

**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, 2021**

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

or **For the transition period from** **to**

Commission file number 000-27275

Akamai Technologies, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

04-3432319
(I.R.S. Employer
Identification No.)

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

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 - par value \$0.01 per share	AKAM	Nasdaq Global Select Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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

The number of shares outstanding of the registrant's common stock as of November 2, 2021: 162,479,916

AKAMAI TECHNOLOGIES, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2021

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements (Unaudited)****AKAMAI TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS**

<i>(in thousands, except share data) (unaudited)</i>	September 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,264,590	\$ 352,917
Marketable securities	652,695	745,156
Accounts receivable, net of reserves of \$2,268 and \$1,822 at September 30, 2021, and December 31, 2020, respectively	660,092	660,052
Prepaid expenses and other current assets	184,503	171,406
Total current assets	2,761,880	1,929,531
Marketable securities	835,074	1,398,802
Property and equipment, net	1,543,301	1,478,272
Operating lease right-of-use assets	821,033	793,945
Acquired intangible assets, net	203,596	234,724
Goodwill	1,680,496	1,674,371
Deferred income tax assets	136,305	106,918
Other assets	133,790	147,567
Total assets	<u>\$ 8,115,475</u>	<u>\$ 7,764,130</u>

AKAMAI TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS, continued

<i>(in thousands, except share data) (unaudited)</i>	September 30, 2021	December 31, 2020
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 98,305	\$ 118,546
Accrued expenses	376,036	380,468
Deferred revenue	83,371	76,600
Operating lease liabilities	164,559	154,801
Other current liabilities	9,169	27,755
Total current liabilities	731,440	758,170
Deferred revenue	5,355	5,262
Deferred income tax liabilities	35,333	37,458
Convertible senior notes	1,958,558	1,906,707
Operating lease liabilities	722,294	715,404
Other liabilities	80,050	89,833
Total liabilities	3,533,030	3,512,834
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized; 700,000 shares designated as Series A Junior Participating Preferred Stock; no shares issued or outstanding	—	—
Common stock, \$0.01 par value; 700,000,000 shares authorized; 164,733,227 shares issued and 162,424,440 shares outstanding at September 30, 2021, and 162,709,720 shares issued and outstanding at December 31, 2020	1,647	1,627
Additional paid-in capital	3,789,623	3,664,820
Accumulated other comprehensive loss	(53,726)	(20,201)
Treasury stock, at cost, 2,308,787 shares at September 30, 2021, and no shares at December 31, 2020	(251,257)	—
Retained earnings	1,096,158	605,050
Total stockholders' equity	4,582,445	4,251,296
Total liabilities and stockholders' equity	\$ 8,115,475	\$ 7,764,130

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

AKAMAI TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

<i>(in thousands, except per share data) (unaudited)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue	\$ 860,333	\$ 792,845	\$ 2,555,865	\$ 2,351,862
Costs and operating expenses:				
Cost of revenue (exclusive of amortization of acquired intangible assets shown below)	316,866	283,439	943,553	828,825
Research and development	82,899	66,773	242,199	202,087
Sales and marketing	108,514	122,749	336,762	370,004
General and administrative	134,265	128,365	405,275	385,435
Amortization of acquired intangible assets	11,959	10,340	35,446	31,155
Restructuring charge	565	21	5,567	10,439
Total costs and operating expenses	655,068	611,687	1,968,802	1,827,945
Income from operations	205,265	181,158	587,063	523,917
Interest income	2,872	6,307	12,186	22,852
Interest expense	(18,144)	(17,324)	(54,015)	(51,778)
Other income (expense), net	3,635	(2,158)	2,007	(7,869)
Income before provision for income taxes	193,628	167,983	547,241	487,122
Provision for income taxes	(13,648)	(8,801)	(43,555)	(41,764)
Loss from equity method investment	(1,064)	(559)	(12,578)	(1,674)
Net income	\$ 178,916	\$ 158,623	\$ 491,108	\$ 443,684
Net income per share:				
Basic	\$ 1.10	\$ 0.97	\$ 3.01	\$ 2.73
Diluted	\$ 1.08	\$ 0.95	\$ 2.96	\$ 2.69
Shares used in per share calculations:				
Basic	162,767	162,757	162,967	162,387
Diluted	166,318	166,519	166,090	164,990

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

AKAMAI TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(in thousands) (unaudited)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income	\$ 178,916	\$ 158,623	\$ 491,108	\$ 443,684
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(21,160)	13,177	(28,444)	(7,292)
Change in unrealized (loss) gain on investments, net of income tax benefit (provision) of \$353, \$559, \$1,700, and \$(3,120) for the three and nine months ended September 30, 2021 and 2020, respectively	(1,009)	(1,724)	(5,081)	6,582
Other comprehensive (loss) income	(22,169)	11,453	(33,525)	(710)
Comprehensive income	\$ 156,747	\$ 170,076	\$ 457,583	\$ 442,974

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

AKAMAI TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(in thousands) (unaudited)</i>	For the Nine Months Ended September 30,	
	2021	2020
Cash flows from operating activities:		
Net income	\$ 491,108	\$ 443,684
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	408,933	350,681
Stock-based compensation	153,804	146,901
Benefit for deferred income taxes	(30,335)	(22,548)
Amortization of debt discount and issuance costs	49,284	47,057
Other non-cash reconciling items, net	12,015	16,284
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(15,225)	(85,439)
Prepaid expenses and other current assets	(15,099)	(21,380)
Accounts payable and accrued expenses	(16,263)	49,818
Deferred revenue	8,263	14,803
Other current liabilities	(17,958)	(1,638)
Other non-current assets and liabilities	(10,864)	(14,316)
Net cash provided by operating activities	1,017,663	923,907
Cash flows from investing activities:		
Cash (paid) received for business acquisitions, net of cash acquired	(15,638)	106
Cash paid for asset acquisition	—	(36,376)
Purchases of property and equipment	(265,131)	(395,793)
Capitalization of internal-use software development costs	(170,404)	(168,634)
Purchases of short- and long-term marketable securities	(611,732)	(1,153,526)
Proceeds from sales of short- and long-term marketable securities	438,370	29,809
Proceeds from maturities of short- and long-term marketable securities	823,255	1,301,354
Other, net	(1,665)	(1,980)
Net cash provided by (used in) investing activities	197,055	(425,040)
Cash flows from financing activities:		
Proceeds related to the issuance of common stock under stock plans	46,942	45,812
Employee taxes paid related to net share settlement of stock-based awards	(88,195)	(77,299)
Repurchases of common stock	(251,257)	(121,078)
Other, net	(268)	—
Net cash used in financing activities	(292,778)	(152,565)
Effects of exchange rate changes on cash, cash equivalents and restricted cash	(9,228)	3,535
Net increase in cash, cash equivalents and restricted cash	912,712	349,837
Cash, cash equivalents and restricted cash at beginning of period	353,466	394,146
Cash, cash equivalents and restricted cash at end of period	\$ 1,266,178	\$ 743,983

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

<i>(in thousands) (unaudited)</i>	For the Nine Months Ended September 30,	
	2021	2020
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net of refunds received of \$14,261 and \$16,674 for the nine months ended September 30, 2021 and 2020, respectively	\$ 82,003	\$ 31,634
Cash paid for interest expense	5,031	5,235
Cash paid for operating lease liabilities	167,457	144,322
Non-cash activities:		
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	173,427	128,177
Purchases of property and equipment and capitalization of internal-use software development costs included in accounts payable and accrued expenses	56,401	48,357
Capitalization of stock-based compensation	28,271	28,487
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 1,264,590	\$ 742,521
Restricted cash	1,588	1,462
Cash, cash equivalents and restricted cash	<u>\$ 1,266,178</u>	<u>\$ 743,983</u>

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

AKAMAI TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Three Months Ended September 30, 2021							
<i>(in thousands, except share data) (unaudited)</i>	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Treasury Stock	Retained Earnings	Total Stockholders' Equity
	Shares	Amount					
Balance at July 1, 2021	163,018,768	\$ 1,645	\$ 3,743,743	\$ (31,557)	\$ (154,416)	\$ 917,242	\$ 4,476,657
Issuance of common stock upon the exercise of stock options and vesting of restricted and deferred stock units, net of shares withheld for employee taxes	252,204	2	(11,868)				(11,866)
Stock-based compensation			57,748				57,748
Repurchases of common stock	(846,532)				(96,841)		(96,841)
Net income						178,916	178,916
Foreign currency translation adjustment				(21,160)			(21,160)
Change in unrealized loss on investments, net of tax				(1,009)			(1,009)
Balance at September 30, 2021	<u>162,424,440</u>	<u>\$ 1,647</u>	<u>\$ 3,789,623</u>	<u>\$ (53,726)</u>	<u>\$ (251,257)</u>	<u>\$ 1,096,158</u>	<u>\$ 4,582,445</u>
Three Months Ended September 30, 2020							
<i>(in thousands, except share data) (unaudited)</i>	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Treasury Stock	Retained Earnings	Total Stockholders' Equity
	Shares	Amount					
Balance at July 1, 2020	162,630,477	\$ 1,638	\$ 3,734,787	\$ (57,307)	\$ (107,880)	\$ 333,057	\$ 3,904,295
Issuance of common stock upon the exercise of stock options and vesting of restricted and deferred stock units, net of shares withheld for employee taxes	289,304	3	(13,390)				(13,387)
Stock-based compensation			59,831				59,831
Repurchases of common stock	(119,997)				(13,198)		(13,198)
Net income						158,623	158,623
Foreign currency translation adjustment				13,177			13,177
Change in unrealized loss on investments, net of tax				(1,724)			(1,724)
Balance at September 30, 2020	<u>162,799,784</u>	<u>\$ 1,641</u>	<u>\$ 3,781,228</u>	<u>\$ (45,854)</u>	<u>\$ (121,078)</u>	<u>\$ 491,680</u>	<u>\$ 4,107,617</u>

AKAMAI TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY, continued

	Nine Months Ended September 30, 2021						
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Treasury Stock	Retained Earnings	Total Stockholders' Equity
	Shares	Amount					
<i>(in thousands, except share data) (unaudited)</i>							
Balance at January 1, 2021	162,709,720	\$ 1,627	\$ 3,664,820	\$ (20,201)	\$ —	\$ 605,050	\$ 4,251,296
Issuance of common stock upon the exercise of stock options and vesting of restricted and deferred stock units, net of shares withheld for employee taxes	1,665,123	16	(88,763)				(88,747)
Issuance of common stock under employee stock purchase plan	358,384	4	31,527				31,531
Stock-based compensation			182,039				182,039
Repurchases of common stock	(2,308,787)				(251,257)		(251,257)
Net income						491,108	491,108
Foreign currency translation adjustment				(28,444)			(28,444)
Change in unrealized loss on investments, net of tax				(5,081)			(5,081)
Balance at September 30, 2021	<u>162,424,440</u>	<u>\$ 1,647</u>	<u>\$ 3,789,623</u>	<u>\$ (53,726)</u>	<u>\$ (251,257)</u>	<u>\$ 1,096,158</u>	<u>\$ 4,582,445</u>

AKAMAI TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY, continued

	Nine Months Ended September 30, 2020						
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Treasury Stock	Retained Earnings	Total Stockholders' Equity
	Shares	Amount					
<i>(in thousands, except share data) (unaudited)</i>							
Balance as of January 1, 2020	162,000,843	\$ 1,620	\$ 3,653,486	\$ (45,144)	\$ —	\$ 47,996	\$ 3,657,958
Issuance of common stock upon the exercise of stock options and vesting of restricted and deferred stock units, net of shares withheld for employee taxes	1,667,888	17	(76,696)				(76,679)
Issuance of common stock under employee stock purchase plan	393,921	4	29,166				29,170
Stock-based compensation			175,272				175,272
Repurchases of common stock	(1,262,868)				(121,078)		(121,078)
Net income						443,684	443,684
Foreign currency translation adjustment				(7,292)			(7,292)
Change in unrealized gain on investments, net of tax				6,582			6,582
Balance as of September 30, 2020	162,799,784	\$ 1,641	\$ 3,781,228	\$ (45,854)	\$ (121,078)	\$ 491,680	\$ 4,107,617

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

AKAMAI TECHNOLOGIES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business and Basis of Presentation

Akamai Technologies, Inc. (the "Company") provides solutions to power and protect content and business applications over the internet. Its globally-distributed platform is comprised of more than 325,000 servers in over 130 countries. The Company was incorporated in Delaware in 1998 and is headquartered in Cambridge, Massachusetts. The Company currently operates in one industry segment: providing cloud services for delivering, optimizing and securing content and business applications over the internet.

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

Certain information and footnote disclosures normally included in the Company's annual audited consolidated financial statements and accompanying notes have been condensed in, or omitted from, these interim financial statements. Accordingly, the unaudited condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's annual report on Form 10-K for the year ended December 31, 2020, filed with the Securities and Exchange Commission on February 26, 2021. The December 31, 2020 consolidated balance sheet included herein is derived from the Company's audited consolidated financial statements.

