affected.

On September 17, 2020, the Company's Board of Directors authorized a stock repurchase program of up to $50 million of its common stock over a period of twelve months. This repurchase program was active for twelve months and expired in the second half of 2021. On October 28, 2021, the Company announced its Board of Directors authorized a stock repurchase program (the "2021 Program") of up to $100 million of its common stock over a period of twelve months. As of September 30, 2022, the Company had $13.7 million available to repurchase shares under the 2021 Program. The 2021 Program expired in October 2022. On November 1, 2022, the Company announced its Board of Directors authorized a new stock repurchase program (the "2022 Program") of up to $50 million of its common stock over a period of twelve months. Under all programs, repurchased shares are held in treasury at cost. The Company's stock repurchase programs do not obligate us to acquire any specific number of shares. Shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act. To date, repurchases under these programs have occurred in the open market and through privately negotiated transactions. During the three months ended September 30, 2022, the Company repurchased 0.2 million on the open market shares for a total cost of $2.9 million and 3.5 million shares in a privately negotiated transaction for a total cost of $44.6 million. During the nine months ended September 30, 2022, the Company repurchased 2.6 million shares in the open market for a total cost of $34.6 million and 3.5 million shares in a privately negotiated transaction for a total cost of $44.6 million.

In October 2021, our Board approved the initiation of a regular quarterly cash dividend on our common stock. The first dividend, in the amount of $0.05 per share of common stock outstanding, for a total of $3.9 million, was paid in December 2021, the second dividend, in the amount of $0.05 per share of common stock outstanding, for a total of $3.9 million, was paid in March 2022, the third dividend, in the amount of $0.05 per share of common stock outstanding, for a total of $3.8 million, was paid in June 2022 and the fourth dividend, in the amount of $0.05 per share of common stock outstanding, for a total of $3.8 million, was paid in September 2022 as a return of capital. The next dividend, in the amount of $0.06 per share, will be paid in December 2022 as a return of capital. We currently anticipate that we will continue to pay comparable quarterly cash dividends in the future. However, the payment, amount and timing of future dividends remain within the discretion of our Board and will depend upon our results of operations, financial condition, cash requirements, and other factors.

As described in Part II – Item 1, "Legal Proceedings" of this Quarterly Report on Form 10-Q, from time to time we are involved in ongoing litigation. Any adverse settlements or judgments in any litigation could have a material adverse impact on our results of operations, cash balances and cash flows in the period in which such events occur.

Statements of Cash Flows

The following table summarizes our cash flow related activities (in thousands):

	Nine Months Ended September 30,	
	2022	**2021**
Cash provided by (used in):		
Operating activities	$ 38,773	$ 41,203
Investing activities	540	(31,384)
Financing activities	(86,107)	(7,463)
Net increase (decrease) in cash and cash equivalents	$ (46,794)	$ 2,356

Cash Flows from Operating Activities

Our cash provided by operating activities is driven primarily by sales of our products and management of working capital investments. Our primary uses of cash from operating activities have been for personnel-related expenditures, manufacturing costs, marketing and promotional expenses and costs related to our facilities. Our cash flows from operating

activities will continue to be affected principally by the extent to which we increase spending on our business and our working capital requirements.

During the nine months ended September 30, 2022, cash provided by operating activities was $38.8 million, consisting of net income of $28.9 million and non-cash charges of $15.4 million, partially offset by a decrease in cash resulting from the net change in operating assets and liabilities of $5.5 million. Our non-cash charges consisted primarily of depreciation and amortization expenses of $5.5 million and stock-based compensation expense of $9.8 million. The net change in our operating assets and liabilities primarily reflects cash outflows from the changes in accounts receivable of $11.1 million and prepaid expenses and other current assets of $2.6 million and accounts payable of $0.9 million, partially offset by cash inflows from changes in deferred revenue of $4.5 million, accrued liabilities of $4.0 million and inventory of $0.5 million.

The unfavorable change in accounts receivable was attributed to timing of billing and cash collections. The unfavorable change in prepaid expenses and other current assets was primarily due to a net increase in deferred commissions payable. The unfavorable change in accounts payable was attributable to the timing of payments to vendors. The favorable change in deferred revenue was attributable to the timing of service contract bookings. The favorable change in accrued liabilities was attributed to cash bonus and commission accruals and the favorable change in inventory was attributable to product shipments made in the nine months ended September 30, 2022.

During the nine months ended September 30, 2021, cash provided by operating activities was $41.2 million, consisting of net income of $84.2 million, a non-cash benefit of $46.7 million and an increase in cash resulting from the net change in operating assets and liabilities of $3.8 million. Our non-cash benefit consisted of depreciation and amortization expenses of $7.0 million, stock-based compensation expense of $10.8 million and other non-cash items of $0.8 million, partially offset by a non-cash benefit of $65.4 million due to the release of our valuation allowance on our federal and state deferred tax assets. The net change in our operating assets and liabilities primarily reflects cash inflows from the changes in deferred revenues of $8.4 million, accounts receivable of $4.4 million, prepaid expenses and other current assets of $1.9 million and inventory of $1.4 million, partially offset by cash outflows from changes in accrued and other liabilities of $11.3 million and accounts payable of $1.1 million.

The favorable change in deferred revenue was primarily due to a net increase in deferred revenue bookings. The favorable change in accounts receivable was attributable to the timing of billing and cash collections. The favorable change in prepaid expenses and other assets was primarily attributable to a decrease in right-of-use lease assets and the favorable change in inventory was attributable to the timing of shipments. The unfavorable change in accrued and other liabilities was attributed to cash bonus and commission payments made during the nine months ended September 30, 2021. The unfavorable change in accounts payable was primarily due to the timing of payments to vendors.

Cash Flows from Investing Activities

During the nine months ended September 30, 2022, cash provided by investing activities was $0.5 million, consisting of maturities and sales of marketable securities of $48.2 million and $6.3 million, respectively, partially offset by purchases of marketable securities of $45.7 million and property and equipment of $8.3 million.

During the nine months ended September 30, 2021, cash used in investing activities was $31.4 million, consisting of purchases of marketable securities of $104.7 million and purchases of property and equipment of $3.4 million, partially offset by proceeds from sales and maturities of marketable securities of $76.7 million.

Cash Flows from Financing Activities

During the nine months ended September 30, 2022, cash used in financing activities was $86.1 million and primarily consisting of $79.3 million of cash used to repurchase stock under the Company's stock repurchase program and $11.5 million used for cash dividend payments, partially offset by $4.7 million of proceeds from common stock issued under the Company's equity plans.

During the nine months ended September 30, 2021, cash used in financing activities was $7.5 million primarily consisting of $11.2 million of cash used to repurchase common stock under the Company's stock repurchase program, partially offset by $3.8 million of proceeds from common stock issued under the Company's equity plans.

Contractual Obligations

Our contractual obligations consist of non-cancellable operating lease arrangements and totaled $24.3 million as of September 30, 2022. Our operating lease arrangements expire on various dates through July 2027. These arrangements require us to pay certain operating expenses, such as taxes, repairs and insurance, and contain renewal and escalation clauses.

The Company also has $7.7 million of tax liabilities related to uncertain tax positions as of September 30, 2022. We are unable to make a reasonably reliable estimate of the timing of settlement, if any, of these future payments.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

The Company's significant accounting policies are disclosed in Part II – Item 8, "Financial Statements and Supplementary Data" of the Company's Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC on March 8, 2022. There have been no material changes to the Company's significant accounting policies during the nine months ended September 30, 2021.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

Our consolidated results of operations, financial position and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. Historically, the majority of our revenue contracts are denominated in U.S. Dollars, with the most significant exception being Japan where we invoice primarily in Japanese Yen. Our costs and expenses are generally denominated in the currencies where our operations are located, which is primarily in the Americas and EMEA regions and, to a lesser extent, the APJ region. In 2016, we initiated a hedging program with respect to foreign currency risk. Revenue resulting from selling in local currencies and costs and expenses incurred in local currencies are exposed to foreign currency exchange rate fluctuations, which can affect our revenue and operating income. As exchange rates vary, operating income may differ from expectations.

The functional currency of our foreign subsidiaries is the U.S. Dollar. At the end of each reporting period, monetary assets and liabilities are remeasured to the functional currency using exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are remeasured at historical exchange rates. Gains and losses related to remeasurement are recorded in interest and other income (expense), net in the consolidated statements of operations. A significant fluctuation in the exchange rates between our subsidiaries' local currencies, especially the Japanese Yen, British Pound and Euro, and the U.S. Dollar could have an adverse impact on our condensed consolidated financial position and results of operations.

We incurred $0.9 million and $0.2 million of foreign currency exchange losses in the three months ended September 30, 2022 and 2021, respectively, and we incurred $1.0 million and $1.6 million of foreign currency exchange losses in the nine months ended September 30, 2022 and 2021, respectively. The effect of a hypothetical 10% change in our exchange rates would not have a significant impact on our consolidated results of operations.

Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our marketable securities. Our marketable securities are comprised of corporate securities, U.S. Treasury and agency securities, commercial paper and asset-backed securities. We do not enter into investments for trading or speculative purposes. As of September 30, 2022, our investment portfolio included marketable securities with an aggregate amortized cost basis of $97.0 million and a fair value of $95.6 million. The effect of a hypothetical 10% change in interest rates would not have had a material impact on our interest expense.

The following table presents the hypothetical fair values of our marketable securities assuming immediate parallel shifts in the yield curve of 50 basis points ("BPS"), 100 BPS and 150 BPS as of September 30, 2022 (in thousands):

	(150 BPS)	(100 BPS)	(50 BPS)	Fair Value as of 9/30/2022	50 BPS	100 BPS	150 BPS
Marketable securities	$ 96,359	$ 96,120	$ 95,882	95,642	$ 95,401	$ 95,160	$ 94,919

ITEM 4. CONTROLS AND PROCEDURES

Management's Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (our principal executive officer) and Chief Financial Officer (our principal financial officer), has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2022, as required by Rule 13a-15(b) under the Securities Exchange Act of 1934, or the Exchange Act. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits to the SEC, under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and financial officers, as appropriate to enable timely decisions regarding required disclosure.

In designing and evaluating our disclosure controls and procedures, our management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that our management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Our Chief Executive Officer and Chief Financial Officer, as our principal executive officer and principal financial officer, respectively, concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2022, and that the consolidated financial statements included in this Form 10-Q present fairly, in all material respects, and in conformity with U.S. GAAP, our financial position, results of operations and cash flows for the periods presented.

Changes in Internal Control over Financial Reporting

During the three months ended September 30, 2022 there were no changes in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that some of our employees work remotely as a result of COVID-19 and due to the current challenges we experience in attracting qualified personnel who reside within commuting distance of our corporate headquarters in San Jose, California, and our other key hiring locations. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

Inherent Limitations on Effectiveness of Controls

Our management, including our principal executive officer and our principal financial officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well-designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We have been and may currently be involved in various legal proceedings, the outcomes of which are not within our complete control or may not be known for prolonged periods of time. Management is required to assess the probability of loss and amount of such loss, if any, in preparing our condensed consolidated financial statements. We evaluate the likelihood of a potential loss from legal proceedings to which we are a party. We record a liability for such claims when a loss is deemed probable and the amount can be reasonably estimated. Significant judgment may be required in the determination of both probability and whether an exposure is reasonably estimable. Our judgments are subjective based on the status of the legal proceedings, the merits of our defenses and consultation with in-house and outside legal counsel. As additional information becomes available, we reassess the potential liability related to pending claims and may revise our estimates. Due to the inherent uncertainties of the legal processes in the multiple jurisdictions in which we operate, our judgments may be materially different than the actual outcomes, which could have material adverse effects on our business, financial conditions and results of operations.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information contained in this report and in our other public filings. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that affect us. If any of the following risks occur, our business, financial condition, operating results, and prospects could be materially harmed. In that event, the trading price of our common stock could decline, perhaps significantly. The order of presentation is not necessarily indicative of the level of risk that each factor poses to us.

Risks Related to Our Business, Operations and Industry

The COVID-19 pandemic could have a material adverse effect on our ability to operate effectively. As a result, our business, financial condition and results of operations could be significantly harmed.

The World Health Organization has declared the COVID-19 outbreak a pandemic, and the virus continues to exist in areas where we operate and sell our products and services. The COVID-19 pandemic, actions taken in response to it and similar or related issues in the future could have an adverse effect on our ability to operate, results of operations, financial condition, liquidity, and capital investments. Several public health organizations have periodically recommended, and many local governments have implemented, measures to slow and limit the transmission of the virus, including shelter in place and social distancing ordinances. These types of measures continue to negatively affect many of the countries where we operate. Such preventive measures, or others we may voluntarily put in place, may have an adverse effect on our business for an indefinite period of time, such as the potential shut down of certain locations, decreased employee availability, potential border closures, disruptions to the businesses of our channel partners, and others. Additionally, we face additional risks and challenges related to having a portion of our workforce working from home, including added pressure on our IT systems and the security of our network, and new challenges as our team adjusts to online collaboration.