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

Recent Accounting Pronouncements

Convertible Instruments and Contracts in an Entity's Own Equity

In August 2020, the Financial Accounting Standards Board ("FASB") issued guidance that is expected to reduce complexity and improve comparability of financial reporting associated with accounting for convertible instruments and contracts in an entity's own equity. The Company will adopt this guidance on January 1, 2022 on a modified retrospective basis.

Upon adoption, the convertible senior notes included on the Company's consolidated balance sheet will more closely reflect the principal amounts. Initially, the Company separated its convertible senior notes into a liability and equity component. The equity portion will be eliminated, such that convertible senior notes will increase and additional paid-in capital will decrease on the consolidated balance sheet. With the elimination of the debt discount created by the equity component, amortization of the debt discount will also be eliminated, which will have the impact of decreasing interest expense and increasing net income. Refer to Note 7 to the condensed consolidated financial statements for additional information regarding the initial accounting for the notes and balances as of September 30, 2021.

The new guidance also impacts the accounting for diluted net income per share, which the Company is continuing to evaluate, along with finalizing all impacts of adopting this new standard on its consolidated financial statements.

Business Combinations

In October 2021, the FASB issued guidance which requires contract assets and contract liabilities from contracts with customers that are acquired in a business combination to be recognized and measured as if the acquirer had originated the original contract. Previously, contract assets and contract liabilities were measured at fair value. The Company plans to early adopt this guidance in the fourth quarter of 2021, which will require retrospective adoption to all business combinations completed on or after January 1, 2021, and prospectively to all business combinations occurring after adoption. The adoption will not have a material impact to the Company's results of operations in 2021.

2. Fair Value Measurements

The following is a summary of available-for-sale marketable securities held as of September 30, 2021 and December 31, 2020 (in thousands):

	Amortized Cost	Gross Unrealized		Aggregate Fair Value	Classification on Balance Sheet	
		Gains	Losses		Short-Term Marketable Securities	Long-Term Marketable Securities
As of September 30, 2021						
Commercial paper	\$ 79,744	\$ 2	\$ (9)	\$ 79,737	\$ 79,737	\$ —
Corporate bonds	1,097,056	3,100	(378)	1,099,778	507,238	592,540
U.S. government agency obligations	285,903	44	(122)	285,825	64,951	220,874
	<u>\$ 1,462,703</u>	<u>\$ 3,146</u>	<u>\$ (509)</u>	<u>\$ 1,465,340</u>	<u>\$ 651,926</u>	<u>\$ 813,414</u>
As of December 31, 2020						
Commercial paper	\$ 46,931	\$ 13	\$ (8)	\$ 46,936	\$ 46,936	\$ —
Corporate bonds	1,628,462	9,482	(262)	1,637,682	607,403	1,030,279
Municipal securities	3,495	—	(6)	3,489	—	3,489
U.S. government agency obligations	435,653	329	(63)	435,919	89,951	345,968
	<u>\$ 2,114,541</u>	<u>\$ 9,824</u>	<u>\$ (339)</u>	<u>\$ 2,124,026</u>	<u>\$ 744,290</u>	<u>\$ 1,379,736</u>

The Company offers certain eligible employees the ability to participate in a non-qualified deferred compensation plan. The mutual funds held by the Company that are associated with this plan are classified as restricted trading securities. These securities are not included in the available-for-sale securities table above but are included in marketable securities in the condensed consolidated balance sheets.

Unrealized gains and unrealized temporary losses on investments classified as available-for-sale are included within accumulated other comprehensive loss in the condensed consolidated balance sheets. Upon realization, those amounts are reclassified from accumulated other comprehensive loss to interest income in the condensed consolidated statements of income. As of September 30, 2021, the Company held for investment one corporate bond with a fair value of \$1.5 million, which was classified as an available-for-sale marketable security that had been in a continuous unrealized loss position for more than 12 months. The unrealized loss is attributed to changes in interest rates. Based on available evidence, the Company does not believe any unrealized losses represent other than temporary impairments.

The following table details the fair value measurements within the fair value hierarchy of the Company's financial assets as of September 30, 2021 and December 31, 2020 (in thousands):

	Total Fair Value	Fair Value Measurements at Reporting Date Using	
		Level 1	Level 2
As of September 30, 2021			
<i>Cash Equivalents and Marketable Securities:</i>			
Money market funds	\$ 1,784	\$ 1,784	\$ —
Commercial paper	121,537	—	121,537
Corporate bonds	1,099,778	—	1,099,778
U.S. government agency obligations	302,525	—	302,525
Mutual funds	22,429	22,429	—
	<u>\$ 1,548,053</u>	<u>\$ 24,213</u>	<u>\$ 1,523,840</u>
As of December 31, 2020			
<i>Cash Equivalents and Marketable Securities:</i>			
Money market funds	\$ 74,417	\$ 74,417	\$ —
Commercial paper	75,785	—	75,785
Corporate bonds	1,637,682	—	1,637,682
Municipal securities	3,489	—	3,489
U.S. government agency obligations	435,919	—	435,919
Mutual funds	19,932	19,932	—
	<u>\$ 2,247,224</u>	<u>\$ 94,349</u>	<u>\$ 2,152,875</u>

As of September 30, 2021 and December 31, 2020, the Company grouped money market funds and mutual funds using a Level 1 valuation because market prices for such investments are readily available in active markets. As of September 30, 2021 and December 31, 2020, the Company grouped commercial paper, U.S. government agency obligations, corporate bonds and municipal securities using a Level 2 valuation because quoted prices for similar assets in active markets (or identical assets in an inactive market) are available. The Company did not have any transfers of assets between Level 1, Level 2 or Level 3 of the fair value measurement hierarchy during the nine months ended September 30, 2021.

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

Contractual maturities of the Company's available-for-sale marketable securities held as of September 30, 2021 and December 31, 2020 were as follows (in thousands):

	September 30, 2021	December 31, 2020
Due in 1 year or less	\$ 651,926	\$ 744,290
Due after 1 year through 5 years	813,414	1,379,736
	<u>\$ 1,465,340</u>	<u>\$ 2,124,026</u>

3. Accounts Receivable

Net accounts receivable consisted of the following as of September 30, 2021 and December 31, 2020 (in thousands):

	September 30, 2021	December 31, 2020
Trade accounts receivable	\$ 479,267	\$ 473,474
Unbilled accounts receivable	183,093	188,400
Gross accounts receivable	662,360	661,874
Allowances for current expected credit losses and other reserves	(2,268)	(1,822)
Accounts receivable, net	<u>\$ 660,092</u>	<u>\$ 660,052</u>

The following table summarizes the activity of the Company's allowance for current expected credit losses and other reserves during the nine months ended September 30, 2021 and 2020 (in thousands):

	September 30, 2021	September 30, 2020
Beginning balance	\$ 1,822	\$ 1,880
Charges to income from operations	3,510	10,354
Collections from customers previously reserved and other	(3,064)	(8,538)
Ending balance	<u>\$ 2,268</u>	<u>\$ 3,696</u>

Charges to income from operations primarily represents charges to bad debt expense for increases in the allowance for current expected credit losses. The allowance for current expected credit losses has been developed using historical loss rates for the previous twelve months as well as expectations about the future where the Company has been able to develop forecasts to support its estimates.

4. Incremental Costs to Obtain a Contract with a Customer

The following table summarizes the deferred costs associated with obtaining customer contracts, specifically commission and incentive payments, as of September 30, 2021 and December 31, 2020 (in thousands):

	September 30, 2021	December 31, 2020
Deferred costs included in prepaid and other current assets	\$ 42,299	\$ 54,516
Deferred costs included in other assets	27,551	23,200
Total deferred costs	<u>\$ 69,850</u>	<u>\$ 77,716</u>

The following table summarizes additional information related to incremental costs to obtain a contract with a customer for each of the three and nine month periods ended September 30, 2021 and 2020 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Amortization expense related to deferred costs	\$ 14,901	\$ 14,816	\$ 43,304	\$ 45,007
Incremental costs capitalized	\$ 13,164	\$ 16,550	\$ 36,957	\$ 39,925

Amortization expense related to deferred costs is primarily included in sales and marketing expense in the condensed consolidated statements of income.

5. Acquired Intangible Assets and Goodwill

Acquired intangible assets that are subject to amortization consisted of the following as of September 30, 2021 and December 31, 2020 (in thousands):

	September 30, 2021			December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Completed technology	\$ 179,254	\$ (123,963)	\$ 55,291	\$ 172,346	\$ (111,435)	\$ 60,911
Customer-related intangible assets	355,189	(208,798)	146,391	358,032	(186,733)	171,299
Non-compete agreements	353	(170)	183	373	(77)	296
Trademarks and trade names	7,647	(5,916)	1,731	7,658	(5,440)	2,218
Acquired license rights	490	(490)	—	490	(490)	—
Total	<u>\$ 542,933</u>	<u>\$ (339,337)</u>	<u>\$ 203,596</u>	<u>\$ 538,899</u>	<u>\$ (304,175)</u>	<u>\$ 234,724</u>

Aggregate expense related to amortization of acquired intangible assets for the three and nine months ended September 30, 2021 was \$12.0 million and \$35.4 million, respectively. Aggregate expense related to amortization of acquired intangible assets for the three and nine months ended September 30, 2020 was \$10.3 million and \$31.2 million, respectively. Based on the Company's acquired intangible assets as of September 30, 2021, aggregate expense related to amortization of acquired intangible assets is expected to be \$12.1 million for the remainder of 2021, and \$44.3 million, \$36.9 million, \$29.2 million and \$23.7 million for 2022, 2023, 2024 and 2025, respectively.

The change in the carrying amount of goodwill for the nine months ended September 30, 2021 was as follows (in thousands):

Balance as of January 1, 2021	\$ 1,674,371
Acquisition of Inverse, Inc.	10,741
Measurement period adjustments related to acquisitions completed in prior years	(267)
Foreign currency translation	(4,349)
Balance as of September 30, 2021	<u>\$ 1,680,496</u>

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

6. Acquisitions

Guardicore

In September 2021, the Company announced its intention to acquire Guardicore Ltd. ("Guardicore"), for approximately \$600.0 million, net of cash acquired and subject to post-closing adjustments. Guardicore's micro-segmentation solution is designed to limit user access to only those applications that are authorized to communicate with each other, thereby limiting the spread of malware and protecting the flow of enterprise data across the network. The acquisition is intended to enhance the Company's security portfolio with the addition of Guardicore's micro-segmentation technology. The acquisition closed in October 2021. Due to the limited time since the acquisition date, and the size and complexity of the transaction, the accounting for the business combination is not yet complete as of the filing of these condensed consolidated financial statements. The Company is not able to provide the allocation of consideration paid to the assets acquired or liabilities assumed, but it is expected that the transaction will result in an increase to the Company's acquired intangible assets and goodwill.

Inverse

In February 2021, the Company acquired Inverse, Inc. ("Inverse"), for \$17.1 million. Inverse provides a data repository and algorithms capable of identifying device types accessing the internet. The acquisition enhances the Company's enterprise security capabilities. The Company allocated \$10.7 million of the cost of the acquisition to goodwill and \$7.6 million to a technology-related identifiable intangible asset. The acquired goodwill and intangible assets are partially offset by acquired

negative working capital balances. The value of the goodwill is primarily attributable to synergies related to the integration of Inverse technology onto the Company's platform as well as a trained technical workforce. The total amount of goodwill related to the acquisition of Inverse expected to be deductible for tax purposes is \$10.7 million. Pro forma results of operations, as well as the revenue and earnings generated by Inverse since its acquisition and included in the Company's results of operations, were not presented since they are not material. The allocation of the purchase price has not been finalized as of the filing of these financial statements.

7. Debt

Convertible Notes – Due 2027

In August 2019, the Company issued \$1,150.0 million in par value of convertible senior notes due 2027 (the "2027 Notes"). The 2027 Notes are senior unsecured obligations of the Company, bear regular interest of 0.375%, payable semi-annually in arrears on March 1 and September 1 of each year and mature on September 1, 2027, unless repurchased or converted in accordance with their terms prior to maturity.

At their option, holders may convert their 2027 Notes prior to the close of business on the business day immediately preceding May 1, 2027, only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ended December 31, 2019 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any five consecutive trading day period in which the trading price per \$1,000 principal amount of 2027 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; or
- upon the occurrence of specified corporate events.

On or after May 1, 2027, holders may convert all or any portion of their 2027 Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date.

Upon conversion, the Company, at its election, may pay or deliver to holders cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock. The initial conversion rate is 8.6073 shares of the Company's common stock per \$1,000 principal amount, which is equivalent to an initial conversion price of approximately \$116.18 per share, subject to adjustments in certain events, and represents a potential conversion into 9.9 million shares.