The global economic downturn caused by COVID-19 could materially and adversely affect our customers, and thus could negatively impact demand for our products and our operating results. Our customers may experience business interruptions due to health risks, governmental policies or financial hardships. Business interruptions that are sustained for an extended time period due to the outbreak could have a material negative impact on our business and operations. For example, the postponement of the Japan 2020 Olympics negatively impacted demand in Japan for our products in 2020. Conversely, it is possible that certain of our service provider customers could experience increased demand for their solutions due to shelter in place practices globally, which could, in turn, increase demand for our solutions, but there can be no assurance as to when, if, or to what extent this may occur, if at all, given the present degree of uncertainty.

COVID-19 may result in supply shortages of our products or our ability to import, export or sell product to customers in both the U.S. and international markets. The ongoing global semiconductor shortage is causing disruptions in many diverse businesses and is expected to continue in the near term. If these shortages and supply chain disruptions continue or worsen, our business could suffer, which would harm our financial results. Any decrease, limitations or delays on our ability to import, export, or sell our products would harm our business. The supply chains of our contract manufacturers' and many of our vendors may source products, parts or components from vendors experiencing business interruptions.

There continue to be many uncertainties around COVID-19, including scientific and health issues, the unknown duration and extent of economic disruption on the global economy. Due to COVID-19, we face heightened risk to our business and operations. We cannot predict what impacts may arise in the future due to the evolving nature of the COVID-19 pandemic.

If we do not successfully anticipate market needs and opportunities or if the market does not continue to adopt our application delivery solutions, our business, financial condition and results of operations could be significantly harmed.

The application delivery market is rapidly evolving and difficult to predict. Technologies, customer requirements, security threats and industry standards are constantly changing. As a result, we must anticipate future market needs and opportunities and then develop new products or enhancements to our current products that are designed to address those needs and opportunities, and we may not be successful in doing so.

We continuously seek to enhance and improve our solutions we make available to our customers. However, even if we are able to anticipate, develop and commercially introduce new products and enhancements that address the market's needs and opportunities, there can be no assurance that new products or enhancements will achieve widespread market acceptance. For example, organizations that use other conventional or first-generation application delivery solutions for their needs may believe that these solutions are sufficient. In addition, as we launch new product offerings, organizations may not believe that such new product offerings offer any additional benefits as compared to the existing application delivery solutions that they currently use. Accordingly, organizations may continue allocating their IT budgets for existing application solutions and may not adopt our solutions, regardless of whether our solutions can offer superior performance or security.

If we fail to anticipate market needs and opportunities or if the market does not continue to adopt our application delivery solutions, then market acceptance and sales of our current and future application delivery solutions could be substantially decreased or delayed, we could lose customers, and our revenue may not grow or may decline. Any of such events would significantly harm our business, financial condition and results of operations.

Our success depends on our timely development of new products and features to address rapid technological changes and evolving customer requirements. If we are unable to timely develop and successfully introduce new products and features that adequately address these changes and requirements, our business and operating results could be adversely affected.

Changes in application software technologies, data center and communications hardware, networking software and operating systems, and industry standards, as well as our end-customers' continuing business growth, result in evolving application networking needs and requirements. Our continued success depends on our ability to identify, develop and introduce in a timely and successful manner, new products and new features for our existing products that meet these needs and requirements.

Our future plans include significant investments in research and development and related product opportunities. Developing our products and related enhancements is time-consuming and expensive. We have made significant investments in our research and development team in order to address these product development needs. Our investments in research and development may not result in significant design and performance improvements or marketable products or features, or may
result in products that are more expensive than anticipated. We may take longer to generate revenue, or generate less revenue, than we anticipate from our new products and product enhancements. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position.

We continuously seek to enhance and improve our solutions we make available to our customers. However, if we are unable to develop new products and features to address technological changes and new customer requirements in the application networking or security markets or if our investments in research and development do not yield the expected benefits in a timely manner, our business and operating results could be adversely affected. For example, the 5G standards were recently published and we may not be able to produce a satisfactory return on investment if our strategic vision and the resources that we are spending on developing our presence in the 5G technology industry turn out to be misaligned with such standards.

We experienced net losses for the years ended December 31, 2019 and 2018 and may not maintain profitability in future periods. If we cannot maintain profitability, our financial performance will be harmed and our business may suffer.

We experienced net losses for the years ended December 31, 2019 and 2018. We also experienced declines in total revenue, as well as declines in revenue in the Americas, during the years ended December 31, 2019 and 2018, as compared to

each of the prior years. Although one of our priorities is to strengthen our sales efforts in the Americas, there can be no assurance that such efforts will be successful.

During the years ended December 31, 2019 and 2018, we invested in our sales, marketing and research and development teams in order to develop, market and sell our products. We may continue to invest in these areas in the future. As a result of these expenditures, we may have to generate and sustain increased revenue, manage our cost structure and avoid significant liabilities to achieve future profitability.

We may not be able to increase our quarterly revenue or maintain profitability in the future or on a consistent basis, and we may incur significant losses in the future for a number of possible reasons, including our inability to develop products that achieve market acceptance, general economic conditions, increasing competition, decreased growth in the markets in which we operate, or our failure for any reason to capitalize on growth opportunities. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays and other unknown factors that may result in losses in future periods. If these losses exceed our expectations or our revenue growth expectations are not met in future periods, our financial performance will be harmed and our stock price could be volatile or decline.

Our operating results have varied and are likely to continue to vary significantly from period to period and may be unpredictable, which could cause the trading price of our common stock to decline.

Our operating results, in particular, revenue, margins and operating expenses, have fluctuated in the past, and we expect this will continue, which makes it difficult for us to predict our future operating results. The timing and size of sales of our products are highly variable and difficult to predict and can result in significant fluctuations in our revenue from period to period. This is particularly true of sales to our largest end-customers, such as service providers, enterprise customers and governmental organizations, who typically make large and concentrated purchases and for whom close or sales cycles can be long, as a result of their complex networks and data centers, as well as requests that may be made for customized features. Our quarterly results may vary significantly based on when these large end-customers place orders with us and the content of their orders.

Our operating results may also fluctuate due to a number of other factors, many of which are outside of our control and may be difficult to predict. In addition to other risks listed in this “Risk Factors” section, factors that may affect our operating results include:

- The impact of COVID-19 on our business and on the business of our customers and business partners, as well as on the economy in general;
- fluctuations in and timing of purchases from, or loss of, large customers;
- the budgeting cycles and purchasing practices of end-customers;
- our ability to attract and retain new end-customers;
- changes in demand for our products and services, including seasonal variations in customer spending patterns or cyclical fluctuations in our markets;
- our reliance on shipments at the end of our quarters;
- variations in product mix or geographic locations of our sales, which can affect the revenue we realize for those sales;
- the timing and success of new product and service introductions by us or our competitors;
- our ability to increase the size of our distribution channel and to maintain relationships with important distribution channel partners;
- our ability to improve our overall sales productivity and successfully execute our marketing strategies;

- the effect of currency exchange rates on our revenue and expenses;
- the cost and potential outcomes of existing and future litigation;
- expenses related to our facilities;
- the effect of discounts negotiated by our largest end-customers for sales or pricing pressure from our competitors;
- changes in the growth rate of the application networking or security markets or changes in market needs;
- inventory write downs, which may be necessary for our older products when our new products are launched and adopted by our end-customers;
- our ability to expand internationally and domestically; and
- our third-party manufacturers' and component suppliers' capacity to meet our product demand forecasts on a timely basis, or at all.

Any one of the factors above or the cumulative effect of some of these factors may result in significant fluctuations in our financial and other operating results. This variability and unpredictability could result in our failure to meet our or our investors' or securities analysts' revenue, margin or other operating results expectations for a particular period, resulting in a decline in the trading price of our common stock.

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

As a result of end-customer buying patterns and the efforts of our sales force and distribution channel partners to meet or exceed their sales objectives, we have historically received a substantial portion of purchase orders and generated a substantial portion of revenue during the last few weeks of each quarter. We may be able to recognize such revenue in the quarter received, however, only if all of the requirements of revenue recognition are met by the end of the quarter. Any significant interruption in our information technology systems, which manage critical functions such as order processing, revenue recognition, financial forecasts, inventory and supply chain management, could result in delayed order fulfillment and thus decreased revenue for that quarter. If expected revenue at the end of any quarter is delayed for any reason, including the failure of anticipated purchase orders to materialize (including delays by our customers or potential customers in consummating such purchase orders), our third-party manufacturers' inability to manufacture and ship products prior to quarter-end to fulfill purchase orders received near the end of the quarter, our failure to manage inventory to meet demand, our inability to release new products on schedule, any failure of our systems related to order review and processing, or any delays in shipments or achieving specified acceptance criteria, our revenue for that quarter could fall below our, or our investors' or securities analysts' expectations, resulting in a decline in the trading price of our common stock.

We face intense competition in our market, especially from larger, well-established companies, and we may lack sufficient financial or other resources to maintain or improve our competitive position.

The application networking and security markets are intensely competitive, and we expect competition to increase in the future. To the extent that we sell our solutions in adjacent markets, we expect to face intense competition in those markets as well. We believe that our main competitors fall into the following categories:

- Companies that sell products in the traditional ADC market as well as open source, software-only, cloud-based ADC services, such as F5 Networks, Inc. ("F5 Networks") and Citrix Systems, Inc. ("Citrix Systems"); as well as many startups;

- Companies that sell CGN products, which were originally designed for other networking purposes, such as edge routers and security appliances from vendors like Cisco Systems, Inc. (“Cisco Systems”), Juniper Networks, Inc. (“Juniper Networks”) and Fortinet, Inc. (“Fortinet”);

- Companies that sell traditional DDoS protection products, such as Arbor Networks, Inc., a subsidiary of NetScout Systems, Inc. (“Arbor Networks”) and Radware, Ltd. (“Radware”);

- Companies that sell SSL decryption and inspection products, such as Symantec Corporation (through its acquisition of Blue Coat Systems Inc. in 2016) and F5 Networks; and

- Companies that sell certain network security products, including Secure Web Gateways, SSL Insight/SSL Intercept, data center firewalls and Office 365 proxy solutions.

Many of our competitors are substantially larger and have greater financial, technical, research and development, sales and marketing, manufacturing, distribution and other resources and greater name recognition. In addition, some of our larger competitors have broader products offerings and could leverage their customer relationships based on their other products. Potential customers who have purchased products from our competitors in the past may also prefer to continue to purchase from these competitors rather than change to a new supplier regardless of the performance, price or features of the respective products. We could also face competition from new market entrants, which may include our current technology partners. As we continue to expand globally, we may also see new competitors in different geographic regions. Such current and potential competitors may also establish cooperative relationships among themselves or with third parties that may further enhance their resources.

Many of our existing and potential competitors enjoy substantial competitive advantages, such as:

- longer operating histories;

- the capacity to leverage their sales efforts and marketing expenditures across a broader portfolio of products and services at a greater range of prices including through selling at zero or negative margins;

- the ability to incorporate functionality into existing products to gain business in a manner that discourages users from purchasing our products, including through product bundling or closed technology platforms;

- broader distribution and established relationships with distribution channel partners in a greater number of worldwide locations;

- access to larger end-customer bases;

- the ability to use their greater financial resources to attract our research and development engineers as well as other employees of ours;

- larger intellectual property portfolios; and

- the ability to bundle competitive offerings with other products and services.

Our ability to compete will depend upon our ability to provide a better solution than our competitors at a competitive price. We may be required to make substantial additional investments in research and development, marketing and sales in order to respond to competition, and there is no assurance that these investments will achieve any returns for us or that we will be able to compete successfully in the future. We also expect increased competition if our market continues to expand. Moreover, conditions in our market could change rapidly and significantly as a result of technological advancements or other factors.

In addition, current or potential competitors may be acquired by third parties that have greater resources available. As a result of these acquisitions, our current or potential competitors might take advantage of the greater resources of the larger organization to compete more vigorously or broadly with us. In addition, continued industry consolidation might adversely impact end-customers' perceptions of the viability of smaller and even medium-sized networking companies and, consequently, end-customers' willingness to purchase from companies like us.

As a result, increased competition could lead to fewer end-customer orders, price reductions, reduced margins and loss of market share.

Cloud-based computing trends present competitive and execution risks.