In accounting for the issuance of the 2027 Notes, the Company separated the 2027 Notes into liability and equity components. The carrying cost of the liability component was calculated by measuring the fair value of a similar debt obligation that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the 2027 Notes. The difference between the principal amount of the 2027 Notes and the proceeds allocated to the liability component ("debt discount") is amortized to interest expense using the effective interest method over the term of the 2027 Notes. The equity component is recorded in additional paid-in capital in the condensed consolidated balance sheet and will not be remeasured as long as it continues to meet the conditions for equity classification.

In accounting for the transaction costs related to the issuance of the 2027 Notes, the Company allocated the total transaction costs incurred to the liability and equity components based on their relative values. Transaction costs attributable to the liability component are being amortized to interest expense over the term of the 2027 Notes, and transaction costs attributable to the equity component are netted against the equity component of the 2027 Notes in stockholders' equity.

The 2027 Notes consisted of the following components as of September 30, 2021 and December 31, 2020 (in thousands):

	September 30, 2021	December 31, 2020
Liability component:		
Principal	\$ 1,150,000	\$ 1,150,000
Less: debt discount and issuance costs, net of amortization	(175,935)	(196,350)
Net carrying amount	\$ 974,065	\$ 953,650
Equity component:	\$ 220,529	\$ 220,529

The estimated fair value of the 2027 Notes at September 30, 2021 and December 31, 2020 was \$1,271.8 million and \$1,277.8 million, respectively. The fair value was determined based on the quoted price of the 2027 Notes in an inactive market on the last trading day of the reporting period and has been classified as Level 2 within the fair value hierarchy. Based on the closing price of the Company's common stock of \$104.59 on September 30, 2021, the value of the 2027 Notes if converted to common stock was less than the principal amount of \$1,150.0 million.

The Company used \$100.0 million of the proceeds from the offering to repurchase shares of its common stock, concurrent with the issuance of the 2027 Notes. The repurchase was made in accordance with a share repurchase program previously approved by the board of directors. Additionally, \$127.1 million of the proceeds was used for the net cost of the convertible note hedge and warrant transactions. The remaining net proceeds are intended to be used for working capital, share repurchases, potential acquisitions and strategic transactions and other corporate purposes.

Note Hedge

To minimize the impact of potential dilution upon conversion of the 2027 Notes, the Company entered into convertible note hedge transactions with respect to its common stock in August 2019. The Company paid \$312.2 million for the note hedge transactions. The note hedge transactions cover approximately 9.9 million shares of the Company's common stock at a strike price that corresponds to the initial conversion price of the 2027 Notes, also subject to adjustment, and are exercisable upon conversion of the 2027 Notes. The Company determined that the note hedge meets the definition of a derivative and is classified in stockholders' equity, as the note hedge is indexed to the Company's common stock, and the Company, at its election, may pay or deliver to holders cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock. The Company recorded the purchase of the hedge as a decrease to additional paid-in capital. The Company does not recognize subsequent changes in fair value of the note hedge in its condensed consolidated financial statements.

Warrants

Separately, in August 2019, the Company entered into warrant transactions, whereby the Company sold warrants to acquire, subject to anti-dilution adjustments, up to 9.9 million shares of the Company's common stock at a strike price of approximately \$178.74 per share. The Company received aggregate proceeds of \$185.2 million from the sale of the warrants. The convertible note hedge and warrant transactions will generally have the effect of increasing the conversion price of the 2027 Notes to approximately \$178.74 per share. The Company determined that the warrants meet the definition of a derivative and are classified in stockholders' equity, as the warrants are indexed to the Company's common stock, and the Company, at its election, may pay or deliver to holders cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock. The Company recorded the proceeds from issuance of the warrants as an increase to additional paid-in capital. The Company does not recognize subsequent changes in fair value of the warrants in its condensed consolidated financial statements.

Convertible Notes – Due 2025

In May 2018, the Company issued \$1,150.0 million in par value of convertible senior notes due 2025 (the "2025 Notes"). The 2025 Notes are senior unsecured obligations of the Company, bear regular interest of 0.125%, payable semi-annually on May 1 and November 1 of each year, and mature on May 1, 2025, unless repurchased or converted prior to maturity.

At their option, holders may convert their 2025 Notes prior to the close of business on the business day immediately preceding January 1, 2025, only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ended June 30, 2018 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any five consecutive trading day period in which the trading price per \$1,000 principal amount of 2025 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; or
- upon the occurrence of specified corporate events.

On or after January 1, 2025, holders may convert all or any portion of their 2025 Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, regardless of the foregoing circumstances.

Upon conversion, the Company, at its election, may pay or deliver to holders cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock. The initial conversion rate is 10.5150 shares of the Company's common stock per \$1,000 principal amount, which is equivalent to an initial conversion price of approximately \$95.10 per share, subject to adjustments in certain events, and represents a potential conversion into 12.1 million shares.

In accounting for the issuance of the 2025 Notes, the Company separated the 2025 Notes into liability and equity components. The carrying cost of the liability component was calculated by measuring the fair value of a similar debt obligation that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the 2025 Notes. The difference between the principal amount of the 2025 Notes and the proceeds allocated to the liability component ("debt discount") is amortized to interest expense using the effective interest method over the term of the 2025 Notes. The equity component is recorded in additional paid-in capital in the condensed consolidated balance sheet and will not be remeasured as long as it continues to meet the conditions for equity classification.

In accounting for the transaction costs related to the issuance of the 2025 Notes, the Company allocated the total transaction costs incurred to the liability and equity components based on their relative values. Transaction costs attributable to the liability component are being amortized to interest expense over the term of the 2025 Notes, and transaction costs attributable to the equity component are netted against the equity component of the 2025 Notes in stockholders' equity.

The 2025 Notes consisted of the following components as of September 30, 2021 and December 31, 2020 (in thousands):

	September 30, 2021	December 31, 2020
Liability component:		
Principal	\$ 1,150,000	\$ 1,150,00
Less: debt discount and issuance costs, net of amortization	(165,507)	(196,93
Net carrying amount	\$ 984,493	\$ 953,06
Equity component:	\$ 285,225	\$ 285,22

The estimated fair value of the 2025 Notes at September 30, 2021 and December 31, 2020 was \$1,396.1 million and \$1,422.8 million, respectively. The fair value was determined based on the quoted price of the 2025 Notes in an inactive market on the last trading day of the reporting period and has been classified as Level 2 within the fair value hierarchy. Based on the closing price of the Company's common stock of \$104.59 on September 30, 2021, the value of the 2025 Notes if converted to common stock was more than the principal amount of \$1,150.0 million.

The Company used \$46.2 million of the proceeds from the offering to repurchase shares of its common stock, concurrent with the issuance of the 2025 Notes. The repurchase was made in accordance with a share repurchase program previously

approved by the board of directors. Additionally, \$141.8 million of the proceeds was used for the net cost of convertible note hedge and warrant transactions. The Company also used a portion of the net proceeds to repay at maturity the \$690.0 million in par value of convertible senior notes due in 2019.

Note Hedge

To minimize the impact of potential dilution upon conversion of the 2025 Notes, the Company entered into convertible note hedge transactions with respect to its common stock in May 2018. The Company paid \$261.7 million for the note hedge transactions. The note hedge transactions cover approximately 12.1 million shares of the Company's common stock at a strike price that corresponds to the initial conversion price of the 2025 Notes, also subject to adjustment, and are exercisable upon conversion of the 2025 Notes. The Company determined that the note hedge meets the definition of a derivative and is classified in stockholders' equity, as the note hedge is indexed to the Company's common stock, and the Company, at its election, may pay or deliver to holders cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock. The Company recorded the purchase of the hedge as a decrease to additional paid-in capital. The Company does not recognize subsequent changes in fair value of the note hedge in its condensed consolidated financial statements.

Warrants

Separately, in May 2018, the Company entered into warrant transactions, whereby the Company sold warrants to acquire, subject to anti-dilution adjustments, up to 12.1 million shares of the Company's common stock at a strike price of approximately \$149.18 per share. The Company received aggregate proceeds of \$119.9 million from the sale of the warrants. The convertible note hedge and warrant transactions will generally have the effect of increasing the conversion price of the 2025 Notes to approximately \$149.18 per share. The Company determined that the warrants meet the definition of a derivative and are classified in stockholders' equity, as the warrants are indexed to the Company's common stock, and the Company, at its election, may pay or deliver to holders cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock. The Company recorded the proceeds from issuance of the warrants as an increase to additional paid-in capital. The Company does not recognize subsequent changes in fair value of the warrants in its condensed consolidated financial statements.

Revolving Credit Facility

In May 2018, the Company entered into a \$500.0 million five-year, revolving credit agreement (the "Credit Agreement"). Borrowings under the Credit Agreement may be used to finance working capital needs and for general corporate purposes. The Credit Agreement provides for an initial \$500.0 million in revolving loans. Under specified circumstances, the facility can be increased to up to \$1.0 billion in aggregate principal amount. The Credit Agreement expires in May 2023.

Borrowings under the Credit Agreement bear interest, at the Company's option, at a base rate plus a spread of 0.00% to 0.25% or an adjusted LIBOR rate plus a spread of 0.875% to 1.25%, in each case with such spread being determined based on the Company's consolidated leverage ratio specified in the Credit Agreement. Regardless of what amounts, if any, are outstanding under the Credit Agreement, the Company is also obligated to pay an ongoing commitment fee on undrawn amounts at a rate of 0.075% to 0.15%, with such rate being based on the Company's consolidated leverage ratio specified in the Credit Agreement.

The Credit Agreement contains customary representations and warranties, affirmative and negative covenants and events of default. Principal covenants include a maximum consolidated leverage ratio and a minimum consolidated interest coverage ratio. There were no outstanding borrowings under the Credit Agreement as of September 30, 2021.

Interest Expense

The 2027 Notes bear interest at a fixed rate of 0.375%. The interest is payable semi-annually on March 1 and September 1 of each year. The 2027 Notes have an effective interest rate of 3.1% attributable to the conversion feature. The 2025 Notes bear interest at a fixed rate of 0.125%. The interest is payable semi-annually on May 1 and November 1 of each year. The 2025 Notes have an effective interest rate of 4.26% attributable to the conversion feature. The Company is also obligated to pay ongoing commitment fees under the terms of the Credit Agreement. The following table sets forth total interest expense included in the condensed consolidated statements of income for the three and nine months ended September 30, 2021 and 2020 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Amortization of debt discount and issuance costs	\$ 17,504	\$ 16,866	\$ 52,029	\$ 50,131
Coupon interest payable on 2025 Notes	358	360	1,076	1,076
Coupon interest payable on 2027 Notes	1,078	1,078	3,234	3,234
Revolving credit facility contractual interest expense	141	139	421	400
Capitalization of interest expense	(937)	(1,119)	(2,745)	(3,070)
Total interest expense	\$ 18,144	\$ 17,324	\$ 54,015	\$ 51,771

8. Restructuring

During the fourth quarter of 2020, management committed to an action to restructure certain parts of the Company to better position itself to become more agile in delivering its solutions. As a result, certain headcount reductions were necessary and certain capitalized internal-use software charges were realized for software not yet placed into service that will not be completed and implemented due to this action. The Company incurred expenses of \$31.6 million as part of this action, of which \$0.4 million and \$7.9 million was incurred during the three and nine months ended September 30, 2021, respectively. The Company does not expect to incur material additional charges related to this action.

During the fourth quarter of 2019, management committed to an action to restructure certain parts of the Company to focus on investments with the potential to accelerate revenue growth. As a result, certain headcount reductions were necessary, certain capitalized internal-use software charges were realized for software not yet placed into service that will not be completed and implemented due to this action and an impairment of a right-of-use asset was recognized related to exiting a facility no longer needed. The Company has incurred restructuring charges of \$20.6 million as part of this action, of which an insignificant amount was incurred during the three months ended September 30, 2020 and a charge of \$10.4 million was incurred during the nine months ended September 30, 2020. During the nine months ended September 30, 2021, a benefit of \$2.8 million was recorded to reflect the release by the landlord of the remaining lease obligation for the exited facility. No additional charges related to this action are expected.

The Company also recognizes restructuring charges for redundant employees, facilities and contracts associated with completed acquisitions.

The following table summarizes the activity of the Company's accrual for employee severance and related benefits for all restructuring actions during the nine months ended September 30, 2021 (in thousands):

Balance as of January 1, 2021	\$ 22,000
Costs incurred	5,100
Cash disbursements	(23,800)
Translation adjustments and other	(300)
Balance as of September 30, 2021	\$ 3,000

9. Stockholders' Equity

Share Repurchase Program

Effective November 2018, the board of directors of the Company authorized a \$1.1 billion share repurchase program through December 2021. In October 2021, the board of directors authorized a new \$1.8 billion share repurchase program, effective January 1, 2022 through December 31, 2024. As of September 30, 2021, the Company had \$320.6 million remaining on its prior authorization which is expiring on December 31, 2021. The Company's goals for the share repurchase programs are to offset the dilution created by its employee equity compensation programs over time and provide the flexibility to return capital to shareholders as business and market conditions warrant, while still preserving its ability to pursue other strategic opportunities.