We are experiencing an industry-wide trend of customers considering transitioning from purely on-premise network architectures to a computing environment that may utilize a mixture of existing solutions and various new cloud-based solutions. Concurrently with this transition, pricing and delivery models are also evolving. Many companies in our industry, including some of our competitors, are developing and deploying cloud-based solutions for their customers. In addition, the emergence of new cloud infrastructures may enable new companies to compete with our business. These new competitors may include large cloud providers who can provide their own ADC functionality as well as smaller companies targeting applications that are developed exclusively for delivery in the cloud. We are dedicating significant resources to develop and offer our customers new cloud-based solutions. Also, some of our largest customers are cloud providers that utilize our existing solutions, and we believe that as cloud infrastructures continue to grow our existing solutions may provide benefits to other cloud providers. While we believe our expertise and dedication of resources to developing new cloud-based solutions, together with the benefits that our existing solutions offer cloud providers, represent advantages that provide us with a strong foundation to compete, it is uncertain whether our efforts to develop new cloud-based solutions or our efforts to market and sell our existing solutions to cloud providers will attract the customers or generate the revenue necessary to successfully compete in this new business model. Nor is it clear when or in what manner this new business model will evolve, and this uncertainty may delay purchasing decisions by our customers or prospective customers. Whether we are able to successfully compete depends on our execution in a number of areas, including maintaining the utility, compatibility and performance of our software on the growing assortment of cloud computing platforms and the enhanced interoperability requirements associated with orchestration of cloud computing environments. Any failure to adapt to these evolving trends may reduce our revenue or operating margins and could have a material adverse effect on our business, results of operations and financial condition.

If we are not able to maintain and enhance our brand and reputation, our business and operating results may be harmed in tangible or intangible ways.

We believe that maintaining and enhancing our brand and reputation are critical to our relationships with, and our ability to attract, new end-customers, technology partners and employees. The successful promotion of our brand will depend largely upon our ability to continue to develop, offer and maintain high-quality products and services, our marketing and public relations efforts, and our ability to differentiate our products and services successfully from those of our competitors. Our brand promotion activities may not be successful and may not yield increased revenue. In addition, extension of our brand to products and uses different from our traditional products and services may dilute our brand, particularly if we fail to maintain the quality of products and services in these new areas. We have in the past, and may in the future, become involved in litigation that could negatively affect our brand. If we do not successfully maintain and enhance our brand and reputation, our growth rate may
decline, we may have reduced pricing power relative to competitors with stronger brands or reputations, and we could lose end-customers or technology partners, all of which would harm our business, operating results and financial condition.

A limited number of our end-customers, including service providers, make large and concentrated purchases that comprise a significant portion of our revenue. Any loss or delay of expected purchases by our largest end-customers could adversely affect our operating results.

As a result of the nature of our target market and the current stage of our development, a substantial portion of our revenue in any period comes from a limited number of large end-customers, including service providers. During the nine months ended September 30, 2022 and 2021, purchases by our ten largest end-customers accounted for approximately 40% and 37% of our total revenue, respectively. During the years ended December 31, 2021, 2020 and 2019, purchases by our ten largest end-customers accounted for approximately 39%, 41% and 36% of our total revenue, respectively. The composition of the group of these ten largest end-customers changes from period to period, but often includes service providers and enterprise customers. During the nine months ended September 30, 2022, service providers accounted for approximately 64% of our total revenue and enterprise customers accounted for approximately 36% of our total revenue. During the nine months ended September 30, 2021, service providers accounted for approximately 63% of our total revenue and enterprise customers

accounted for approximately 37% of our total revenue. During the years ended December 31, 2021, 2020 and 2019, service providers accounted for approximately 63%, 61% and 58%, of our total revenue, respectively, and enterprise customers accounted for approximately 37%, 39% and 42% of our total revenue, respectively.

Sales to these large end-customers have typically been characterized by large but irregular purchases with long initial sales cycles. After initial deployment, subsequent purchases of our products typically have a more compressed sales cycle. The timing of these purchases and of the requested delivery of the purchased product is difficult to predict. As a consequence, any acceleration or delay in anticipated product purchases by or requested deliveries to our largest end-customers could materially affect our revenue and operating results in any quarter and cause our revenue and operating results to fluctuate from quarter to quarter.

We cannot provide any assurance that we will be able to sustain or increase our revenue from our largest end-customers nor that we will be able to offset any absence of significant purchases by our largest end-customers in any particular period with purchases by new or existing end-customers in that or a subsequent period. We expect that sales of our products to a limited number of end-customers will continue to contribute materially to our revenue for the foreseeable future. The loss of, or a significant delay or reduction in purchases by, a small number of end-customers could have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Our business could be adversely impacted by changes demanded by our customers in the deployment and payment models for our products.

Our customers have traditionally demanded products deployed in physical, appliance-based on-premise data centers that are paid in full at the time of purchase and include perpetual licenses for our software products. While these products remain central to our business, new deployment and payment models are emerging in our industry that may provide some of our customers with additional technical, business agility and flexibility options. These new models include cloud-based applications provided as SaaS and software subscription licenses where license and service fees are ratable and correlate to the type of service used, the quantity of services consumed or the length of time of the subscription. These models have accounting treatments that may require us to recognize revenue ratably over an extended period of time. If a substantial portion of our customers transition from on-premise-based products to such cloud-based, consumption and subscription-based models, this could adversely affect our operating results and could make it more difficult to compare our operating results during such transition period with our historical operating results.

Some of our large end-customers demand favorable terms and conditions from their vendors and may request price or other concessions from us. As we seek to sell more products to these end-customers, we may agree to terms and conditions that may have an adverse effect on our business.

Some of our large end-customers have significant purchasing power and, accordingly, may request from us and receive more favorable terms and conditions, including lower prices than we typically provide. As we seek to sell products to this class of end-customer, we may agree to these terms and conditions, which may include terms that reduce our gross margin and have an adverse effect on our business.

Our gross margin may fluctuate from period to period based on the mix of products sold, the geographic location of our customers, price discounts offered, required inventory write downs and exchange rate fluctuations.

Our gross margin may fluctuate from period to period in response to a number of factors, such as the mix of our products sold and the geographic locations of our sales. Our products tend to have varying gross margins in different geographic regions. We also may offer pricing discounts from time to time as part of a targeted sales campaign or as a result of pricing pressure from our competitors. In addition, our larger end-customers may negotiate pricing discounts in connection with large orders they place with us. The sale of our products at discounted prices could have a negative impact on our gross margin. We also must manage our inventory of existing products when we introduce new products.

If we are unable to sell the remaining inventory of our older products prior to or following the launch of such new product offerings, we may be forced to write down inventory for such older products, which could also negatively affect our gross margin. Our gross margin may also vary based on international currency exchange rates. In general, our sales are denominated in U.S. Dollars; however, in Japan they are denominated in Japanese Yen. Changes in the exchange rate between the U.S. Dollar and the Japanese Yen may therefore affect our actual revenue and gross margin.

We generate a significant amount of revenue from sales to distributors, resellers, and end-customers outside of the United States, and we are therefore subject to a number of risks that could adversely affect these international sources of our revenue.

A significant portion of our revenue is generated in international markets, including Japan, APAC and Western Europe. During the nine months ended September 30, 2022 approximately 55% of our total revenue was generated from customers located outside of the United States. During the years ended December 31, 2021, 2020, and 2019, approximately 60%, 63% and 64% of our total revenue, respectively, was generated from customers located outside of the United States. If we are unable to maintain or continue to grow our revenue in these markets, our financial results may suffer.

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

We have a significant presence in international markets and plan to continue to expand our international operations, which exposes us to a number of risks that could negatively affect our future business.

We have personnel in dozens of countries including in the following countries and regions: the United States, Western Europe, India, the Middle East, Japan, China, Taiwan, South Korea, Southeast Asia and Latin America. As we maintain our international operations, we are subject to a number of risks, including the following:

- greater difficulty in enforcing contracts and accounts receivable collection and possible longer collection periods;
- increased expenses incurred in establishing and maintaining office space and equipment for our international operations;
- greater difficulty in recruiting local experienced personnel, and the costs and expenses associated with such activities;
- general economic and political conditions in these foreign markets;
- economic uncertainty around the world, including continued economic uncertainty as a result of the COVID-19 pandemic, sovereign debt issues in Europe, the United Kingdom's exit from the European Union (commonly referred to as "Brexit"), the war between Russia and Ukraine, and tensions between China and Taiwan;
- management communication and integration problems resulting from cultural and geographic dispersion;
- risks associated with trade restrictions and foreign legal requirements, including the importation, certification, and localization of our products required in foreign countries;
- greater risk of unexpected changes in regulatory practices, tariffs, and tax laws and treaties;
- the uncertainty of protection for intellectual property rights in some countries;
- greater risk of a failure of foreign employees to comply with both U.S. and foreign laws, including antitrust regulations, the U.S. Foreign Corrupt Practices Act ("FCPA"), and any trade regulations ensuring fair trade practices; and

- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements.

Because of our worldwide operations, we are also subject to risks associated with compliance with applicable anticorruption laws. One such applicable anticorruption law is the FCPA, which generally prohibits U.S. companies and their employees and intermediaries from making payments to foreign officials for the purpose of obtaining or keeping business, securing an advantage, or directing business to another, and requires public companies to maintain accurate books and records and a system of internal accounting controls. Under the FCPA, U.S. companies may be held liable for actions taken by directors, officers, employees, agents, or other strategic or local partners or representatives. As such, if we or our intermediaries, such as channel partners and distributors, fail to comply with the requirements of the FCPA or similar legislation, governmental authorities in the United States and elsewhere could seek to impose civil and/or criminal fines and penalties which could have a material adverse effect on our business, operating results and financial condition.

Additionally, we currently face many risks associated with the COVID-19 pandemic. Please refer to the discussion of these risks presented at the beginning of Part II – Item 1A, "Risk Factors" of this Quarterly Report on Form 10-Q.

Our success depends on our key personnel and our ability to hire, retain and motivate qualified product development, sales, marketing and finance personnel.

Our success depends to a significant degree upon the continued contributions of our key management, product development, sales, marketing and finance personnel, many of whom may be difficult to replace. The complexity of our products, their integration into existing networks and ongoing support of our products requires us to retain highly trained technical services, customer support and sales personnel with specific expertise related to our business. Competition for qualified technical services, customer support, engineering and sales personnel in our industry is intense, because of the limited number of people available with the necessary technical skills and understanding of our products. Our ability to recruit and hire these personnel is harmed by tightening labor markets, particularly in the engineering field, in several of our key geographic hiring areas. We may not be successful in attracting, integrating, or retaining qualified personnel to fulfill our current or future needs, nor may we be successful in keeping the qualified personnel we currently have. Our ability to hire and retain these personnel may be adversely affected by volatility or reductions in the price of our common stock, since these employees are generally granted equity-based awards.

Our future performance also depends on the continued services and continuing contributions of certain employees and members of senior management to execute on our business plan and to identify and pursue new opportunities and product innovations. Our senior management team, significant employees with technical expertise, and product and sales managers, among others, are critical to the development of our technology and the future vision and strategic direction of our company. The loss of their services could significantly delay or prevent the achievement of our development and strategic objectives, which could adversely affect our business, financial condition, and operating results.

There can be no assurance that our exploration of strategic alternatives will result in any transaction being consummated, and speculation and uncertainty regarding the outcome of our exploration of strategic alternatives may adversely impact our business.

On July 30, 2019, we announced that our Board of Directors had formed a Strategy Committee tasked and empowered with overseeing and executing specific activities directed to increasing shareholder value. No assurance can be given that a strategic transaction will be consummated in the near term or at all. In addition, speculation and uncertainty regarding our exploration of strategic alternatives may cause or result in:

- disruption of our business;
- distraction of our management and employees;
- difficulty in recruiting, hiring, motivating, and retaining talented and skilled personnel;
- difficulty in maintaining or negotiating and consummating new, business or strategic relationships or transactions;

- increased stock price volatility; and

- increased costs and advisory fees.

If we are unable to mitigate these or other potential risks related to the uncertainty caused by our exploration of strategic alternatives, it may disrupt our business or adversely impact our revenue, operating results, and financial condition.

Adverse general economic conditions or reduced information technology spending may adversely impact our business.

A substantial portion of our business depends on the demand for information technology by large enterprises and service providers, the overall economic health of our current and prospective end-customers and the continued growth and evolution of the Internet. The timing of the purchase of our products is often discretionary and may involve a significant commitment of capital and other resources. Volatility in the global economic market or other effects of global or regional economic weakness, including the impacts of COVID-19, limited availability of credit, a reduction in business confidence and activity, deficit-driven austerity measures that continue to affect governments and educational institutions, and other difficulties may affect one or more of the industries to which we sell our products and services. If economic conditions in the United States, Europe and other key markets for our products continue to be volatile in response to COVID-19 or otherwise do not improve or those markets experience a prolonged downturn, many end-customers may delay or reduce their IT spending. This could result in reductions in sales of our products and services, longer sales cycles, slower adoption of new technologies and increased price competition. Any of these events would likely harm our business, operating results and financial condition. In addition, there can be no assurance that IT spending levels will increase following any recovery.

We are dependent on third-party manufacturers, and changes to those relationships, expected or unexpected, may result in delays or disruptions that could harm our business.

We outsource the manufacturing of our hardware components to third-party original design manufacturers who assemble these hardware components to our specifications. Our primary manufacturers are Lanner and AEWIN, each of which is located in Taiwan. Deterioration of relations between Taiwan and China, the resulting actions taken by either country, and other factors affecting the political or economic conditions of Taiwan in the future, could cause disruption to the manufacturing of our hardware components, which could materially adversely affect our business, financial condition and results of operations and the market price and the liquidity of our shares. Our reliance on these third-party manufacturers reduces our control over the manufacturing process and exposes us to risks, including reduced control over quality assurance, product costs, and product supply and timing. Any manufacturing disruption at these manufacturers, including but not limited to disruptions due to COVID-19 or tensions with China, could severely impair our ability to fulfill orders. In addition, the ongoing global supply chain issues are expected to continue and may adversely impact our suppliers to a degree that could materially impact us. Our reliance on outsourced manufacturers also may create the potential for infringement or misappropriation of our intellectual property rights or confidential information. If we are unable to manage our relationships with these manufacturers effectively, or if these manufacturers suffer delays or disruptions for any reason, experience increased manufacturing lead-times, experience capacity constraints or quality control problems in their manufacturing operations, or fail to meet our future requirements for timely delivery, our ability to ship products to our end-customers would be severely impaired, and our business and operating results would be seriously harmed.

These manufacturers typically fulfill our supply requirements on the basis of individual orders. We do not have long-term contracts with our manufacturers that guarantee capacity, the continuation of particular pricing terms, or the extension of credit limits. Accordingly, they are not obligated to continue to fulfill our supply requirements, which could result in supply shortages, and the prices we are charged for manufacturing services could be increased on short notice. In addition, our orders may represent a relatively small percentage of the overall orders received by our manufacturers from their customers. As a result, fulfilling our orders may not be considered a priority by one or more of our manufacturers in the event the manufacturer is constrained in its ability to fulfill all of its customer obligations in a timely manner.

Although the services required to manufacture our hardware components may be readily available from a number of established manufacturers, it is time-consuming and costly to qualify and implement such relationships. If we are required to change manufacturers, whether due to an interruption in one of our manufacturers' businesses, quality control problems or otherwise, or if we are required to engage additional manufacturers, our ability to meet our scheduled product deliveries to our customers could be adversely affected, which could cause the loss of sales to existing or potential customers, delayed revenue or an increase in our costs that could adversely affect our gross margin.

Because some of the key components in our products come from limited sources of supply, we are susceptible to supply shortages or supply changes, which could disrupt or delay our scheduled product deliveries to our end-customers and may result in the loss of sales and end-customers.

Our products incorporate key components, including certain integrated circuits that we and our third-party manufacturers purchase on our behalf from a limited number of suppliers, including some sole-source providers. In addition, the lead times associated with these and other components of our products can be lengthy and preclude rapid changes in quantities and delivery schedules. Moreover, long-term supply and maintenance obligations to our end-customers increase the duration for which specific components are required, which may further increase the risk we may incur component shortages or the cost of carrying inventory. If we are unable to obtain a sufficient quantity of these components in a timely manner for any reason, sales and/or shipments of our products could be delayed or halted, which would seriously affect present and future sales and cause damage to end-customer relationships, which would, in turn, adversely affect our business, financial condition and results of operations.

In response to COVID-19, some of the countries in which these components are manufactured have implemented mandatory shutdowns that may ultimately limit our ability to obtain a sufficient quantity of these components in a timely manner. In addition, our component suppliers change their selling prices frequently in response to market trends, including industry-wide increases in demand, and because we do not necessarily have contracts with these suppliers, we are susceptible to price fluctuations related to raw materials and components. If we are unable to pass component price increases along to our end-customers or maintain stable pricing, our gross margin and operating results could be negatively impacted. Furthermore, poor quality in sole-sourced components or certain other components in our products could also result in lost sales or lost sales opportunities. If the quality of such components does not meet our standards or our end-customers' requirements, if we are unable to obtain components from our existing suppliers on commercially reasonable terms, or if any of our sole source providers cease to continue to manufacture such components or to remain in business, we could be forced to redesign our products and qualify new components from alternate suppliers. The development of alternate sources for those components can
be time-consuming, difficult and costly, and we may not be able to develop alternate or second sources in a timely manner. Even if we are able to locate alternate sources of supply, we could be forced to pay for expedited shipments of such components or our products at dramatically increased costs.

Real or perceived defects, errors, or vulnerabilities in our products or services or the failure of our products or services to block a threat or prevent a security breach could harm our reputation and adversely impact our results of operations.

Because our products and services are complex, they have contained and may contain design or manufacturing defects or errors that are not detected until after their commercial release and deployment by our customers. Even if we discover those weaknesses, we may not be able to correct them promptly, if at all. Defects may cause our products to be vulnerable to security attacks, cause them to fail to help secure networks, or temporarily interrupt end-customers' networking traffic. Furthermore, our products may fail to detect or prevent malware, viruses, worms or similar threats for any number of reasons, including our failure to enhance and expand our platform to reflect industry trends, new technologies and new operating environments, the complexity of the environment of our end-customers and the sophistication of malware, viruses and other threats. Data thieves and hackers are increasingly sophisticated, often affiliated with organized crime or state-sponsored groups, and may operate large-scale and complex automated attacks. The techniques used to obtain unauthorized access or to sabotage networks change frequently and may not be recognized until launched against a target. Additionally, as a well-known provider of enterprise security solutions, our networks, products, and services could be targeted by attacks specifically designed to disrupt our business and harm our reputation. As our products are adopted by an increasing number of enterprises and governments, it is possible that the individuals and organizations behind advanced attacks will focus on finding ways to defeat our products. In addition, defects or errors in our updates to our products could result in a failure of our services to effectively update end-customers' products and thereby leave our end-customers vulnerable to attacks. Our data centers and networks may experience technical failures and downtime, may fail to distribute appropriate updates, or may fail to meet the increased requirements of a growing installed end-customer base, any of which could temporarily or permanently expose our end-customers' networks, leaving their networks unprotected against security threats. Our end-customers may also misuse or wrongly configure our products or otherwise fall prey to attacks that our products cannot protect against, which may result in loss or a breach of business data, data being inaccessible due to a "ransomware" attack, or other security incidents. For all of these reasons, we may be unable to anticipate all data security threats or provide a solution in time to protect our end-customers' networks. If we fail to identify and respond to new and increasingly complex methods of attack and to update our products to detect or prevent such threats in time to protect our end-customers' critical business data, our business, operating results and reputation could suffer.

If any companies or governments that are publicly known to use our platform are the subject of a cyber-attack that becomes publicized, our other current or potential channel partners or end-customers may look to our competitors for alternatives to our products. Real or perceived security breaches of our end-customers' networks could cause disruption or damage to their networks or other negative consequences and could result in negative publicity to us, damage to our reputation, declining sales, increased expenses and end-customer relations issues. To the extent potential end-customers or industry analysts believe that the occurrence of any actual or perceived failure of our products to detect or prevent malware, viruses, worms or similar threats is a flaw or indicates that our products do not provide significant value, our reputation and business could be harmed.

Any real or perceived defects, errors, or vulnerabilities in our products, or any failure of our products to detect a threat, could result in:

- a loss of existing or potential end-customers or channel partners;
- delayed or lost revenue;
- a delay in attaining, or the failure to attain, market acceptance;
- the expenditure of significant financial and product development resources in efforts to analyze, correct, eliminate, or work around errors or defects, to address and eliminate vulnerabilities, to remediate harms potentially caused by those vulnerabilities, or to identify and ramp up production with third-party providers;
- an increase in warranty claims, or an increase in the cost of servicing warranty claims, either of which would adversely affect our gross margins;
- harm to our reputation or brand; and
- litigation, regulatory inquiries, or investigations that may be costly and further harm our reputation.

Although we maintain cybersecurity liability coverage that may cover certain liabilities in connection with a security breach, we cannot be certain that our insurance coverage will be adequate for liabilities actually incurred, that insurance will continue to be available to use on commercially reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, including our financial condition, results of operation and reputation.

Our business is subject to the risks of warranty claims, product returns, product liability, and product defects.

Real or perceived errors, failures or bugs in our products could result in claims by end-customers for losses that they sustain. If end-customers make these types of claims, we may be required, or may choose, for customer relations or other reasons, to expend additional resources in order to help correct the problem. Historically, the amount of warranty claims has not been significant, but there are no assurances that the amount of such claims will not be material in the future. Liability provisions in our standard terms and conditions of sale, and those of our resellers and distributors, may not be enforceable under some circumstances or may not fully or effectively protect us from customer claims and related liabilities and costs, including indemnification obligations under our agreements with resellers, distributors or end-customers. The sale and support of our products also entail the risk of product liability claims. We maintain insurance to protect against certain types of claims associated with the use of our products, but our insurance coverage may not adequately cover any such claims. In addition, even claims that ultimately are unsuccessful could result in expenditures of funds in connection with litigation and divert management's time and other resources.

Undetected software or hardware errors may harm our business and results of operations.

Our products may contain undetected errors or defects when first introduced or as new versions are released. We have experienced these errors or defects in the past in connection with new products and product upgrades. We expect that these

errors or defects will be found from time to time in new or enhanced products after commencement of commercial distribution. These problems have in the past and may in the future cause us to incur significant warranty and repair costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations problems. We may also be subject to liability claims for damages related to product errors or defects. While we carry insurance policies covering this type of liability, these policies may not provide sufficient protection should a claim be asserted. A material product liability claim may harm our business and results of operations.

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

- expenditures of significant financial and product development resources in efforts to analyze, correct, eliminate or work around errors and defects or to address and eliminate vulnerabilities;
- loss of existing or potential end-customers or distribution channel partners;
- delayed or lost revenue;
- delay or failure to attain market acceptance;
- indemnification obligations under our agreements with resellers, distributors and/or end-customers;
- an increase in warranty claims compared with our historical experience or an increased cost of servicing warranty claims, either of which would adversely affect our gross margin; and
- litigation, regulatory inquiries, or investigations that may be costly and harm our reputation.

Our use of open source software in our products could negatively affect our ability to sell our products and subject us to possible litigation.

We incorporate open source software such as the Linux operating system kernel into our products. We have implemented a formal open source use policy, including written guidelines for use of open source software and business processes for approval of that use. We have developed and implemented our open source policies according to industry practice; however, best practices in this area are subject to change, because there is little reported case law on the interpretation of material terms of many open source licenses. We are in the process of reviewing our open source use and our compliance with open source licenses and implementing remediation and changes necessary to comply with the open source licenses related thereto. We cannot guarantee that our use of open source software has been, and will be, managed effectively for our intended business purposes and/or compliant with applicable open source licenses.

We may face legal action by third parties seeking to enforce their intellectual property rights related to our use of such open source software. Failure to adequately manage open source license compliance and our use of open source software may result in unanticipated obligations regarding our products and services, such as a requirement that we license proprietary portions of our products or services on unfavorable terms, that we make available source code for modifications or derivative works we created based upon, incorporating or using open source software, that we license such modifications or derivative works under the terms of the particular open source license and/or that we redesign the affected products or services, which could result, for example, in a loss of intellectual property rights, or delay in providing our products and services. From time to time, there have been claims against companies that distribute or use third-party open source software in their products and services, asserting that the open source software or its combination with the products or services infringes third parties' patents or copyrights, or that the companies' distribution or use of the open source software does not comply with the terms of the applicable open source licenses.

Use of certain open source software can lead to greater risks than use of warranted third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of such open source software. From time to time, there have been claims against companies that use open source software in their products, challenging the ownership of rights in such open source software. As a result, we could also be subject to suits by parties claiming ownership of rights in what we believe to be open source software and so challenging our right to use such software in our products. If any such claims were asserted against us, we could be required to incur significant legal expenses defending against such a claim.

Further, if our defenses to such a claim were not successful, we could be, for example, subject to significant damages, be required to seek licenses from third parties in order to continue offering our products and services without infringing such third party's intellectual property rights, be required to re-engineer such products and services, or be required to discontinue making available such products and services if re-engineering cannot be accomplished on a timely or successful basis. The need to engage in these or other remedies could increase our costs or otherwise adversely affect our business, operating results and financial condition.

Our products must interoperate with operating systems, software applications and hardware that are developed by others and if we are unable to devote the necessary resources to ensure that our products interoperate with such software and hardware, we may fail to increase, or we may lose market share and we may experience a weakening demand for our products.