During the three and nine months ended September 30, 2021, the Company repurchased 0.8 million and 2.3 million shares of its common stock, respectively, for \$96.8 million and \$251.3 million, respectively.

Stock-Based Compensation

The following table summarizes stock-based compensation included in the Company's condensed consolidated statements of income for the three and nine months ended September 30, 2021 and 2020 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Cost of revenue	\$ 6,738	\$ 6,384	\$ 20,708	\$ 18,374
Research and development	16,329	12,722	50,635	36,336
Sales and marketing	10,973	16,809	34,998	48,555
General and administrative	14,978	14,302	47,463	43,636
Total stock-based compensation	49,018	50,217	153,804	146,901
Provision for income taxes	(11,683)	(15,604)	(40,245)	(45,063)
Total stock-based compensation, net of income taxes	\$ 37,335	\$ 34,613	\$ 113,559	\$ 101,838

In addition to the amounts of stock-based compensation reported in the table above, the Company's condensed consolidated statements of income for the three and nine months ended September 30, 2021 include stock-based compensation reflected as a component of amortization of capitalized internal-use software of \$7.9 million and \$24.5 million, respectively, before taxes, and for the three and nine months ended September 30, 2020 include stock-based compensation reflected as a component of amortization of capitalized internal-use software of \$7.1 million and \$21.9 million, respectively, before taxes.

10. Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated other comprehensive loss, net of tax, which is reported as a component of stockholders' equity, for the nine months ended September 30, 2021 (in thousands):

	Foreign Currency Translation	Net Unrealized Gains (Losses) on Investments	Total
Balance as of January 1, 2021	\$ (33,295)	\$ 13,094	\$ (20,201)
Other comprehensive loss	(28,444)	(5,081)	(33,525)
Balance as of September 30, 2021	\$ (61,739)	\$ 8,013	\$ (53,726)

There were no amounts reclassified from accumulated other comprehensive loss to net income for the nine months ended September 30, 2021.

11. Revenue from Contracts with Customers

The Company sells its solutions through a sales force located both domestically and abroad. Revenue derived from operations outside of the U.S. is determined based on the country in which the sale originated. Other than the U.S., no single country accounted for 10% or more of the Company's total revenue for any reported period. The following table summarizes revenue by geography included in the Company's condensed consolidated statements of income for the three and nine months ended September 30, 2021 and 2020 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
U.S.	\$ 448,792	\$ 437,381	\$ 1,361,525	\$ 1,309,979
International	411,541	355,464	1,194,340	1,041,883
Total revenue	\$ 860,333	\$ 792,845	\$ 2,555,865	\$ 2,351,862

Leveraging its Intelligent Edge Platform and a global sales organization, the Company offers solutions that are developed and maintained through two groups: the Security Technology Group and the Edge Technology Group. The Security Technology Group includes solutions that are designed to protect business online by keeping infrastructure, websites, applications and users safe, while the Edge Technology Group includes solutions that are designed to enable business online, including media delivery, web performance and edge computing solutions. The following table summarizes revenue by product group included in the Company's condensed consolidated statements of income for the three and nine months ended September 30, 2021 and 2020 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Security Technology Group	\$ 334,649	\$ 265,869	\$ 969,996	\$ 765,485
Edge Technology Group	525,684	526,976	1,585,869	1,586,377
Total revenue	\$ 860,333	\$ 792,845	\$ 2,555,865	\$ 2,351,862

Most security and content delivery services represent obligations that are satisfied over time as the customer simultaneously receives and consumes the services provided by the Company. Accordingly, the majority of the Company's revenue is recognized over time, generally ratably over the term of the arrangement due to consistent monthly traffic commitments that expire each period. A small percentage of the Company's services are satisfied at a point in time, such as one-time professional services contracts, integration services and most license sales where the primary obligation is delivery of the license at the start of the term. In these cases, revenue is recognized at a point in time of delivery or satisfaction of the performance obligation.

During the nine months ended September 30, 2021 and 2020, the Company recognized \$72.2 million and \$66.0 million of revenue that was included in deferred revenue as of December 31, 2020 and 2019, respectively.

As of September 30, 2021, the aggregate amount of remaining performance obligations from contracts with customers was \$2.8 billion. The Company expects to recognize approximately 70% of its remaining performance obligations as revenue over the next 12 months, with the remainder recognized thereafter. Remaining performance obligations represent the amount of the transaction price under contracts with customers that are attributable to performance obligations that are unsatisfied or partially satisfied at the reporting date. This consists of future committed revenue for monthly, quarterly or annual periods within current contracts with customers, as well as deferred revenue arising from consideration invoiced in prior periods for which the related performance obligations have not been satisfied. It excludes estimates of variable consideration such as usage-based contracts with no committed contract as well as anticipated renewed contracts. Revenue recognized during each of the nine months ended September 30, 2021 and 2020, related to performance obligations satisfied in previous periods was not material.

12. Income Taxes

The Company's effective income tax rate is based on estimated income for the year, the estimated composition of the income in different jurisdictions and discrete adjustments, if any, in the applicable quarterly periods. Potential discrete adjustments include tax charges or benefits related to stock-based compensation, changes in tax legislation, settlements of tax audits or assessments, uncertain tax positions and acquisitions, among other items.

In the second quarter of 2018, the Company filed an appeal with the Massachusetts Appellate Tax Board ("MATB") contesting adverse audit findings related to certain tax benefits and exemptions. In July 2020, the MATB ruled in the Company's favor; however, the decision is eligible for appeal by the Massachusetts Department of Revenue. The Company has determined that it is more-likely-than-not that it will ultimately prevail in the event of any such appeal. Accordingly, no reserve has been recorded related to these controversies. The Company has, however, estimated that an adverse ruling could result in a gross income tax charge of approximately \$48.0 million, which may be partially offset by certain state tax credits of \$30.0 million, which the Company does not currently benefit from as a result of the Company's valuation allowance assessment.

The Company's effective income tax rate was 8.0% and 8.6% for the nine months ended September 30, 2021 and 2020, respectively. For the nine months ended September 30, 2021, the effective income tax rate was lower than the federal statutory tax rate due to foreign income taxed at lower rates, the excess tax benefit related to stock-based compensation, the revaluation of certain foreign income tax liabilities due to foreign exchange rate fluctuations and the benefit of U.S. federal, state and foreign research and development credits. These amounts were partially offset by non-deductible stock-based compensation and state taxes.

For the nine months ended September 30, 2020, the effective income tax rate was lower than the federal statutory tax rate due to foreign income taxed at lower rates, the excess tax benefit related to stock-based compensation and the benefit of U.S. federal, state and foreign research and development credits. These amounts were partially offset by non-deductible stock-based compensation and state taxes.

13. Net Income per Share

Basic net income per share is computed using the weighted average number of common shares outstanding during the applicable period. Diluted net income per share is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of potential common stock. Potential common stock consists of shares issuable pursuant to stock options, restricted stock units ("RSUs"), deferred stock units ("DSUs"), convertible senior notes and warrants issued by the Company. The dilutive effect of outstanding awards and convertible securities is reflected in diluted earnings per share by application of the treasury stock method.

The following table sets forth the components used in the computation of basic and diluted net income per share for the three and nine months ended September 30, 2021 and 2020 (in thousands, except per share data):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Numerator:				
Net income	\$ 178,916	\$ 158,623	\$ 491,108	\$ 443,684
Denominator:				
Shares used for basic net income per share	162,767	162,757	162,967	162,387
Effect of dilutive securities:				
Stock options	3	6	19	27
RSUs and DSUs	1,520	2,024	1,515	1,781
Convertible senior notes	2,028	1,732	1,589	795
Warrants related to issuance of convertible senior notes	—	—	—	—
Shares used for diluted net income per share	166,318	166,519	166,090	164,990
Basic net income per share	\$ 1.10	\$ 0.97	\$ 3.01	\$ 2.73
Diluted net income per share	\$ 1.08	\$ 0.95	\$ 2.96	\$ 2.69

For the three and nine months ended September 30, 2021 and 2020, certain potential outstanding common shares issuable in respect of stock options, service-based RSUs, convertible notes and warrants were excluded from the computation of diluted net income per share because the effect of including these items was anti-dilutive. Additionally, certain performance-based RSUs were excluded from the computation of diluted net income per share because the underlying performance conditions for such RSUs had not been met as of these dates. The number of potentially outstanding common shares excluded from the computation of diluted net income per share for the three and nine months ended September 30, 2021 and 2020 are as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Service-based RSUs	149	116	811	751
Market- and performance-based RSUs	1,189	1,383	1,248	1,418
Convertible senior notes	9,898	9,898	9,898	13,929
Warrants related to issuance of convertible senior notes	21,991	21,991	21,991	21,991
Total shares excluded from computation	33,227	33,388	33,948	38,089

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This quarterly report on Form 10-Q, particularly Management's Discussion and Analysis of Financial Condition and Results of Operations set forth below, and notes to our unaudited condensed consolidated financial statements included herein contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management as of the date hereof based on information currently available to our management. Use of words such as "believes," "expects," "anticipates," "intends," "plans," "estimates," "should," "forecasts," "if," "continues," "goal," "likely" or similar expressions indicates a forward-looking statement. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions. Actual results may differ materially from the forward-looking statements we make. See "Risk Factors" elsewhere in this quarterly report on Form 10-Q for a discussion of certain risks associated with our business. We disclaim any obligation to update forward-looking statements as a result of new information, future events or otherwise, including the potential impact of any mergers, acquisitions, divestitures or other events that may be announced after the date hereof.

Our management's discussion and analysis of our financial condition and results of operations is based upon our unaudited condensed consolidated financial statements included elsewhere in this quarterly report on Form 10-Q, which we have prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim periods and with Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related items, including, but not limited to, revenue recognition, accounts receivable and related reserves, valuation and impairment of marketable securities, goodwill and acquired intangible assets, capitalized internal-use software development costs, impairment and useful lives of long-lived assets, income taxes and stock-based compensation. We base our estimates and judgments on historical experience and on various other assumptions that we believe to be reasonable under the circumstances at the time they are made. Actual results may differ from our estimates. See the section entitled "Application of Critical Accounting Policies and Estimates" in our annual report on Form 10-K for the year-ended December 31, 2020 for further discussion of our critical accounting policies and estimates.

Overview

We provide solutions to power and protect content and business applications over the internet. The key factors that influence our financial success are our ability to build on recurring revenue commitments for our security and performance offerings, increase media traffic on our network, effectively manage the prices we charge for our solutions, develop new products and carefully manage our capital spending and other expenses. The purpose of this discussion and analysis section is to describe and explain key trends, events and other factors that impacted our reported results and that are likely to impact our future performance.

Revenue

For most of our solutions, our customers commit to contracts having terms of a year or longer, which allows us to have a consistent and predictable base level of revenue. In addition to a base level of revenue, we are also dependent on media customers where usage of our solutions is more variable. As a result, our revenue is impacted by the amount of media and software download traffic we serve on our network, the rate of adoption of gaming, social media and video platform offerings, the timing and variability of customer-specific one-time events and geopolitical, economic and other developments that impact our customers' businesses. Seasonal variations that impact traffic on our network, such as holiday-related activities, can cause revenue fluctuations from quarter to quarter. Over the longer term, our ability to expand our product portfolio and to effectively manage the prices we charge for our solutions are key factors impacting our revenue growth.

We have observed the following trends related to our revenue in recent years:

- Increased sales of our security solutions have made a significant contribution to revenue growth. We plan to continue to invest in this area with a focus on further enhancing our product portfolio and extending our go-to-market capabilities, particularly in certain markets and through our channel partners.
- Over the past few years, we have experienced increases in the amount of traffic delivered for customers that use our solutions for video, gaming downloads and social media. During 2020, we saw a dramatic increase in traffic growth on our network related to the shutdowns and restrictions from the novel coronavirus, or COVID-19, pandemic. Primarily

as a result of the rollback of many pandemic-related restrictions, we have seen the rate of traffic growth moderate during 2021. We expect year-over-year traffic and associated revenue growth to continue to moderate during the remainder of 2021, assuming the restrictions experienced in 2020 continue to lessen.

- The prices paid by some of our customers have declined due to contract renewals and large media consolidations, reflecting the impact of competition and volume discounts. In the first nine months of 2021 as compared to the same period in 2020, we experienced a decline in revenue from website and application delivery solutions due to the above factors, particularly in the U.S. commerce vertical, and slowing media traffic growth. While we have increased committed recurring revenue from our solutions by upselling incremental solutions to our existing customers and adding new customers to offset the negative trends, we expect revenue challenges from our website and application performance solutions to continue during the remainder of 2021. In addition, there remains uncertainty about the negative impacts of the COVID-19 pandemic on some of our customers and how that uncertainty might impact purchases of our solutions.
- Revenue from our international operations has been growing at a faster pace than from our U.S. operations, particularly in terms of new customer acquisition and cross-selling of incremental solutions. Because we publicly report in U.S. dollars, if the dollar strengthens, our reported revenue results will be negatively impacted. Conversely, a weaker dollar would benefit our reported results.
- We have experienced variations in certain types of revenue from quarter to quarter. In particular, we typically experience higher revenue in the fourth quarter of each year for some of our solutions as a result of holiday season activity. In addition, we experience quarterly variations in revenue attributable to, among other things, the nature and timing of software and gaming releases by our customers; whether there are large live sporting or other events or situations (like the COVID-19 pandemic) that impact the amount of media traffic on our network; and the frequency and timing of purchases of custom solutions or licensed software.