Our products must interoperate with our end-customers' existing infrastructure, specifically their networks, servers, software and operating systems, which may be manufactured by a wide variety of vendors and original equipment manufacturers. As a result, when problems occur in a network, it may be difficult to identify the source of the problem. The occurrence of software or hardware problems, whether caused by our products or another vendor's products, may result in the delay or loss of market acceptance of our products. In addition, when new or updated versions of our end-customers' software operating systems or applications are introduced, we must sometimes develop updated versions of our software so that our products will interoperate properly. We may not accomplish these development efforts quickly, cost-effectively or at all. These development efforts require capital investment and the devotion of engineering resources. If we fail to maintain compatibility with these applications, our end-customers may not be able to adequately utilize our products, and we may, among other consequences, fail to increase, or we may lose market share and experience a weakening in demand for our products, which would adversely affect our business, operating results and financial condition.

We license technology from third parties, and our inability to maintain those licenses could harm our business.
Many of our products include proprietary technologies licensed from third parties. In the future, it may be necessary to renew licenses for third party technology or obtain new licenses for other technology. These third-party licenses may not be available to us on acceptable terms, if at all. As a result, we could also face delays or be unable to make changes to our products until equivalent technology can be identified, licensed or developed and integrated with our products. Such delays or an inability to make changes to our products, if it were to occur, could adversely affect our business, operating results and financial condition. The inability to obtain certain licenses to third-party technology, or litigation regarding the interpretation or enforcement of license agreements and related intellectual property issues, could have a material adverse effect on our business, operating results and financial condition.

Failure to prevent excess inventories or inventory shortages could result in decreased revenue and gross margin and harm our business.

We purchase products from our manufacturers outside of, and in advance of, reseller or end-customer orders, which we hold in inventory and sell. We place orders with our manufacturers based on our forecasts of our end-customers' requirements and forecasts provided by our distribution channel partners. These forecasts are based on multiple assumptions, each of which might cause our estimates to be inaccurate, affecting our ability to provide products to our customers. There is a risk we may be unable to sell excess products ordered from our manufacturers. Inventory levels in excess of customer demand may result in obsolete inventory and inventory write-downs. The sale of excess inventory at discounted prices could impair our brand image and have an adverse effect on our financial condition and results of operations. Conversely, if we underestimate demand for our products, or if our manufacturers fail to supply products we require at the time we need them, we may experience inventory shortages. Inventory shortages might delay shipments to resellers, distribution channel partners and customers and cause us to lose sales. These shortages may diminish the loyalty of our distribution channel partners or customers.

The difficulty in forecasting demand also makes it difficult to estimate our future financial condition and results of operations from period to period. A failure to accurately predict the level of demand for our products could adversely affect our total revenue and net income, and we are unlikely to forecast such effects with any certainty in advance.

Our sales cycles can be long and unpredictable, primarily due to the complexity of our end-customers' networks and data centers and the length of their budget cycles. As a result, our sales and revenue are difficult to predict and may vary substantially from period to period, which may cause our operating results to fluctuate significantly.

The timing of our sales is difficult to predict because of the length and unpredictability of our products' sales cycles. A sales cycle is the period between initial contact with a prospective end-customer and any sale of our products. Our sales cycle, in particular to our large end-customers, may be lengthy due to the complexity of their networks and data centers. Because of this complexity, prospective end-customers generally consider a number of factors over an extended period of time before committing to purchase our products. End-customers often view the purchase of our products as a significant and strategic decision that can have important implications on their existing networks and data centers and, as a result, require considerable time to evaluate, test and qualify our products prior to making a purchase decision and placing an order to ensure that our products will successfully interoperate with our end-customers' complex network and data centers. Additionally, the budgetary decisions at these entities can be lengthy and require multiple organization reviews. The length of time that end-customers devote to their evaluation of our products and decision-making process varies significantly. The length of our products' sales cycles typically ranges from three to 12 months but can be longer for our large end-customers. In addition, the length of our close or sales cycle can be affected by the extent to which customized features are requested, in particular in our large deals.

For all of these reasons, it is difficult to predict whether a sale will be completed or the particular fiscal period in which a sale will be completed, both of which contribute to the uncertainty of our future operating results. If our close or sales cycles lengthen, our revenue could be lower than expected, which would have an adverse impact on our operating results and could cause our stock price to decline.

Our ability to sell our products is highly dependent on the quality of our support and services offerings, and our failure to offer high-quality support could have a material adverse effect on our business, revenue and results of operations.

We believe that our ability to provide consistent, high quality customer service and technical support is a key factor in attracting and retaining end-customers of all sizes and is critical to the deployment of our products. When support is purchased our end-customers depend on our support organization to provide a broad range of support services, including on-site technical support, 24-hour support and shipment of replacement parts on an expedited basis. If our support organization or our distribution channel partners do not assist our end-customers in deploying our products effectively, succeed in helping our end-customers resolve post-deployment issues quickly, or provide ongoing support, it could adversely affect our ability to sell our products to existing end-customers and could harm our reputation with potential end-customers. We currently have technical support centers in the United States, Japan, China, India and the Netherlands. As we continue to expand our operations internationally, our support organization will face additional challenges, including those associated with delivering support, training and documentation in languages other than English.

We typically sell our products with maintenance and support as part of the initial purchase, and a substantial portion of our support revenue comes from renewals of maintenance and support contracts. Our end-customers have no obligation to renew their maintenance and support contracts after the expiration of the initial period. If we are unable to provide high quality support, our end-customers may elect not to renew their maintenance and support contracts or to reduce the product quantity under their maintenance and support contracts, thereby reducing our future revenue from maintenance and support contracts.

Our failure or the failure of our distribution channel partners to maintain high-quality support and services could have a material and adverse effect on our business, revenue and operating results.

We depend on growth in markets relating to network security, management and analysis, and lack of growth or contraction in one or more of these markets could have a material adverse effect on our results of operations and financial condition.

Demand for our products is linked to, among other things, growth in the size and complexity of network infrastructures and the demand for networking technologies addressing the security, management and analysis of such infrastructures. These markets are dynamic and evolving. Our future financial performance will depend in large part on continued growth in the number of organizations investing in their network infrastructure and the amount they commit to such investments. If this demand declines, our results of operations and financial condition would be materially and adversely affected. Segments of the network infrastructure industry have in the past experienced significant economic downturns. Furthermore, the market for network infrastructure may not continue to grow at historic rates, or at all. The occurrence of any of these factors in the markets relating to network security, management and analysis could materially and adversely affect our results of operations and financial condition.

Because we recognize subscription revenue from our customers over the term of their agreements, downturns or upturns in sales of our subscription-based offerings will not be immediately reflected in our operating results and may adversely affect our revenue in the future.

We recognize subscription revenue over the term of our customer agreements. As a result, most of our subscription revenue arises from agreements entered into during previous periods. A shortfall in orders for our subscription-based solutions in any one period would most likely not significantly reduce our subscription revenue for that period, but could adversely affect the revenue contribution in future periods. In addition, we may be unable to quickly reduce our cost structure in response to a decrease in these orders. Accordingly, the effect of downturns in sales of our subscription-based solutions will not be fully reflected in our operating results until future periods. A subscription revenue model also makes it difficult for us to rapidly increase our revenue through additional subscription sales in any one period, as revenue is generally recognized over a longer period.

Our business and operations have experienced growth in certain prior periods and may experience rapid growth at certain times in the future, and if we do not effectively manage any future growth or are unable to improve our controls, systems and processes, our operating results will be adversely affected. In certain prior periods, we have significantly increased the number of our employees and independent contractors. As we hire new employees and independent contractors and expand into new locations outside the United States, we are required to comply with varying local laws for each of these new locations. We anticipate that further expansion of our infrastructure and headcount will be required. Our growth has placed, and will continue to place, a significant strain on our administrative and operational infrastructure and financial resources. Our ability to manage our operations and growth across multiple countries will require us to continue to refine our operational, financial and management controls, human resource policies, and reporting systems and processes. We need to continue to improve our internal systems, processes, and controls to effectively manage our operations and growth. We may not be able to successfully implement improvements to these systems, processes and controls in an efficient or timely manner. In addition, our systems and processes may not prevent or detect all errors, omissions or fraud. For example, as described in our Annual Report on Form 10-K for our fiscal year ended December 31, 2018, we identified material weaknesses in our internal control over financial reporting and concluded that our internal control over financial reporting was not effective as of December 31, 2018 and December 31, 2017, and that our disclosure controls and procedures were not effective as of December 31, 2018 and December 31, 2017. We may experience difficulties in managing improvements to our systems, processes, and controls or in connection with third-party software, which could impair our ability to provide products or services to our customers in a timely manner, causing us to lose customers, limit us to smaller deployments of our products, increase our technical support costs, or damage our reputation and brand. Furthermore, given our growth and size, our management team may lack oversight on certain side agreements between sales personnel and customers. Our failure to improve our systems and processes, or their failure to operate in the intended manner, may result in our inability to manage the growth of our business and to accurately forecast our revenue, expenses, and earnings, or to prevent certain losses, any of which may harm our business and results of operations. We may not be able to sustain or develop new distributor and reseller relationships, and a reduction or delay in sales to significant distribution channel partners could hurt our business.

We sell our products and services through multiple distribution channels in the United States and internationally. We may not be able to increase our number of distributor or reseller relationships or maintain our existing relationships. Recruiting and retaining qualified distribution channel partners and training them on our technologies requires significant time and resources. These distribution channel partners may also market, sell and support products and services that are competitive with ours and may devote more resources to the marketing, sales and support of such competitive products. Our sales channel structure could subject us to lawsuits, potential liability and reputational harm if, for example, any of our distribution channel partners misrepresent the functionality of our products or services to end-customers or violate laws or our corporate policies. If we are unable to establish or maintain our sales channels or if our distribution channel partners are unable to adapt to our future sales focus and needs, our business and results of operations will be harmed.

Our products must conform to industry standards in order to be accepted by end-customers in our markets.

Generally, our products comprise only a part of a data center. The servers, network, software and other components and systems of a data center must comply with established industry standards in order to interoperate and function efficiently together. We depend on companies that provide other components of the servers and systems in a data center to support prevailing industry standards. Often, these companies are significantly larger and more influential in driving industry standards than we are. Some industry standards may not be widely adopted or implemented uniformly, and competing standards may emerge that may be preferred by our end-customers. If larger companies do not support the same industry standards that we do, or if competing standards emerge, market acceptance of our products could be adversely affected and we may need to incur substantial costs to conform our products to such standards, which could harm our business, operating results and financial condition.

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

Many of our business processes depend upon our information technology systems, the systems and processes of third parties, and on interfaces with the systems of third parties. If those systems fail or are interrupted, or if our ability to connect to or interact with one or more networks is interrupted, our processes may function at a diminished level or not at all. This could harm our ability to ship or support our products, and our financial results may be harmed.

In addition, reconfiguring or upgrading our information technology systems or other business processes in response to changing business needs may be time-consuming and costly and is subject to risks of delay or failed deployment. To the extent this impacts our ability to react timely to specific market or business opportunities, our financial results may be harmed.

Future acquisitions we may undertake may not result in the financial and strategic goals that are contemplated at the time of the transaction.

Future acquisitions we may undertake may not result in the financial and strategic goals that are contemplated at the time of the transaction.

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

Our inability to successfully operate and integrate future acquisitions appropriately, effectively and in a timely manner, or to retain key personnel of any acquired business, could have a material adverse effect on our revenue, gross margin and expenses.

We are exposed to the credit risk of our distribution channel partners and end-customers, which could result in material losses and negatively impact our operating results.

Most of our sales are on an open credit basis, with typical payment terms ranging from 30 to 90 days depending on local customs or conditions that exist in the sale location. If any of the distribution channel partners or end-customers responsible for a significant portion of our revenue becomes insolvent or suffers a deterioration in its financial or business condition and is unable to pay for our products, our results of operations could be harmed. The sales price of our products and subscriptions may decrease, which may reduce our gross profits and adversely impact our financial results. The sales prices for our products and subscriptions may decline for a variety of reasons, including competitive pricing pressures, discounts, a change in our mix of products and subscriptions, anticipation of the introduction of new products or subscriptions, or promotional programs. Competition continues to increase in the market segments in which we participate, and we expect competition to further increase in the future, thereby leading to increased pricing pressures. Larger competitors with more diverse product and service offerings may reduce the price of products or subscriptions that compete with ours or may bundle them with other products and subscriptions. Additionally, although we price our products and subscriptions worldwide in U.S. Dollars (except in Japan), currency fluctuations in certain countries and regions may negatively impact actual prices that channel partners and end-customers are willing to pay in those countries and regions. Furthermore, we anticipate that the sales prices and gross profits for our products will decrease over product life cycles. We cannot guarantee that we will be successful in developing and introducing new offerings with enhanced functionality on a timely basis, or that our product and subscription offerings, if introduced, will enable us to maintain our prices and gross profits at levels that will allow us to achieve and maintain profitability.

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

A significant natural disaster, such as an earthquake, fire, a flood, or significant power outage could have a material adverse impact on our business, operating results, and financial condition. Our corporate headquarters are located in the San Francisco Bay Area, a region known for seismic activity. In addition, our two primary manufacturers are located in Taiwan, which is near major earthquake fault lines and subject to typhoons during certain times of the year. In the event of a major earthquake or typhoon, or other natural or man-made disaster, our manufacturers in Taiwan may face business interruptions, which may impact quality assurance, product costs, and product supply and timing. In the event our or our service providers' information technology systems or manufacturing or logistics abilities are hindered by any of the events discussed above, shipments could be delayed, resulting in missed financial targets, such as revenue and shipment targets, and our operations could be disrupted, for the affected quarter or quarters. In addition, cybersecurity attacks, acts of war or terrorism, or other geo-political unrest could cause disruptions in our business or the business of our supply chain, manufacturers, logistics providers, partners, or end-customers or the economy as a whole. Any disruption in the business of our supply chain, manufacturers, logistics providers, partners or end-customers that impacts sales at the end of a quarter could have a significant adverse impact on our quarterly results. All of the aforementioned risks may be further increased if the disaster recovery plans for us and our suppliers prove to be inadequate. To the extent that any of the above should result in delays or cancellations of customer orders, or the delay in the manufacture, deployment or shipment of our products, our business, financial condition and operating results would be adversely affected.

Risks Related to Intellectual Property, Litigation, Laws and Regulations

We have been, may presently be, or in the future may be, a party to litigation and claims regarding intellectual property rights, resolution of which has been and may in the future be time-consuming, expensive and adverse to us, as well as require a significant amount of resources to prosecute, defend, or make our products non-infringing.

Our industry is characterized by the existence of a large number of patents and by increasingly frequent claims and related litigation based on allegations of infringement or other violations of patent and other intellectual property rights. In the ordinary course of our business, we have been and may presently be in disputes and licensing discussions with others regarding their patents and other claimed intellectual property and proprietary rights. Intellectual property infringement and misappropriation lawsuits and other claims are subject to inherent uncertainties due to the complexity of the technical and legal issues involved, and we cannot be certain that we will be successful in defending ourselves against such claims or in concluding licenses on reasonable terms or at all.

We may have fewer issued patents than some of our major competitors, and therefore may not be able to utilize our patent portfolio effectively to assert defenses or counterclaims in response to patent infringement claims or litigation brought against us by third parties. Further, litigation may involve patent holding companies or other adverse patent owners that have no relevant products revenue and against which our potential patents may provide little or no deterrence. In addition, many potential litigants have the capability to dedicate substantially greater resources than we can to enforce their intellectual property rights and to defend claims that may be brought against them. We expect that infringement claims may increase as the number of product types and the number of competitors in our market increases. Also, to the extent we gain greater visibility, market exposure and competitive success, we face a higher risk of being the subject of intellectual property infringement claims.

If we are found in the future to infringe the proprietary rights of others, or if we otherwise settle such claims, we could be compelled to pay damages or royalties and either obtain a license to those intellectual property rights or alter our products such that they no longer infringe. Any license could be very expensive to obtain or may not be available at all. Similarly, changing our products or processes to avoid infringing the rights of others may be costly, time-consuming or impractical. Alternatively, we could also become subject to an injunction or other court order that could prevent us from offering our products. Any of these claims, regardless of their merit, may be time-consuming, result in costly litigation and diversion of technical and management personnel, or require us to cease using infringing technology, develop non-infringing technology or enter into royalty or licensing agreements.

Many of our commercial agreements require us to indemnify our end-customers, distributors and resellers for certain third-party intellectual property infringement actions related to our technology, which may require us to defend or otherwise become involved in such infringement claims, and we could incur liabilities in excess of the amounts we have received for the relevant products and/or services from our end-customers, distributors or resellers. These types of claims could harm our relationships with our end-customers, distributors and resellers, may deter future end-customers from purchasing our products or could expose us to litigation for these claims. Even if we are not a party to any litigation between an end-customer, distributor or reseller, on the one hand, and a third party, on the other hand, an adverse outcome in any such litigation could

make it more difficult for us to defend our intellectual property rights in any subsequent litigation in which we are a named party.

We may not be able to adequately protect our intellectual property, and if we are unable to do so, our competitive position could be harmed, or we could be required to incur significant expenses to enforce our rights.

We rely on a combination of patent, copyright, trademark and trade secret laws, and contractual restrictions on disclosure of confidential and proprietary information, to protect our intellectual property. Despite the efforts we take to protect our intellectual property and other proprietary rights, these efforts may not be sufficient or effective at preventing their unauthorized use. In addition, effective trademark, patent, copyright and trade secret protection may not be available or cost-effective in every country in which we have rights. There may be instances where we are not able to protect intellectual property or other proprietary rights in a manner that maximizes competitive advantage. If we are unable to protect our intellectual property and other proprietary rights from unauthorized use, the value of those assets may be reduced, which could negatively impact our business.

We also rely in part on confidentiality and/or assignment agreements with our technology partners, employees, consultants, advisors and others. These protections and agreements may not effectively prevent disclosure of our confidential information and may not provide an adequate remedy in the event of unauthorized disclosure. In addition, others may independently discover our trade secrets and intellectual property information we thought to be proprietary, and in these cases we would not be able to assert any trade secret rights against those parties. Despite our efforts to protect our intellectual property, unauthorized parties may attempt to copy or otherwise obtain and use our intellectual property or technology. Monitoring unauthorized use of our intellectual property is difficult and expensive. We have not made such monitoring a priority to date and will not likely make this a priority in the future. We cannot be certain that the steps we have taken or will take will prevent misappropriation of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

If we fail to protect our intellectual property adequately, our competitors might gain access to our technology, and our business might be harmed. In addition, even if we protect our intellectual property, we may need to license it to competitors, which could also be harmful. For example, as a result of the settlement of an intellectual property matter, we have already licensed all of our issued patents, pending applications, and future patents and patent applications that we may acquire, obtain, apply for or have a right to license to Brocade Communications Systems, Inc. until May 2025, for the life of each such patent. In addition, we might incur significant expenses in defending our intellectual property rights. Any of our patents, copyrights, trademarks or other intellectual property rights could be challenged by others or invalidated through administrative process or litigation.

We may in the future initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Any litigation, whether or not resolved in our favor, could result in significant expense to us and divert the efforts of our management and technical personnel, as well as cause other claims to be made against us, which might adversely affect our business, operating results and financial condition.

Exposure to UK political developments, including the effects of Brexit, could have a material adverse effect on us.

On January 31, 2020, the United Kingdom ("UK") withdrew from the European Union ("EU"), which began a transition period until the end of 2020 during which the UK and the EU negotiated additional arrangements. For instance, the EU-UK Trade and Cooperation Agreement went into effect on January 1, 2021, which retains the tariff-free and quota-free status on trade between the EU and UK.

Brexit creates an uncertain political and economic environment in the UK and potentially across other EU member states for the foreseeable future and such uncertainties could impair or limit our ability to transact business in the member EU states.

The political and economic uncertainty created by Brexit has caused and may continue to cause significant volatility in global financial markets and in the value of the Pound Sterling currency or other currencies, including the Euro. Depending on the extent of the effects of Brexit, it is possible that there may be adverse practical and/or operational implications on our business.

Consequently, no assurance can be given as to the overall impact of Brexit and, in particular, no assurance can be given that our operating results, financial condition and prospects would not be adversely impacted by the result.

Enhanced United States tariffs, import/export restrictions, Chinese regulations or other trade barriers may have a negative effect on global economic conditions, financial markets and our business.

There is currently significant uncertainty about the future relationship between the United States and various other countries, most significantly China, with respect to trade policies, treaties, tariffs and taxes. Some within the U.S. government have called for substantial changes to U.S. foreign trade policy with respect to China and other countries, including the possibility of imposing greater restrictions on international trade and significant increases in tariffs on goods imported into the United States. In 2018, the Office of the U.S. Trade Representative (the "USTR") enacted tariffs on imports into the U.S. from China, including communications equipment products and components manufactured and imported from China. In October 2021 the USTR confirmed these enacted U.S. tariffs will stay in place for the time being. An increase in tariffs will cause our costs to increase, which could narrow the profits we earn from sales of products requiring such materials. Furthermore, if tariffs, trade restrictions, or trade barriers are placed on products such as ours by foreign governments, especially China, the prices for our products may increase, which may result in the loss of customers and harm to our business, financial condition and results of operations. There can be no assurance that we will not experience a disruption in business related to these or other changes in trade practices and the process of changing suppliers in order to mitigate any such tariff costs could be complicated, time consuming and costly.

Furthermore, the U.S. tariffs may cause customers to delay orders as they evaluate where to take delivery of our products in connection with their efforts to mitigate their own tariff exposure. Such delays create forecasting difficulties for us and increase the risk that orders might be canceled or might never be placed. Current or future tariffs imposed by the U.S. may also negatively impact our customers' sales, thereby causing an indirect negative impact on our own sales. Any reduction in customers' sales, and/or any apprehension among distributors and customers of a possible reduction in such sales, would likely cause an indirect negative impact on our own sales.

Additionally, the current uncertainty about the future relationship between the United States and other countries with respect to the trade policies, treaties, taxes, government regulations and tariffs makes it difficult to plan for the future. New developments in these areas, or the perception that any of them could occur, may have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global trade and, in particular, trade between these nations and the United States. Any of these factors could depress economic activity and restrict our access to suppliers or customers and have a material adverse effect on our business, financial condition and results of operations and affect our strategy in China and elsewhere around the world. Given the uncertainty of further developments related to tariffs, international trade agreements and policies we can give no assurance that our business, financial condition and operating results would not be adversely affected.

Failure to protect and ensure the confidentiality and security of data could lead to legal liability, adversely affect our reputation and have a material adverse effect on our operating results, business and reputation.

We may collect, store and use certain confidential information in the course of providing our services, and we have invested in preserving the security of this data. We may also outsource operations to third-party service providers to whom we transmit certain confidential data. There are no assurances that any security measures we have in place, or any additional security measures that our subcontractors may have in place, will be sufficient to protect this confidential information from unauthorized security breaches.

We cannot assure you that, despite the implementation of these security measures, we will not be subject to a security incident or other data breach or that this data will not be compromised. We may be required to expend significant capital and other resources to protect against security breaches or to alleviate problems caused by security breaches, or to pay penalties as a result of such breaches. Despite our implementation of security measures, techniques used to obtain unauthorized access or to sabotage systems change frequently and may not be recognized until launched against a target. As a result, we may be unable to anticipate these techniques or implement adequate preventative measures to protect this data. In addition, security breaches can also occur as a result of non-technical issues, including intentional or inadvertent breaches by our employees or service providers or by other persons or entities with whom we have commercial relationships. Any compromise or perceived compromise of our security could damage our reputation with our end-customers, and could subject us to significant liability, as well as regulatory action, including financial penalties, which would materially adversely affect our brand, results of operations, financial condition, business and prospects.

We have incurred, and expect to continue to incur, significant costs to protect against security breaches. We may incur significant additional costs in the future to address problems caused by any actual or perceived security breaches.

Breaches of our security measures or those of our third-party service providers, or other security incidents, could result in: unauthorized access to our sites, networks and systems; unauthorized access to, misuse or misappropriation of information, including personally identifiable information, or other confidential or proprietary information of ourselves or third parties; viruses, worms, spyware or other malware being served from our sites, networks or systems; deletion or modification of content or the display of unauthorized content on our sites; interruption, disruption or malfunction of operations; costs relating to notification of individuals, or other forms of breach remediation; deployment of additional personnel and protection technologies; response to governmental investigations and media inquiries and coverage; engagement of third-party experts and consultants; litigation, regulatory investigations, prosecutions, and other actions; and other potential liabilities. If any of these events occur, or is believed to occur, our reputation and brand could be damaged, our business may suffer, we could be required to expend significant capital and other resources to alleviate problems caused by such actual or perceived breaches, we could be exposed to a risk of loss, litigation or regulatory action and possible liability, and our ability to operate our business, including our ability to provide maintenance and support services to our channel partners and end-customers, may be impaired. If current or prospective channel partners and end-customers believe that our systems and solutions do not provide adequate security for their businesses' needs, our business and our financial results could be harmed. Additionally, actual, potential or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants.

In response to the COVID-19 pandemic many of our employees are currently working from home. There are additional risks and challenges associated with having a large portion of our workforce working remotely, and our IT systems may experience additional stress as a result. There is also increased risk of breaches to our network. While the Company has implemented a variety of security measures to address these heightened risks, there can be no assurance that such measures will prevent breaches. Any such breaches could negatively impact our reputation and business.

Although we maintain privacy, data breach and network security liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. Any actual or perceived compromise or breach of our security measures, or those of our third-party service providers, or any unauthorized access to, misuse or misappropriation of personally identifiable information, channel partners' or end-customers information, or other information, could violate applicable laws and regulations, contractual obligations or other legal obligations and cause significant legal and financial exposure, adverse publicity and a loss of confidence in our security measures, any of which could have an material adverse effect on our business, financial condition and operating results.