Expenses

Our level of profitability is also impacted by our expenses, including direct costs to support our revenue such as bandwidth and co-location costs. We have observed the following trends related to our profitability in recent years:

- Our profitability improved in the first nine months of 2021 and the full year 2020 as compared to prior periods due to higher overall revenue as well as the effects of cost savings and efficiency initiatives we have undertaken. More recently, we have also benefited from lower travel expenses because of pandemic-related shutdowns and restrictions. We will need to continue to undertake efforts intended to improve the efficiency of operations to manage our expense growth and profitability.
- Network bandwidth costs represent a significant portion of our cost of revenue. Historically, we have been able to mitigate increases in these costs by reducing our network bandwidth costs per unit and investing in internal-use software development to improve the performance and efficiency of our network. Our total bandwidth costs may increase in the future as a result of expected higher traffic levels and serving more traffic from higher cost regions. We will need to continue to effectively manage our bandwidth costs to maintain current levels of profitability.
- Co-location costs are also a significant portion of our cost of revenue. By improving our internal-use software and managing our hardware deployments to enable us to use servers more efficiently, we have been able to manage the growth of co-location costs. We expect to continue to scale our network in the future and will need to continue to effectively manage our co-location costs to maintain current levels of profitability.
- Network build-out and supporting service costs represent another significant portion of our cost of revenue. These costs include maintenance and supporting services incurred as we continue to build-out our global network. We have seen these costs increase in the first nine months of 2021, as compared to the same period in 2020, as a result of our network expansion and pricing pressure from vendors. As we continue to invest in our network, we will need to effectively manage our network build-out and supporting costs.
- We expect to continue to manage our headcount and payroll costs in the future to focus investments on certain areas of the business while maintaining efficient operations in others. We plan to continue to hire employees in support of our strategic initiatives but do not expect overall headcount to increase significantly in 2021.

- Depreciation expense related to our network equipment also contributes to our overall expense levels. During the first nine months of 2021, as compared to the same period in 2020, we saw higher depreciation expense due to accelerated deployment of equipment in 2020 to help meet the increased traffic demands arising during the COVID-19 pandemic. We expect to see higher depreciation expense for the remainder of 2021 to reflect such deployment of equipment. We plan to continue to invest in our network for the remainder of 2021, although not at the same levels we experienced in 2020, which will further increase our capital expenditures and resulting depreciation expense.

In October 2021, we acquired Guardicore Ltd., or Guardicore, for approximately \$600.0 million, net of cash acquired and subject to post-closing adjustments. Guardicore's micro-segmentation solution is designed to limit user access to only those applications that are authorized to communicate with each other, thereby limiting the spread of malware and protecting the flow of enterprise data across the network. Guardicore has approximately 270 employees, and the acquisition is expected to be dilutive to our earnings per share at least through 2022.

Effective on March 1, 2021, we reorganized into two groups, both of which utilize the Akamai Intelligent Edge Platform and our global sales organization: the Security Technology Group and the Edge Technology Group. These groups are aligned with our product offerings. Revenue from the Security Technology Group was previously reported as revenue from Cloud Security Solutions, and revenue from the Edge Technology Group was previously reported as revenue from content delivery network (CDN) services and all other solutions. The Security Technology Group includes solutions that are designed to keep infrastructure, websites, applications and users safe, while the Edge Technology Group includes solutions that enable business online, including media delivery, web performance and edge computing solutions.

Nearly all of our employees are working remotely due to the COVID-19 pandemic, and we are not requiring employees whose roles do not require in-person presence to perform their jobs to return to offices before May 1, 2022. We have implemented a comprehensive evaluation process to determine whether offices in different locations should be open or closed. Our operations have not been significantly disrupted by the shift to remote working. While we have incurred and expect to continue to incur expenses associated with enabling remote work and reconfiguring work spaces to help ensure the safety and well-being of employees accessing our locations, we do not currently believe those costs will materially impact our financial condition or results of operations.

Results of Operations

The following table sets forth, as a percentage of revenue, condensed consolidated statements of income data for the periods indicated:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Costs and operating expenses:				
Cost of revenue (exclusive of amortization of acquired intangible assets shown below)	36.8	35.7	36.9	35.2
Research and development	9.6	8.4	9.5	8.6
Sales and marketing	12.6	15.5	13.2	15.7
General and administrative	15.6	16.2	15.9	16.4
Amortization of acquired intangible assets	1.4	1.3	1.4	1.3
Restructuring charge	0.1	—	0.2	0.4
Total costs and operating expenses	76.1	77.1	77.1	77.6
Income from operations	23.9	22.9	22.9	22.4
Interest income	0.3	0.8	0.5	1.0
Interest expense	(2.1)	(2.2)	(2.1)	(2.2)
Other income (expense), net	0.4	(0.3)	0.1	(0.3)
Income before provision for income taxes	22.5	21.2	21.4	20.9
Provision for income taxes	(1.6)	(1.1)	(1.7)	(1.8)
Loss from equity method investment	(0.1)	(0.1)	(0.5)	(0.1)
Net income	20.8 %	20.0 %	19.2 %	19.0 %

Revenue

Revenue by product group during the periods presented was as follows (in thousands):

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2021	2020	% Change	% Change at Constant Currency	2021	2020	% Change	% Change at Constant Currency
Security Technology Group	\$ 334,649	\$ 265,869	25.9 %	25.3 %	\$ 969,996	\$ 765,485	26.7 %	24.6 %
Edge Technology Group	525,684	526,976	(0.2)	(0.6)	1,585,869	1,586,377	—	(1.4)
Total revenue	\$ 860,333	\$ 792,845	8.5 %	8.1 %	\$ 2,555,865	\$ 2,351,862	8.7 %	7.0 %

During the three- and nine-month periods ended September 30, 2021, the increases in our revenue as compared to the same periods in 2020 were primarily the result of continued strong growth in sales of solutions offered by our Security Technology Group.

The increases in Security Technology Group revenue for the three- and nine-month periods ended September 30, 2021, as compared to the same periods in 2020, were due to growth across our security products portfolio, including Bot Manager, Kona Site Defender, Prolexic and our access control product suite.

The decrease in Edge Technology Group revenue for the three-month period ended September 30, 2021, as compared to the same period in 2020, was primarily due to reductions in sales of application performance solutions, partially offset by

growth in edge application solutions. Edge Technology Group revenue for the nine-month period ended September 30, 2021, as compared to the same period in 2020, experienced strong traffic growth, driven by over-the-top, or OTT, video and gaming, as well as strong growth in our edge applications solutions. These increases were offset by a reduction in sales of website and application performance solutions.

Revenue derived in the U.S. and internationally during the periods presented was as follows (in thousands):

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2021	2020	% Change	% Change at Constant Currency	2021	2020	% Change	% Change at Constant Currency
U.S.	\$ 448,792	\$ 437,381	2.6 %	2.6 %	\$ 1,361,525	\$ 1,309,979	3.9 %	3.9 %
International	411,541	355,464	15.8	14.8	1,194,340	1,041,883	14.6	10.9
Total revenue	\$ 860,333	\$ 792,845	8.5 %	8.1 %	\$ 2,555,865	\$ 2,351,862	8.7 %	7.0 %

For the three-month period ended September 30, 2021, approximately 47.8% of our revenue was derived from our operations located outside the U.S., compared to 44.8% for the three-month period ended September 30, 2020. For the nine-month period ended September 30, 2021, approximately 46.7% of our revenue was derived from our operations located outside the U.S., compared to 44.3% for the nine-month period ended September 30, 2020. We have seen strong revenue growth across all our international regions, particularly in the Asia Pacific region. No single country outside the U.S. accounted for 10% or more of revenue during either of these periods. Changes in foreign currency exchange rates impacted our revenue by a favorable \$3.6 million and \$38.9 million during the three- and nine-month periods ended September 30, 2021, respectively, as compared to the same periods in 2020.

Cost of Revenue

Cost of revenue consisted of the following for the periods presented (in thousands):

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Bandwidth fees	\$ 52,030	\$ 49,815	4.4 %	\$ 159,920	\$ 147,671	8.3 %
Co-location fees	43,714	39,170	11.6	129,991	111,572	16.5
Network build-out and supporting services	38,640	34,112	13.3	115,896	97,969	18.3
Payroll and related costs	68,476	65,959	3.8	205,468	195,386	5.2
Stock-based compensation, including amortization of prior capitalized amounts	14,162	13,064	8.4	43,723	39,113	11.8
Depreciation of network equipment	58,138	42,991	35.2	165,635	118,194	40.1
Amortization of internal-use software	41,706	38,328	8.8	122,920	118,920	3.4
Total cost of revenue	\$ 316,866	\$ 283,439	11.8 %	\$ 943,553	\$ 828,825	13.8 %
As a percentage of revenue	36.8 %	35.7 %		36.9 %	35.2 %	

The increases in cost of revenue for the three- and nine-month periods ended September 30, 2021, as compared to the same periods in 2020, were primarily due to increased investment in our network to support current and anticipated future traffic growth, which resulted in increases to amounts paid for network build-out and supporting services, higher depreciation costs of our network equipment and increases to expenses related to our co-location facilities.

During the remainder of 2021, we anticipate depreciation of network equipment to increase, compared to the same periods in 2020, due to increased investments in our network to address expected traffic increases as well as reflecting the impact of our equipment deployments in 2020. We plan to continue to focus our efforts on managing our operating margins, including continuing to manage our bandwidth, co-location and network build-out costs.

Research and Development Expenses

Research and development expenses consisted of the following for the periods presented (in thousands):

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Payroll and related costs	\$ 112,380	\$ 103,817	8.2 %	\$ 338,169	\$ 305,293	10.8 %
Stock-based compensation	16,329	12,721	28.4	50,635	36,335	39.4
Capitalized salaries and related costs	(49,309)	(51,750)	(4.7)	(156,275)	(147,007)	6.3
Other expenses	3,499	1,985	76.3	9,670	7,466	29.5
Total research and development	\$ 82,899	\$ 66,773	24.2 %	\$ 242,199	\$ 202,087	19.8 %
<i>As a percentage of revenue</i>	<i>9.6 %</i>	<i>8.4 %</i>		<i>9.5 %</i>	<i>8.6 %</i>	

The increases in research and development expenses during the three- and nine-month periods ended September 30, 2021, as compared to the same periods in 2020, were due to increased payroll and related costs, including stock-based compensation, primarily due to headcount growth and the redeployment of some employees to research and development functions from sales and marketing activities as part of our March 2021 reorganization. These increases were partially offset by increases in capitalized salaries and related costs due to continued investment in internal-use software deployed on our network.

Research and development costs are expensed as incurred, other than certain internal-use software development costs eligible for capitalization. Capitalized development costs consist of payroll and related costs for personnel and external consulting expenses involved in the development of internal-use software used to deliver our services and operate our network. During the three-month periods ended September 30, 2021 and 2020, we capitalized \$7.7 million and \$9.0 million, respectively, of stock-based compensation. During the nine-month periods ended September 30, 2021 and 2020, we capitalized \$24.8 million and \$26.5 million, respectively, of stock-based compensation. These capitalized internal-use software development costs are amortized to cost of revenue over their estimated useful lives, which is generally two years, but can be up to seven years based on the software developed and its expected useful life.

We expect research and development costs to increase in the remainder of 2021 to support our innovation initiatives and due to the addition of Guardicore.

Sales and Marketing Expenses

Sales and marketing expenses consisted of the following for the periods presented (in thousands):

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Payroll and related costs	\$ 86,663	\$ 94,457	(8.3)%	\$ 268,177	\$ 282,696	(5.1)%
Stock-based compensation	10,973	16,809	(34.7)	34,998	48,555	(27.9)
Marketing programs and related costs	9,416	9,536	(1.3)	28,163	29,250	(3.7)
Other expenses	1,462	1,947	(24.9)	5,424	9,503	(42.9)
Total sales and marketing	\$ 108,514	\$ 122,749	(11.6)%	\$ 336,762	\$ 370,004	(9.0)%
<i>As a percentage of revenue</i>	<i>12.6 %</i>	<i>15.5 %</i>		<i>13.2 %</i>	<i>15.7 %</i>	

During the three- and nine-month periods ended September 30, 2021, as compared to the same periods in 2020, payroll and related costs, including stock-based compensation, decreased as a result of headcount reductions and the redeployment of some employees from sales and marketing functions to research and development activities as a result of our March 2021 reorganization, which established a single global sales organization.

We expect sales and marketing costs to slightly increase in the fourth quarter of 2021, as compared to the prior three quarters in 2021, due to the acquisition of Guardicore. However, we plan to continue to carefully manage costs in an effort to manage our operating margins and to refine and optimize our go-to-market efforts.

General and Administrative Expenses

General and administrative expenses consisted of the following for the periods presented (in thousands):

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Payroll and related costs	\$ 52,799	\$ 50,159	5.3 %	\$ 164,223	\$ 148,233	10.8 %
Stock-based compensation	14,978	14,302	4.7	47,463	43,636	8.8
Depreciation and amortization	20,549	20,554	—	61,947	61,673	0.4
Facilities-related costs	26,056	25,099	3.8	75,248	73,669	2.1
Provision (benefit) for doubtful accounts	275	(1,627)	116.9	986	3,465	(71.5)
Acquisition-related costs	1,316	1,051	25.2	1,520	1,189	27.8
Legal settlements	—	—	—	—	275	—
Professional fees and other expenses	18,292	18,827	(2.8)	53,888	53,295	1.1
Total general and administrative	\$ 134,265	\$ 128,365	4.6 %	\$ 405,275	\$ 385,435	5.1 %
<i>As a percentage of revenue</i>	<i>15.6 %</i>	<i>16.2 %</i>		<i>15.9 %</i>	<i>16.4 %</i>	

The increases in general and administrative expenses for the three- and nine-month periods ended September 30, 2021, as compared to the same periods in 2020, were primarily due to increased payroll and related costs, including stock-based compensation, as a result of annual merit increases and headcount growth.

General and administrative expenses for the three- and nine-month periods ended September 30, 2021 and 2020 are broken out by category as follows (in thousands):

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Global functions	\$ 49,738	\$ 47,559	4.6 %	\$ 158,851	\$ 142,243	11.7 %
As a percentage of revenue	5.8 %	6.0 %		6.2 %	6.0 %	
Infrastructure	82,928	81,365	1.9 %	243,915	238,262	2.4 %
As a percentage of revenue	9.6 %	10.3 %		9.5 %	10.1 %	
Other	1,599	(559)	386.0 %	2,509	4,930	(49.1) %
Total general and administrative	\$ 134,265	\$ 128,365	4.6 %	\$ 405,275	\$ 385,435	5.1 %
As a percentage of revenue	15.6 %	16.2 %		15.9 %	16.4 %	

Global functions expense includes payroll, stock-based compensation and other employee-related costs for administrative functions, including finance, purchasing, order entry, human resources, legal, information technology and executive personnel, as well as third-party professional service fees. Infrastructure expense includes payroll, stock-based compensation and other employee-related costs for our network infrastructure functions, as well as facility rent expense, depreciation and amortization of facility and IT-related assets, software and software-related costs, business insurance and taxes. Our network infrastructure function is responsible for network planning, sourcing, architecture evaluation and platform security. Other expense includes acquisition-related costs and provision for doubtful accounts.

During the fourth quarter of 2021, we expect payroll and related costs of our general and administrative functions to increase as compared to 2020 as a result of headcount growth from 2020, but we plan to continue to carefully manage costs in an effort to manage our operating margins.

Amortization of Acquired Intangible Assets

(in thousands)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Amortization of acquired intangible assets	\$ 11,959	\$ 10,340	15.7 %	\$ 35,446	\$ 31,155	13.8 %
As a percentage of revenue	1.4 %	1.3 %		1.4 %	1.3 %	

The increases in amortization of acquired intangible assets for the three- and nine-month periods ended September 30, 2021, as compared to the same periods in 2020, were the result of amortization of assets related to our recent acquisitions. Based on our intangible assets at September 30, 2021, we expect amortization of acquired intangible assets to be \$12.1 million for the remainder of 2021, and \$44.3 million, \$36.9 million, \$29.2 million and \$23.7 million for 2022, 2023, 2024 and 2025, respectively. We anticipate that these amortization amounts will increase in future periods as a result of our acquisition of Guardicore, which closed in October 2021.

Restructuring Charge

(in thousands)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Restructuring charge	\$ 565	\$ 21	2,590.5 %	\$ 5,567	\$ 10,439	(46.7) %
As a percentage of revenue	0.1 %	— %		0.2 %	0.4 %	

The restructuring charges for the three- and nine-month periods ended September 30, 2021 were primarily the result of management actions initiated in late 2020 to better position us to become more agile in delivering our solutions. The restructuring charge for this action relates to certain headcount reductions and software charges for software not yet placed into

service that will not be implemented due to this action. The restructuring charge for the nine-month period ended September 30, 2021 was partially offset by the release of a lease obligation for a facility previously exited as part of management actions initiated in late 2019.

The restructuring charges for the three- and nine-month periods ended September 30, 2020 were primarily the result of management actions initiated in the fourth quarter of 2019 to focus on investments having the potential to accelerate revenue growth. The restructuring charges relate to certain headcount reductions and an impairment of a right-of-use asset related to the exit of a leased facility. We do not expect material additional restructuring charges related to these actions.

Non-Operating Income (Expense)

(in thousands)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Interest income	\$ 2,872	\$ 6,307	(54.5)%	\$ 12,186	\$ 22,852	(46.7)%
As a percentage of revenue	0.3 %	0.8 %		0.5 %	1.0 %	
Interest expense	\$ (18,144)	\$ (17,324)	4.7 %	\$ (54,015)	\$ (51,778)	4.3 %
As a percentage of revenue	(2.1)%	(2.2)%		(2.1)%	(2.2)%	
Other income (expense), net	\$ 3,635	\$ (2,158)	(268.4)%	\$ 2,007	\$ (7,869)	(125.5)%
As a percentage of revenue	0.4 %	(0.3)%		0.1 %	(0.3)%	

For the periods presented, interest income primarily consisted of interest earned on invested cash balances and marketable securities. The decreases in interest income for the three- and nine-month periods ended September 30, 2021, as compared to the same periods in 2020, were primarily the result of investing in marketable securities at lower rates of return due to lower market interest rates in 2021 as compared to the same periods in 2020.

Interest expense is related to our debt transactions, which are described in Note 7 to the condensed consolidated financial statements.

Other income (expense), net primarily represents net foreign exchange gains and losses mainly due to foreign exchange rate fluctuations on intercompany transactions and other non-operating expense and income items. The three- and nine-month periods ended September 30, 2021, as compared to the same periods in 2020, includes a \$3.7 million gain from an equity investment in 2021, partially offset by unfavorable impact of changes in foreign currency exchange rates.

Provision for Income Taxes

(in thousands)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Provision for income taxes	\$ (13,648)	\$ (8,801)	55.1 %	\$ (43,555)	\$ (41,764)	4.3 %
As a percentage of revenue	(1.6)%	(1.1)%		(1.7)%	(1.8)%	
Effective income tax rate	(7.0)%	(5.2)%		(8.0)%	(8.6)%	

For the three- and nine-month periods ended September 30, 2021, as compared to the same periods in 2020, our provision for income taxes increased due to an increase in profitability and a decrease in the excess tax benefit related to stock-based compensation. These amounts were partially offset by an increase in foreign income taxed at lower rates, the revaluation of certain foreign income tax liabilities due to foreign exchange rate fluctuations and equity method earnings.

For the three- and nine-month periods ended September 30, 2021, our effective income tax rate was lower than the federal statutory tax rate due to foreign income taxed at lower rates, the excess tax benefit related to stock-based compensation, the revaluation of certain foreign income tax liabilities due to foreign exchange rate fluctuations and the benefit of U.S. federal, state and foreign research and development credits. These amounts were partially offset by non-deductible stock-based compensation and state taxes.

For the three- and nine-month periods ended September 30, 2020, our effective income tax rate was lower than the federal statutory tax rate due to foreign income taxed at lower rates, the excess tax benefit related to stock-based compensation, the benefit of U.S. federal, state and foreign research and development credits and additional benefits related to the issuance of certain final tax regulations under the Tax Cuts and Jobs Act, or TCJA, in July 2020. These amounts were partially offset by non-deductible stock-based compensation and state taxes.

In determining our net deferred tax assets and valuation allowances, annualized effective income tax rates and cash paid for income taxes, management is required to make judgments and estimates about domestic and foreign profitability, the timing and extent of the utilization of net operating loss carryforwards, applicable tax rates, transfer pricing methodologies and tax planning strategies. Judgments and estimates related to our projections and assumptions are inherently uncertain; therefore, actual results could differ materially from our projections.

Loss from Equity Method Investment

(in thousands)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Loss from equity method investment	\$ (1,064)	\$ (559)	90.3 %	\$ (12,578)	\$ (1,674)	651.4 %
As a percentage of revenue	(0.1)%	(0.1)%		(0.5)%	(0.1)%	

The amounts reflected in loss from equity method investment relate to recognition of our share of losses from our investment with Mitsubishi UFJ Financial Group in a joint venture, Global Open Network, Inc., or GO-NET. GO-NET operates a new blockchain-based online payment network. The increase in our share of GO-NET's losses during the nine-month period ended September 30, 2021 includes our share of the long-lived asset impairment of certain technology recorded in the joint venture's financial statements. We expect to record additional losses in the fourth quarter of 2021 and beyond as GO-NET continues executing on the early stages of its business plan.

Non-GAAP Financial Measures

In addition to providing financial measurements based on GAAP, we provide additional financial metrics that are not prepared in accordance with GAAP, or non-GAAP financial measures. Management uses non-GAAP financial measures, in addition to GAAP financial measures, to understand and compare operating results across accounting periods, for financial and operational decision making, for planning and forecasting purposes, to measure executive compensation and to evaluate our financial performance. These non-GAAP financial measures are non-GAAP income from operations, non-GAAP operating margin, non-GAAP net income, non-GAAP net income per share, Adjusted EBITDA, Adjusted EBITDA margin, capital expenditures and impact of foreign currency exchange rates, as discussed below.

Management believes that these non-GAAP financial measures reflect our ongoing business in a manner that allows for meaningful comparisons and analysis of trends in the business, as they facilitate comparison of financial results across accounting periods and to those of our peer companies. Management also believes that these non-GAAP financial measures enable investors to evaluate our operating results and future prospects in the same manner as management. These non-GAAP financial measures may exclude expenses and gains that may be unusual in nature, infrequent or not reflective of our ongoing operating results.

The non-GAAP financial measures do not replace the presentation of our GAAP financial measures and should only be used as a supplement to, not as a substitute for, our financial results presented in accordance with GAAP.

The non-GAAP adjustments, and our basis for excluding them from non-GAAP financial measures, are outlined below:

- **Amortization of acquired intangible assets** – We have incurred amortization of intangible assets, included in our GAAP financial statements, related to various acquisitions we have made. The amount of an acquisition's purchase price allocated to intangible assets and term of its related amortization can vary significantly and is unique to each acquisition; therefore, we exclude amortization of acquired intangible assets from our non-GAAP financial measures to provide investors with a consistent basis for comparing pre- and post-acquisition operating results.
- **Stock-based compensation and amortization of capitalized stock-based compensation** – Although stock-based compensation is an important aspect of the compensation paid to our employees, the grant date fair value varies based on the stock price at the time of grant, varying valuation methodologies, subjective assumptions and the variety of award types. This makes the comparison of our current financial results to previous and future periods difficult to interpret; therefore, we believe it is useful to exclude stock-based compensation and amortization of capitalized stock-based compensation from our non-GAAP financial measures in order to highlight the performance of our core business and to be consistent with the way many investors evaluate our performance and compare our operating results to peer companies.
- **Acquisition-related costs** – Acquisition-related costs include transaction fees, advisory fees, due diligence costs and other direct costs associated with strategic activities. In addition, subsequent adjustments to our initial estimated amounts of contingent consideration and indemnification associated with specific acquisitions are included within acquisition-related costs. These amounts are impacted by the timing and size of the acquisitions. We exclude acquisition-related costs from our non-GAAP financial measures to provide a useful comparison of our operating results to prior periods and to our peer companies because such amounts vary significantly based on the magnitude of our acquisition transactions and do not reflect our core operations.
- **Restructuring charges** – We have incurred restructuring charges that are included in our GAAP financial statements, primarily related to workforce reductions and charges associated with exiting facility lease commitments. We exclude these items from our non-GAAP financial measures when evaluating our continuing business performance as such items vary significantly based on the magnitude of the restructuring action and do not reflect expected future operating expenses. In addition, these charges do not necessarily provide meaningful insight into the fundamentals of current or past operations of our business.
- **Amortization of debt discount and issuance costs and amortization of capitalized interest expense** – In August 2019, we issued \$1,150 million of convertible senior notes due 2027 with a coupon interest rate of 0.375%. In May 2018, we issued \$1,150 million of convertible senior notes due 2025 with a coupon interest rate of 0.125%. The imputed interest rates of these convertible senior notes were 3.10% and 4.26%, respectively. This is a result of the debt discounts recorded for the conversion features that are required to be separately accounted for as equity under GAAP, thereby reducing the carrying values of the convertible debt instruments. The debt discounts are amortized as interest expense together with the issuance costs of the debt. The interest expense excluded from our non-GAAP results is comprised of these non-cash components and is excluded from management's assessment of our operating performance because management believes the non-cash expense is not representative of ongoing operating performance.
- **Gains and losses on investments** – We have recorded gains and losses from the disposition, changes to fair value and impairment of certain investments. We believe excluding these amounts from our non-GAAP financial measures is useful to investors as the types of events giving rise to these gains and losses are not representative of our core business operations and ongoing operating performance.
- **Legal settlements** – We have incurred losses related to the settlement of legal matters. We believe excluding these amounts from our non-GAAP financial measures is useful to investors as the types of events giving rise to them are not representative of our core business operations.
- **Endowment of Akamai Foundation** – We have incurred expenses to endow the Akamai Foundation, a private corporate foundation dedicated to encouraging the next generation of technology innovators by supporting math and science education. Our first endowment was in 2018 to enable a permanent endowment for the Akamai Foundation to allow it to expand its reach. In the fourth quarter of 2020 we supplemented the endowment to enable specific initiatives to increase diversity in the technology industry. We believe excluding these amounts

from non-GAAP financial measures is useful to investors as these infrequent expenses are not representative of our core business operations.