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

A wide variety of provincial, state, national, foreign, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer, and other processing of personal data. These data protection and privacy-related laws and regulations are evolving and being tested in courts and may result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions. For example, the European Union's General Data Protection Regulation, or GDPR, which took effect in May 2018, has caused EU data protection requirements to be more stringent and provide for greater penalties. Because the GDPR may be subject to new or changing interpretations by courts, our interpretation of the law and efforts to comply with the rules and regulations of the law may be ruled invalid. Noncompliance with the GDPR can trigger fines of up to €20 million or 4% of global annual revenues, whichever is higher. The UK also recently enacted legislation that substantially implements the GDPR. Similarly, California recently enacted the California Consumer Privacy Act, or CCPA, which, among other things, requires covered companies to provide new disclosures to California consumers and affords such consumers new rights including not sharing personal information upon the consumer's request and opt-out provisions for the sales of consumer's personal information. Aspects of the CCPA and its interpretation remain unclear. In addition, other states have enacted or proposed legislation that regulates the collection, use, and sale of personal information, and such regimes might not be compatible with either the GDPR or the CCPA or may require us to undertake additional practices. We cannot yet predict the impact of the CCPA or impending legislation on our business or operations, but it may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply. Our failure to comply with applicable laws and regulations, or to protect such data, could result in enforcement action against us, including significant fines, imprisonment of company officials and public censure, claims for damages by end-customers and other affected persons and entities, damage to our reputation and loss of goodwill (both in relation to existing and prospective channel partners and end-customers), and other forms of injunctive or operations-limiting relief, any of which could have a material adverse effect on our operations, financial performance, and business. Evolving and changing definitions of personal data and personal

information, within the European Union, the United States, and elsewhere, especially relating to classification of Internet Protocol ("IP") addresses, machine identification, location data, biometric data and other information, may limit or inhibit our ability to operate or expand our business, including limiting strategic partnerships that may involve the sharing of data. We may be required to expend significant resources to modify our solutions and otherwise adapt to these changes, which we may be unable to do on commercially reasonable terms or at all, and our ability to develop new solutions and features could be limited. These developments could harm our business, financial condition and results of operations. Even if not subject to legal challenge, the perception of privacy concerns, whether or not valid, may harm our reputation and inhibit adoption of our products by current and prospective end-customers.

Our sales to governmental organizations are subject to a number of challenges and risks.

We sell to governmental organization end-customers. Sales to governmental organizations are subject to a number of challenges and risks. Selling to governmental organizations can be highly competitive, expensive and time consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. We have not yet received security clearance from the United States government, which prevents us from being able to sell directly for certain governmental uses. There can be no assurance that such clearance will be obtained, and failure to do so may adversely affect our operating results. Governmental organization demand and payment for our products may be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products. Governmental organizations may have statutory, contractual or other legal rights to terminate contracts with our distributors and resellers for convenience or due to a default, and any such termination may adversely impact our future operating results.

Failure to comply with governmental laws and regulations could harm our business.

Our business is subject to regulation by various federal, state, local and foreign governmental entities, including agencies responsible for monitoring and enforcing employment and labor laws, workplace safety, product safety, environmental laws, consumer protection laws, anti-bribery laws, import/export controls, federal securities laws, and tax laws and regulations. In certain jurisdictions, these regulatory requirements may be more stringent than those in the United States. Noncompliance with applicable regulations or requirements could subject us to investigations, sanctions, mandatory product recalls, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties or injunctions. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, operating results, and financial condition could be materially adversely affected. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. Enforcement actions and sanctions could harm our business, operating results and financial condition.

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

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

If we fall out of compliance with, or are deemed to be in violation of, any applicable export or import regulations, we may incur penalties and face other consequences that could harm our sales process and financial results. We recently identified that, in certain instances, we shipped encryption products prior to obtaining the required export authorizations from the Bureau of Industry and Security ("BIS"), and prior to submitting the required classification request. We implemented corrective actions and filed a Voluntary Self Disclosure with the BIS. BIS issued a Warning Letter in lieu of fines and penalties, and the matter is now resolved.

We are subject to various environmental laws and regulations that could impose substantial costs upon us.

Our company must comply with local, state, federal, and international environmental laws and regulations in the countries in which we do business. We are also subject to laws, which restrict certain hazardous substances, including lead, used in the construction of our products, such as the European Union Restriction on the Use of Hazardous Substances in electrical and electronic equipment directive. We are also subject to the European Union Directive, known as the Waste Electrical and Electronic Equipment Directive ("WEEE Directive"), which requires producers of certain electrical and electronic equipment to properly label products, register as a WEEE producer, and provide for the collection, disposal and recycling of waste electronic products. Failure to comply with these environmental directives and other environmental laws could result in the imposition of fines and penalties, inability to sell covered products in certain countries, the loss of revenue, or subject us to third-party property damage or personal injury claims, or require us to incur investigation, remediation or engineering costs. Our operations and products will be affected by future environmental laws and regulations, but we cannot predict the ultimate impact of any such future laws and regulations at this time.

Our ability to use our net operating loss carryforwards may be subject to limitation and may result in increased future tax liability to us.

Generally, a change of more than 50% in the ownership of a corporation's stock, by value, over a three-year period constitutes an ownership change for U.S. federal income tax purposes. An ownership change may limit a company's ability to use its net operating loss carryforwards attributable to the period prior to such change. In the event we have undergone an ownership change under Section 382 of the Internal Revenue Code, if we earn net taxable income, our ability to use our pre-change net operating loss carryforwards to offset U.S. federal taxable income may become subject to limitations, which could potentially result in increased future tax liability to us.

Changes in tax laws or regulations or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our operating results and financial condition.

We are subject to income taxes and other taxes in the United States and various foreign jurisdictions. Our domestic and international tax liabilities will be subject to the allocation of income and expenses in differing jurisdictions. Our future effective tax rates could be subject to volatility or adversely affected by a number of factors, including:

- changes in the valuation of our deferred tax assets and liabilities;
- expiration of, or detrimental changes in, research and development tax credit laws;
- tax effects of stock-based compensation;
- costs related to intercompany restructurings;
- changes in tax laws, regulations, accounting principles or interpretations thereof;
- future earnings being lower than anticipated in countries where we have lower statutory tax rates and higher than anticipated earnings in countries where we have higher statutory tax rates; and/or
- examinations by U.S. federal, state, local or foreign jurisdictions that disagree with interpretations of tax rules and regulations and the resulting positions we have taken in tax filings.

As our business grows, we are required to comply with increasingly complex taxation rules and practices. We are subject to tax in multiple U.S. tax jurisdictions and foreign tax jurisdictions due to our international expansion. The development of our tax strategies requires additional expertise and may impact how we conduct our business. Our future effective tax rates could be unfavorably affected by changes in, or interpretations of, tax rules and regulations in the jurisdictions in which we do business or changes in the valuation of our deferred tax assets and liabilities. Furthermore, we provide for certain tax liabilities that involve significant judgment. We are subject to the examination of our tax returns by federal, state, local and foreign tax authorities, which could focus on our intercompany transfer pricing methodology as well as

other matters. If our tax strategies are ineffective or we are not in compliance with domestic and international tax laws, our financial position, operating results and cash flows could be adversely affected.

In addition, from time to time the United States, foreign, state and local governments make substantive changes to tax rules, including tax policies and rates, that apply to businesses and shareholders. Such substantive changes could adversely impact our operations and financial results.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles ("GAAP") in the United States are subject to interpretation by the Financial Accounting Standards Board ("FASB"), the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change. For example, in May 2014, the FASB issued Accounting Standards Update No. 2014-09 (Topic 606), *Revenue from Contracts with Customers*, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. We adopted Topic 606 effective January 1, 2018, applying the modified retrospective method to all contracts that were not completed as of January 1, 2018. This or other changes in accounting principles could adversely affect our financial results, including the comparability of our results. See Note 1 – *Description of Business and Summary of Significant Accounting Policies* of the notes to consolidated financial statements included in this Quarterly Report for the effect of new accounting pronouncements on our financial statements. Any difficulties in implementing these pronouncements could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors' confidence in us.

If we are unable to maintain effective internal controls over financial reporting, investor confidence may be adversely affected, which in turn would negatively affect the value of our common stock.

We concluded that our internal control over financial reporting was not effective as of December 31, 2018 due to material weaknesses that were remediated as of December 31, 2019. Previous significant deficiencies and material weaknesses also resulted in a restatement of certain of our financial reports, as disclosed in our Annual Report on Form 10-K for our fiscal year ended December 31, 2018. If any new internal control procedures which may be adopted or our existing internal control procedures are deemed inadequate, or if we identify additional material weaknesses in our disclosure controls or internal controls over financial reporting in the future, we will be unable to assert that our internal controls are effective. If we are unable to do so, or if we are required to restate our financial statements as a result of ineffective internal control over financial reporting, or if our auditors are unable to attest on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our common stock to decline.

Our charter documents and Delaware law could discourage takeover attempts and lead to management entrenchment.

Our restated certificate of incorporation and bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it difficult for stockholders to elect directors that are not nominated by the current members of our Board of Directors or take other corporate actions, including effecting changes in our management. These provisions include:

- the ability of our Board of Directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preference and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;

- the exclusive right of our Board of Directors to elect a director to fill a vacancy created by the expansion of our Board of Directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our Board of Directors;

- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;

- the requirement that a special meeting of stockholders may be called only by the chairman of our Board of Directors, our Chief Executive Officer, our secretary, or a majority vote of our Board of Directors, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;

- the ability of our Board of Directors, by majority vote, to amend the bylaws, which may allow our Board of Directors to take additional actions to prevent an unsolicited takeover and inhibit the ability of an acquirer to amend the bylaws to facilitate an unsolicited takeover attempt; and

- advance notice procedures with which stockholders must comply to nominate candidates to our Board of Directors or not to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a certain period of time.

Our bylaws designate the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or agents.

Our bylaws provide that, unless we consent in writing to an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, any action arising pursuant to any provision of the Delaware General Corporate Law ("DGCL"), our certificate of incorporation or our bylaws, or any action asserting a claim that is governed by the internal affairs doctrine, in each case subject to the Court of Chancery having personal jurisdiction over the indispensable parties named as defendants therein and the claim not being one which is vested in the exclusive jurisdiction of a court or forum other than the Court of Chancery or for which the Court of Chancery does not have subject matter jurisdiction. This exclusive forum provision does not apply to suits brought to enforce a duty or liability created by the Securities Exchange Act of 1934. It could apply, however, to a suit that falls within one or more of the categories enumerated in the exclusive forum provision and asserts claims under the Securities Act of 1933, as amended, or the Securities Act, inasmuch as Section 22 of the Securities Act, creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. There is uncertainty as to whether a court would enforce this provision with respect to claims under the Securities Act, and our stockholders will not be deemed to have waived our compliance with the federal securities laws and the rules and regulations thereunder.

This choice of forum provision may limit our stockholders' ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, employees or agents, which may discourage such lawsuits against us and our directors, officers, employees and agents even though an action, if successful, might benefit our stockholders. Stockholders who do bring a claim in the Court of Chancery could face additional litigation costs in pursuing any such claim, particularly if they do not reside in or near Delaware. The Court of Chancery may also reach different judgments or results than would other courts, including courts where a stockholder considering an action may be located or would otherwise choose to bring the action, and such judgments or results may be more favorable to us than to our stockholders. Alternatively, if a court were to find this provision of our bylaws inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could have a material adverse effect on our business, financial condition or results of operations.

Increasing attention on environmental, social and governance ("ESG") matters may have a negative impact on our business, impose additional costs on us, and expose us to additional risks.

Companies are facing increasing attention from investors, customers, partners, consumers and other stakeholders relating to ESG matters, including environmental stewardship, social responsibility, diversity and inclusion, racial justice and workplace conduct. In addition, organizations that provide information to investors on corporate governance and related matters have developed ratings processes for evaluating companies on their approach to ESG matters. Such ratings are used by some

investors to inform their investment and voting decisions. Unfavorable ESG ratings may lead to negative investor sentiment toward the Company, which could have a negative impact on our stock price and our access to and costs of capital.

We have established corporate social responsibility programs aligned with sound environmental, social and governance principles. These programs reflect our current initiatives and are not guarantees that we will be able to achieve them. Our ability to successfully execute these initiatives and accurately report our progress presents numerous operational, financial, legal, reputational and other risks, many of which are outside our control, and all of which could have a material negative impact on our business. Additionally, the implementation of these initiatives imposes additional costs on us. If our ESG initiatives fail to satisfy investors, customers, partners and our other stakeholders, our reputation, our ability to sell products and services to customers, our ability to attract or retain employees, and our attractiveness as an investment, business partner or acquirer could be negatively impacted. Similarly, our failure or perceived failure to pursue or fulfill our goals, targets and objectives or to satisfy various reporting standards within the timelines we announce, or at all, could also have similar negative impacts and expose us to government enforcement actions and private litigation.