- **Transformation costs** – We have incurred professional services fees associated with internal transformation programs designed to improve operating margins and that are part of a planned program intended to significantly change the manner in which business is conducted. We believe excluding these amounts from our non-GAAP financial measures is useful to investors as the types of events and activities giving rise to them occur infrequently and are not representative of our core business operations and ongoing operating performance.
- **Income and losses from equity method investment** – We record income or losses on our share of earnings and losses from our equity method investment. We exclude such income and losses because we do not direct control over the operations of the investment and the related income and losses are not representative of our core business operations.
- **Income tax effect of non-GAAP adjustments and certain discrete tax items** – The non-GAAP adjustments described above are reported on a pre-tax basis. The income tax effect of non-GAAP adjustments is the difference between GAAP and non-GAAP income tax expense. Non-GAAP income tax expense is computed on non-GAAP pre-tax income (GAAP pre-tax income adjusted for non-GAAP adjustments) and excludes certain discrete tax items (such as recording or releasing of valuation allowances), if any. We believe that applying the non-GAAP adjustments and their related income tax effect allows us to highlight income attributable to our core operations.

The following table reconciles GAAP income from operations to non-GAAP income from operations and non-GAAP operating margin for the periods presented (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Income from operations	\$ 205,265	\$ 181,158	\$ 587,063	\$ 523,917
Amortization of acquired intangible assets	11,959	10,340	35,446	31,155
Stock-based compensation	49,018	50,217	153,804	146,901
Amortization of capitalized stock-based compensation and capitalized interest expense	8,815	7,913	27,253	24,540
Restructuring charge	565	21	5,567	10,439
Acquisition-related costs	1,316	1,051	1,520	1,189
Legal settlements	—	—	—	275
Non-GAAP income from operations	\$ 276,938	\$ 250,700	\$ 810,653	\$ 738,416
GAAP operating margin	24 %	23 %	23 %	22 %
Non-GAAP operating margin	32 %	32 %	32 %	31 %

The following table reconciles GAAP net income to non-GAAP net income for the periods presented (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income	\$ 178,916	\$ 158,623	\$ 491,108	\$ 443,684
Amortization of acquired intangible assets	11,959	10,340	35,446	31,155
Stock-based compensation	49,018	50,217	153,804	146,901
Amortization of capitalized stock-based compensation and capitalized interest expense	8,815	7,913	27,253	24,540
Restructuring charge	565	21	5,567	10,439
Acquisition-related costs	1,316	1,051	1,520	1,189
Legal settlements	—	—	—	275
Amortization of debt discount and issuance costs	16,567	15,747	49,284	47,057
Gain on investments	(3,680)	—	(3,680)	—
Loss from equity method investment	1,064	559	12,578	1,674
Income tax effect of above non-GAAP adjustments and certain discrete tax items	(25,600)	(28,689)	(73,374)	(68,481)
Non-GAAP net income	\$ 238,940	\$ 215,782	\$ 699,506	\$ 638,433

The following table reconciles GAAP net income per diluted share to non-GAAP net income per diluted share for the periods presented (in thousands, except per share data):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
GAAP net income per diluted share	\$ 1.08	\$ 0.95	\$ 2.96	\$ 2.69
Amortization of acquired intangible assets	0.07	0.06	0.21	0.19
Stock-based compensation	0.29	0.30	0.93	0.89
Amortization of capitalized stock-based compensation and capitalized interest expense	0.05	0.05	0.16	0.15
Restructuring charge	—	—	0.03	0.06
Acquisition-related costs	0.01	0.01	0.01	0.01
Legal settlements	—	—	—	—
Amortization of debt discount and issuance costs	0.10	0.09	0.30	0.29
Gain on investments	(0.02)	—	(0.02)	—
Loss from equity method investment	0.01	—	0.08	0.01
Income tax effect of above non-GAAP adjustments and certain discrete tax items	(0.15)	(0.17)	(0.44)	(0.42)
Adjustment for shares ⁽¹⁾	0.02	0.02	0.04	0.02
Non-GAAP net income per diluted share ⁽²⁾	\$ 1.45	\$ 1.31	\$ 4.25	\$ 3.89
Shares used in GAAP per diluted share calculations	166,318	166,519	166,090	164,990
Impact of benefit from note hedge transactions ⁽¹⁾	(2,028)	(1,732)	(1,589)	(795)
Shares used in non-GAAP per diluted share calculations ⁽¹⁾	164,290	164,787	164,501	164,195

(1) Shares used in non-GAAP per diluted share calculations have been adjusted for the periods presented for the benefit of our note hedge transactions. During the periods presented Akamai's average stock price was in excess of \$95.10, which is the initial conversion price of our convertible senior notes due in 2025. See further definition below.

(2) Amounts may not foot due to rounding.

Non-GAAP net income per diluted share is calculated as non-GAAP net income divided by diluted weighted average common shares outstanding. GAAP diluted weighted average common shares outstanding are adjusted in non-GAAP per share calculations for the shares that would be delivered to us pursuant to the note hedge transactions entered into in connection with the issuance of our convertible senior notes. Under GAAP, shares delivered under hedge transactions are not considered offsetting shares in the fully-diluted share calculation until they are delivered. However, we would receive a benefit from the note hedge transactions and would not allow the dilution to occur, so management believes that adjusting for this benefit provides a meaningful view of net income per share. Unless our weighted average stock price is greater than \$95.10, the initial conversion price of the convertible senior notes due 2025, or \$116.18, the initial conversion price of the convertible senior notes due 2027, there will be no difference between our GAAP and non-GAAP diluted weighted average common shares outstanding.

We consider Adjusted EBITDA to be another important indicator of the operational strength and performance of our business and a good measure of our historical operating trends. Adjusted EBITDA eliminates items that we do not consider to be part of our core operations. We define Adjusted EBITDA as GAAP net income excluding the following items: interest income; income taxes; depreciation and amortization of tangible and intangible assets; stock-based compensation; amortization of capitalized stock-based compensation; acquisition-related costs; restructuring charges; gains and losses on legal settlements; costs incurred related to endowments to the Akamai Foundation; transformation costs; foreign exchange gains and losses; interest expense; amortization of capitalized interest expense; certain gains and losses on investments; income and losses on equity method investment; and other non-recurring or unusual items that may arise from time to time. Adjusted EBITDA margin represents Adjusted EBITDA stated as a percentage of revenue.

The following table reconciles GAAP net income to Adjusted EBITDA and Adjusted EBITDA margin for the periods presented (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income	\$ 178,916	\$ 158,623	\$ 491,108	\$ 443,684
Interest income	(2,872)	(6,307)	(12,186)	(22,852)
Provision for income taxes	13,648	8,801	43,555	41,764
Depreciation and amortization	119,055	100,644	346,399	294,992
Amortization of capitalized stock-based compensation and capitalized interest expense	8,815	7,913	27,253	24,540
Amortization of acquired intangible assets	11,959	10,340	35,446	31,155
Stock-based compensation	49,018	50,217	153,804	146,901
Restructuring charge	565	21	5,567	10,439
Acquisition-related costs	1,316	1,051	1,520	1,189
Legal settlements	—	—	—	275
Interest expense	18,144	17,324	54,015	51,778
Gain on investments	(3,680)	—	(3,680)	—
Loss from equity method investment	1,064	559	12,578	1,674
Other expense, net	45	2,158	1,673	7,869
Adjusted EBITDA	\$ 395,993	\$ 351,344	\$ 1,157,052	\$ 1,033,408
Adjusted EBITDA margin	46 %	44 %	45 %	44 %

Impact of Foreign Currency Exchange Rates

Revenue and earnings from our international operations have historically been important contributors to our financial results. Consequently, our financial results have been impacted, and management expects they will continue to be impacted, by fluctuations in foreign currency exchange rates. For example, when the local currencies of our foreign subsidiaries weaken, generally our consolidated results stated in U.S. dollars are negatively impacted.

Because exchange rates are a meaningful factor in understanding period-to-period comparisons, management believes the presentation of the impact of foreign currency exchange rates on revenue and earnings enhances the understanding of our financial results and evaluation of performance in comparison to prior periods. The dollar impact of changes in foreign currency exchange rates presented is calculated by translating current period results using monthly average foreign currency exchange rates from the comparative period and comparing them to the reported amount. The percentage change at constant currency presented is calculated by comparing the prior period amounts as reported and the current period amounts translated using the same monthly average foreign currency exchange rates from the comparative period.

Liquidity and Capital Resources

To date, we have financed our operations primarily through public and private sales of debt and equity securities and cash generated by operations. As of September 30, 2021, our cash, cash equivalents and marketable securities, which primarily consisted of corporate bonds, totaled \$2.8 billion. Factoring in the \$2.3 billion in principal amount of convertible senior notes we have outstanding, our net cash at September 30, 2021 was \$452.4 million. We place our cash investments in instruments that meet high-quality credit standards, as specified in our investment policy. Our investment policy is also designed to limit the amount of our credit exposure to any one issue or issuer and seeks to manage these assets to achieve our goals of preserving principal and maintaining adequate liquidity at all times.

Changes in cash, cash equivalents and marketable securities are dependent upon changes in, among other things, working capital items such as accounts receivable, deferred revenues, accounts payable and various accrued expenses, as well as changes in our capital and financial structure due to common stock repurchases, debt repayments and issuances, purchases and sales of marketable securities and similar events. To date, we have not seen a material impact to our liquidity from events related to the

COVID-19 pandemic; however, we are continuing to monitor our customers' ability to pay as some of them may be unable to pay us for our services or may be unable to remit payments in a timely manner due to financial stresses the COVID-19 pandemic may have caused them. We believe that, particularly in situations like these, our strong balance sheet and cash position are important competitive differentiators that provide the financial stability and flexibility to enable us to continue to make investments at opportune times.

As of September 30, 2021, we had cash and cash equivalents of \$556.6 million held in accounts outside the U.S. The TCJA establishes a territorial tax system in the U.S., which provides companies with the potential ability to repatriate earnings with minimal U.S. federal income tax impact. As a result, our liquidity is not expected to be materially impacted by the amount of cash and cash equivalents held in accounts outside the U.S.

Cash Provided by Operating Activities

(in thousands)	For the Nine Months Ended September 30,	
	2021	2020
Net income	\$ 491,108	\$ 443,684
Non-cash reconciling items included in net income	593,701	538,375
Changes in operating assets and liabilities	(67,146)	(58,152)
Net cash provided by operating activities	\$ 1,017,663	\$ 923,907

The increase in cash provided by operating activities for the nine-month period ended September 30, 2021, as compared to the same period in 2020, was primarily due to increased profitability and timing of payments from customers, partially offset by the timing of vendor and income tax-related payments.

Cash Provided by (Used in) Investing Activities

(in thousands)	For the Nine Months Ended September 30,	
	2021	2020
Cash (paid) received for business acquisitions, net of cash acquired	\$ (15,638)	\$ 106
Cash paid for asset acquisition	—	(36,376)
Purchases of property and equipment and capitalization of internal-use software development costs	(435,535)	(564,427)
Net marketable securities activity	649,893	177,637
Other investing activity	(1,665)	(1,980)
Net cash provided by (used in) investing activities	\$ 197,055	\$ (425,040)

The increase in cash from investing activities during the nine-month period ended September 30, 2021, as compared to the same period in 2020, was driven by a decrease in purchases of property and equipment as we slowed expansion of our network and an increase in net marketable securities activities in anticipation of needing to fund our acquisition of Guardicore in October 2021.