Risks Related to Capitalization and Financial Markets

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

Our consolidated results of operations, financial position and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. Historically, the majority of our revenue contracts are denominated in U.S. Dollars, with the most significant exception being Japan, where we invoice primarily in the Japanese Yen. Our expenses are generally denominated in the currencies in which our operations are located, which is primarily in the Americas and EMEA. Revenue resulting from selling in local currencies and costs incurred in local currencies are exposed to foreign currency exchange rate fluctuations that can affect our operating income. The currency exchange impact of the foreign exchange rates on our net income was $0.9 million unfavorable during the nine months ended September 30, 2022. The currency exchange impact of the foreign exchange rates on our net income was $1.9 million unfavorable during the year ended December 31, 2021. As exchange rates vary, our operating income may differ from expectations. We deploy normal and customary hedging practices that are designed to proactively mitigate such exposure. The use of such hedging activities may not offset any, or more than a portion, of the adverse financial effects of unfavorable movements in currency exchange rates over the limited time the hedges are in place and would not protect us from long term shifts in currency exchange rates.

Concentration of ownership among our existing executive officers, a small number of stockholders, directors and their affiliates may prevent new investors from influencing significant corporate decisions.

As of September 30, 2022, our executive officers and directors, together with affiliated entities, owned 8% of our then outstanding common stock (29% if other holders of 5% or more of our outstanding common stock are also included). Accordingly, these stockholders, acting together, have significant influence over the election of our directors, over whether matters requiring stockholder approval are approved or disapproved and over our affairs in general. The interests of these stockholders could conflict with your interests. These stockholders may also have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their investments, even though such transactions might involve risks to you. In addition, this concentration of ownership could have the effect of delaying or preventing a liquidity event such as a merger or liquidation of our company.

We may need to raise additional funds in future private or public offerings, and such funds may not be available on acceptable terms, if at all. If we do raise additional funds, existing stockholders will suffer dilution.

We may need to raise additional funds in private or public offerings, and these funds may not be available to us when we need them or on acceptable terms, if at all. If we raise additional funds through further issuances of equity or convertible debt securities, you could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of our then-existing capital stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, that may make it more difficult for us to obtain additional capital and to pursue business opportunities. If we cannot raise additional funds when we need them, our business and prospects could fail or be materially and adversely affected.

The price of our common stock has been and may continue to be volatile, and the value of your investment could decline.

Technology stocks have historically experienced high levels of volatility. The trading price of our common stock has been and is likely to continue to be volatile and subject to fluctuations in response to many factors, some of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose all or part of your investment in our common stock. Factors that could cause fluctuations in the trading price of our common stock include the following:

- announcements of new products, services or technologies, commercial relationships, acquisitions or other events by us or our competitors;
- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of technology companies in general and of companies in our industry;
- fluctuations in the trading volume of our shares or the size of our public float;
- actual or anticipated changes or fluctuations in our results of operations;
- whether our results of operations meet the expectations of securities analysts or investors;
- actual or anticipated changes in the expectations of investors or securities analysts;
- litigation or investigations involving us, our industry, or both;
- regulatory developments in the United States, foreign countries or both;
- general economic conditions and trends;
- major catastrophic events, including COVID-19, acts of war or other events affecting the global economy, and the responses thereto;
- sales of large blocks of our common stock; or
- departures of key personnel.

In addition, if the market for technology stocks or the stock market in general experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, results of operations or financial condition. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. The price of our common stock has been highly volatile since our initial public offering in March 2014. In the past, we have experienced securities class action and related derivative litigation, and an SEC investigation, all of which have been resolved. Future securities litigation, including any related shareholder derivative litigation or investigation, could result in substantial costs and divert our management's attention and resources from our business. This could have a material adverse effect on our business, results of operations and financial condition.

Sales of a substantial amount of our common stock in the public markets, or the perception that such sales might occur, could reduce the price that our common stock might otherwise attain and may dilute your voting power and your ownership interest in us.

Sales of a substantial number of shares of our common stock in the public market, or the perception that such sales could occur, could adversely affect the market price of our common stock and may make it more difficult for you to sell your common stock at a time and price that you deem appropriate. As of September 30, 2022, there were approximately 0.4 million

vested and exercisable options to purchase our common stock, in addition to the 73.4 million common shares outstanding as of such date. All outstanding shares and all shares issuable upon exercise of outstanding and vested options are freely tradable, subject in some cases to volume and other restrictions of Rules 144 and 701 under the Securities Act, as well as our insider trading policy. In addition, holders of certain shares of our outstanding common stock, including an aggregate of 5.4 million shares held by funds affiliated with Summit Partners, L.P. as of September 30, 2022 are entitled to rights with respect to registration of these shares under the Securities Act pursuant to an investors' rights agreement.

If holders of our common stock, whether by exercising their registration rights or otherwise, sell a large number of shares, they could adversely affect the market price for our common stock. If we file a registration statement for the purposes of selling additional shares to raise capital and are required to include shares held by holders pursuant to the exercise of their registration rights, our ability to raise capital may be impaired. Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our common stock to decline.

If securities or industry analysts do not publish research or reports about our business, or publish inaccurate or unfavorable research reports about our business, our share price and trading volume could decline.

The market for our common stock, to some extent, depends on the research and reports that securities or industry analysts publish about us or our business. If analysts covering us should downgrade our share value or change their opinion of our share value, our share price would likely decline. If analysts should cease coverage of our company or fail to regularly publish reports on us based on current publicly available information, we could lose visibility in the financial markets, which would cause our share price or trading volume to decline.

A reduction in or suspension or elimination of our dividend payments could have a negative effect on our stock price.

On October 28, 2021, we announced that our Board of Directors approved a capital allocation strategy to return capital to our stockholders. As part of this strategy, the Board began declaring quarterly cash dividends. The declaration, amount and timing of any cash dividends are subject to capital availability and determinations by our Board of Directors that cash dividends are in the best interest of our stockholders and are in compliance with all respective laws and our agreements applicable to the declaration and payment of cash dividends. Our ability to pay dividends will depend upon, among other factors, our cash flows from operations, our available capital and potential future capital requirements as well as our results of operations, financial condition and other factors beyond our control that our Board of Directors may deem relevant. A reduction in or suspension or elimination of our dividend payments could have a negative effect on our stock price.

There is no assurance that the existence of a share repurchase program will result in repurchases of our common stock or enhance long term stockholder value, and repurchases, if any, could affect our stock price and increase its volatility and will diminish our cash reserves.

On October 28, 2021, we announced that our Board of Directors approved a capital allocation strategy to return capital to our stockholders. As part of this, the Board authorized a $100 million share repurchase program (the " 2021 Program") under which we may repurchase up to $100 million of our outstanding common stock over the following 12 months. Under the share repurchase program, we may repurchase shares in the open market, privately negotiated transactions, in block trades or a combination of the foregoing. We are not obligated under the share repurchase program to repurchase any specific number or dollar amount of shares of common stock, and we may modify, suspend or discontinue the share repurchase program at any time. Our management and Board will determine the timing and amount of any repurchase in its discretion based on a variety of factors, such as the market price of our common stock, corporate requirements, general market economic conditions and legal requirements. The 2021 Program expired in October 2022.

On November 1, 2022, we announced that our Board of Directors authorized a new, $50 million share repurchase program (the "2022 Program") under which we may repurchase up to $50 million of our outstanding common stock during the next 12 months. Under the share repurchase program, we may repurchase shares of common stock in the open market, privately negotiated transactions, in block trades or a combination of the foregoing. We are not obligated under the share repurchase program to repurchase any specific number or dollar amount of shares of common stock, and we may modify, suspend or discontinue the share repurchase program at any time. Our management and Board will determine the timing and amount of any repurchase in its discretion based on a variety of factors, such as the market price of our common stock, corporate requirements, general market economic conditions and legal requirements. The Company plans to fund repurchases from its existing cash balance and cash provided by operating activities.

Repurchases pursuant to 2022 Program or any other share repurchase program we adopt in the future could affect our stock price and increase its volatility and will reduce the market liquidity for our stock. The existence of a share repurchase program could also cause our stock price to be higher than it would be in the absence of such a program. Additionally, these

repurchases will diminish our cash reserves, which could impact our ability to pursue possible future strategic opportunities and acquisitions and would result in lower overall returns on our cash balances. There can be no assurance that any share repurchases will, in fact, occur, or, if they occur, that they will enhance stockholder value. Although the share repurchase programs is intended to enhance long term stockholder value, short-term stock price fluctuations could reduce the effectiveness.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On October 28, 2021, we announced that our Board of Directors authorized a new stock repurchase program of up to $100 million of its common stock over a period of twelve months (the "2021 Program"). During the three months ended September 30, 2022, the Company repurchased 3.7 million shares for a total cost of $47.5 million under the 2021 Program. Under the 2021 Program, repurchased shares are held in treasury at cost. The 2021 Program does not obligate the Company to acquire any specific number of shares. Shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act. To date, all repurchases under the 2021 Program have occurred in the open market and through privately negotiated transactions. The 2021 Program expired in October 2022.

On November 1, 2022, we announced that our Board of Directors authorized a new, $50 million share repurchase program (the "2022 Program") under which we may repurchase up to $50 million of our outstanding common stock during the next 12 months. Under the share repurchase program, we may repurchase shares of common stock in the open market, privately negotiated transactions, in block trades or a combination of the foregoing. We are not obligated under the share repurchase program to repurchase any specific number or dollar amount of shares of common stock, and we may modify, suspend or discontinue the share repurchase program at any time. Our management and Board will determine the timing and amount of any repurchase in its discretion based on a variety of factors, such as the market price of our common stock, corporate requirements, general market economic conditions and legal requirements. The Company plans to fund repurchases from its existing cash balance and cash provided by operating activities.

Share repurchase activity during the three months ended September 30, 2022 was as follows (in thousands, except per share amounts):

Periods	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (1)
July 1 - 31, 2022	—	$ —	—	$ 61,189
August 1 - 31, 2022	—	$ —	—	$ 61,189
September 1 - 30, 2022	3,720	$ 12.77	3,720	$ 13,690
Total	3,720			$ 13,690

(1) The $13,690 (in thousands) in the table above represents the amount available to repurchase shares under the authorized repurchase program as of September 30, 2022. The Company's stock repurchase program (the "2021 Program") does not obligate it to acquire any specific number of shares. Under the 2021 Program, shares may be repurchased in privately negotiated and/or open market transactions. The 2021 Program expired in October 2022.

ITEM 6. EXHIBITS

Incorporated herein by reference is a list of the exhibits contained in the Exhibit Index below.

EXHIBIT INDEX

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on December 6, 2019)
3.2	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on December 6, 2019)
10.1	Common Stock Repurchase Agreement, dated as of September 8, 2022, between A10 Networks, Inc. and Summit Partners Growth Equity Fund VIII-A, L.P., Summit Partners Growth Equity Fund VIII-B L.P., Summit Investors I, LLC and Summit Investors I (UK), L.P.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
32.1**	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act
32.2**	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act
101*	Inline XBRL Document Set for the condensed consolidated financial statements and accompanying notes in Part I – Item 1, "Condensed Consolidated Financial Statements (Unaudited)" of this Quarterly Report on Form 10-Q
104*	Inline XBRL for the cover page of this Quarterly Report on Form 10-Q, included in the Exhibit 101 Inline XBRL Document Set

* Filed herewith.

** The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of A10 Networks, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

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.

A10 NETWORKS, INC.

Date: November 3, 2022

By: /s/ Dhrupad Trivedi

Dhrupad Trivedi

President and Chief Executive Officer
(Principal Executive Officer)

Date: November 3, 2022

By: /s/ Brian Becker

Brian Becker

Chief Financial Officer
(Principal Accounting and Financial Officer)

Exhibit 31.1

CERTIFICATION

I, Dhrupad Trivedi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of A10 Networks, Inc. for the three months ended September 30, 2022;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2022

By: /s/ Dhrupad Trivedi

Dhrupad Trivedi

President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Brian Becker, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of A10 Networks, Inc. for the three months ended September 30, 2022;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2022

By: /s/ Brian Becker

Brian Becker
Chief Financial Officer
(Principal Accounting and Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of A10 Networks, Inc. (the "Company") for the three months ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dhrupad Trivedi, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2022

By: /s/ Dhrupad Trivedi
Dhrupad Trivedi
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of A10 Networks, Inc. (the "Company") for the three months ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian Becker, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2022

By: /s/ Brian Becker
Brian Becker
Chief Financial Officer
(Principal Accounting and Financial Officer)