Cash Used in Financing Activities

<i>(in thousands)</i>	For the Nine Months Ended September 30,	
	2021	2020
Activity related to stock-based compensation	\$ (41,253)	\$ (31,487)
Repurchases of common stock	(251,257)	(121,078)
Other financing activities	(268)	—
Net cash used in financing activities	\$ (292,778)	\$ (152,565)

The increase in cash used in financing activities during the nine-month period ended September 30, 2021, as compared to the same period in 2020, was primarily the result of increased share repurchases. Effective November 2018, our board of directors authorized a \$1.1 billion share repurchase program through December 2021. In October 2021, our board of directors authorized a new \$1.8 billion share repurchase program, effective January 1, 2022 through December 31, 2024. As of September 30, 2021, \$320.6 million remained available for future share repurchases under the prior authorization, which is expiring on December 31, 2021. Our goals for the share repurchase programs are to offset the dilution created by our employee equity compensation programs over time and provide the flexibility to return capital to shareholders as business and market conditions warrant, while still preserving our ability to pursue other strategic opportunities.

During the nine-month period ended September 30, 2021, we repurchased 2.3 million shares of common stock at a weighted average price of \$108.83 per share for an aggregate of \$251.3 million. The timing and amount of any future share repurchases will be determined by our management based on its evaluation of market conditions and other factors.

Convertible Senior Notes

In August 2019, we issued \$1,150.0 million in principal amount of convertible senior notes due 2027 and entered into related convertible note hedge and warrant transactions. We intend to use the net proceeds of the offering for share repurchases, working capital and general corporate purposes, including potential acquisitions and other strategic transactions.

In May 2018, we issued \$1,150.0 million in principal amount of convertible senior notes due 2025 and entered into related convertible note hedge and warrant transactions. We used a portion of the net proceeds to repay at maturity all of our \$690.0 million outstanding aggregate principal amount of convertible senior notes due in 2019.

The terms of the notes and hedge transactions are discussed more fully in Note 7 to the condensed consolidated financial statements included elsewhere in this quarterly report on Form 10-Q.

Revolving Credit Facility

In May 2018, we entered into a \$500.0 million, five-year revolving credit agreement, or the Credit Agreement. Borrowings under the facility may be used to finance working capital needs and for general corporate purposes. The facility provides for an initial \$500.0 million in revolving loans. Under specified circumstances, the facility can be increased to up to \$1.0 billion in aggregate principal amount.

Borrowings under the Credit Agreement bear interest, at our option, at a base rate plus a spread of 0.00% to 0.25% or an adjusted LIBOR rate plus a spread of 0.875% to 1.25%, in each case with such spread being determined based on our consolidated leverage ratio specified in the Credit Agreement. Regardless of what amounts, if any, are outstanding under the Credit Agreement, we are also obligated to pay an ongoing commitment fee on undrawn amounts at a rate of 0.075% to 0.15%, with such rate being based on our consolidated leverage ratio specified in the Credit Agreement.

The Credit Agreement contains customary representations and warranties, affirmative and negative covenants, and events of default. Principal covenants include a maximum consolidated leverage ratio and a minimum consolidated interest coverage ratio. There were no outstanding borrowings under the Credit Agreement as of September 30, 2021.

Liquidity Outlook

Based on our present business plan, we expect our current cash, cash equivalents and marketable securities balances and our forecasted cash flows from operations to be sufficient to meet our foreseeable cash needs for at least the next 12 months. Our foreseeable cash needs, in addition to our recurring operating costs, include our expected capital expenditures, investments in information technology, opportunistic business acquisitions, anticipated share repurchases, lease and purchase commitments and settlements of other long-term liabilities.

Contractual Obligations

Our principal commitments consist of service agreements with various vendors for bandwidth usage, obligations under leases with co-location facilities for data center capacity, obligations under leases for office space and open vendor purchase orders. Our minimum commitments related to bandwidth usage and co-location leases may vary from period to period depending on the timing and length of contract renewals with our vendors. As of September 30, 2021, there have been no significant changes in our future non-cancelable minimum payments under these commitments from those reported in our annual report on Form 10-K for the year ended December 31, 2020, other than normal period-to-period variations.

Off-Balance Sheet Arrangements

We have entered into indemnification agreements with third parties, including vendors, customers, landlords, our officers and directors, shareholders of acquired companies, joint venture partners and third parties to which we license technology. Generally, these indemnification agreements require us to reimburse losses suffered by a third party due to various events, such as lawsuits arising from patent or copyright infringement or our negligence. These indemnification obligations are considered off-balance sheet arrangements in accordance with the authoritative guidance for guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others. See also Note 13 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2020 for further discussion of these indemnification agreements. The fair value of guarantees issued or modified during the nine months ended September 30, 2021 was determined to be immaterial.

As of September 30, 2021, we did not have any additional material off-balance sheet arrangements.

Significant Accounting Policies and Estimates

See Note 2 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2020. There have been no material changes to our significant accounting policies and estimates from those reported in our annual report on Form 10-K for the year ended December 31, 2020.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our portfolio of cash equivalents and short- and long-term investments is maintained in a variety of securities, including U.S. government agency obligations, high-quality corporate debt securities, commercial paper, mutual funds and money market funds. The majority of our investments are classified as available-for-sale securities and carried at fair market value with cumulative unrealized gains or losses recorded as a component of accumulated other comprehensive loss within stockholders' equity. A sharp rise in interest rates could have an adverse impact on the fair market value of certain securities in our portfolio. We do not currently hedge our interest rate exposure and do not enter into financial instruments for trading or speculative purposes.

Foreign Currency Risk

Growth in our international operations will incrementally increase our exposure to foreign currency fluctuations as well as other risks typical of international operations that could impact our business, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures and other regulations and restrictions.

Transaction Exposure

Foreign exchange rate fluctuations may adversely impact our consolidated results of operations as exchange rate fluctuations on transactions denominated in currencies other than our functional currencies result in gains and losses that are reflected in our condensed consolidated statements of income. We enter into short-term foreign currency forward contracts to offset foreign exchange gains and losses generated by the re-measurement of certain assets and liabilities recorded in non-functional currencies. Changes in the fair value of these derivatives, as well as re-measurement gains and losses, are recognized in our condensed consolidated statements of income within other income (expense), net. Foreign currency transaction gains and losses from these forward contracts were determined to be immaterial during the nine months ended September 30, 2021. We do not enter into derivative financial instruments for trading or speculative purposes.

Translation Exposure

To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency-denominated transactions will result in increased revenue and operating expenses. Conversely, our revenue and operating expenses will decrease when the U.S. dollar strengthens against foreign currencies.

Foreign exchange rate fluctuations may also adversely impact our consolidated financial condition as the assets and liabilities of our foreign operations are translated into U.S. dollars in preparing our condensed consolidated balance sheet. These gains or losses are recorded as a component of accumulated other comprehensive loss within stockholders' equity.

Credit Risk

Concentrations of credit risk with respect to accounts receivable are limited to certain customers to which we make substantial sales. Our customer base consists of a large number of geographically dispersed customers diversified across numerous industries. We believe that our accounts receivable credit risk exposure is limited. As of September 30, 2021, there was one customer with an accounts receivable balance greater than 10% of our accounts receivable. As of December 31, 2020, no customer had an accounts receivable balance greater than 10% of our accounts receivable. We believe that at September 30, 2021, the concentration of credit risk related to accounts receivable was insignificant.

Item 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2021. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are 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 recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission'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 principal financial officers, as appropriate to allow timely decisions regarding required disclosures. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2021, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are party to litigation that we consider routine and incidental to our business. We do not currently expect the results of any of these litigation matters to have a material effect on our business, results of operations, financial condition or cash flows.

Item 1A. Risk Factors

The following are important factors that could cause our actual operating results to differ materially from those indicated or suggested by forward-looking statements made in this quarterly report on Form 10-Q or presented elsewhere by management from time to time.

Financial and Operational Risks

We may face slowing revenue growth which could negatively impact our profitability and stock price.

The revenue growth rate we have enjoyed in recent years may not continue in future periods and could decline, which could negatively impact our profitability and stock price. Our revenue depends on the amount of traffic we deliver, continued growth in demand for our performance and security solutions and our ability to maintain the prices we charge for them.

We experienced a significant increase in revenue from our media solutions in 2020 due in large part to greater consumption of online media and games during the COVID-19 pandemic and associated stay-at-home orders across the globe. Numerous other factors impact our traffic growth including:

- the pace of introduction of OTT video delivery initiatives by our customers;
- the popularity of our customers' streaming offerings as compared to those offered by companies that do not use our solutions;
- variation in the popularity of online gaming;
- media and other customers utilizing their own data centers and implementing delivery approaches that limit or eliminate reliance on third-party providers like us; and
- general macro-economic and geopolitical conditions and industry pressures.

We saw the rate of growth in traffic levels on our network begin to stabilize in the fourth quarter of 2020. Accordingly, we do not expect overall annual traffic growth in 2021 to continue at the same levels we saw in 2020 absent other significant industry developments.

We have experienced significant growth in revenue from our security solutions in recent years. To maintain or accelerate growth in security revenue, we must increase our industry recognition as a security solutions provider and develop or acquire new solutions in a rapidly-changing environment where security threats are constantly evolving. We must also ensure that our solutions operate effectively and are competitive with products offered by others.

We have experienced revenue declines in recent quarters from our web performance solutions and expect this trend to continue because of increasing pricing pressure due to competition and business conditions affecting many of our customers. In 2020, many of these customers faced significant disruptions to their business as a result of the international public health emergency associated with the COVID-19 pandemic. The economic fallout from the pandemic has continued into 2021, and could have consequences across many industries, including additional bankruptcies, continued reductions in technology spending and economic recession. Any of these circumstances would negatively impact our revenues.

Our ability to increase our overall revenue also depends on many other factors including how well we can:

- retain existing customers, including by maintaining the levels of existing services they buy and by delivering consistent and quality performance levels;
- upsell new solutions to existing customers;
- expand our customer base;
- develop and sell innovative and appealing new solutions;
- address potential commoditization of our delivery-based solutions, which can lead to lower prices and loss of customers to competitors;
- counteract multi-vendor policies that could cause customers to reduce their reliance on us;
- handle other competitive threats to our business;
- adapt to changes in our customer contracting models from a committed revenue structure to a "pay-as-you-go" approach, which would make it easier for customers to stop doing business with us, or from traditional overage billing models to ones that do not incorporate surcharges for usage above committed levels; and

- manage the impact of changes in general economic conditions, public health issues, natural disasters and public unrest on our ability to sell, market and provide our solutions.

If we are unable to increase revenues, our profitability and stock price could suffer.

Failure to control expenses could reduce our profitability, which would negatively impact our stock price.

Maintaining or improving our profitability depends both on our ability to increase our revenue, even with the potential challenges discussed above, and limit our expenses. We base our decisions about expense levels and investments on estimates of our future revenue and future anticipated rate of growth; however, many of our expenses are fixed cost in nature for some minimum amount of time so it may not be possible to reduce costs in a timely manner or without incurring fees to exit certain obligations early. If we are unable to increase revenue through traffic growth or otherwise and limit expenses, our results of operations will suffer. If we are required to significantly reduce expenses to maintain or improve profitability, such actions may negatively affect our ability to invest in our business for innovation, systems improvement and other initiatives.

If we do not develop or acquire new solutions that are attractive to enterprises, our revenue and operating results could be adversely affected.

Innovation is important to our future success. In particular, as security solutions have become, and are expected to continue to be, an increasingly important part of our business, we must be particularly adept at developing new security services that meet the constantly-changing threat landscape. The process of developing new solutions is complex, lengthy and uncertain; we must commit significant resources to developing new services or features without knowing whether our investments will result in solutions the market will accept, and we may choose to invest in business areas for which a viable market for our products does not ultimately develop. This could cause our expenses to grow more rapidly than our revenue. Trying to innovate through acquisition can be costly and with uncertain prospects for success; we may find that attractive acquisition targets are too expensive for us to pursue which could cause us to pursue more time-consuming internal development. Continuing restrictions on the ability, or vaccine or other mandates that result in the inability, of our developers and other employees to work in our facilities as a result of restrictions imposed by governments to combat the COVID-19 pandemic could reduce their effectiveness including, for example, by making it more difficult for them to collaborate as effectively in the development of new solutions. Failure to develop, on a cost-effective basis, innovative new or enhanced solutions that are attractive to customers and profitable to us could have a material detrimental effect on our business, results of operations, financial condition and cash flows.

If we are unable to compete effectively and adapt to changing market conditions, our business will be adversely affected.

We compete in markets that are intensely competitive and rapidly changing. Our current and potential competitors vary by size, product offerings and geographic region, and range from start-ups that offer solutions competing with a discrete part of our business to large technology or telecommunications companies that offer, or may be planning to introduce, products and services that are broadly competitive with what we do. The primary competitive factors in our market are differentiation of technology, global presence, quality of solutions, customer service, technical expertise, security, ease-of-use, breadth of services offered, price and financial strength.

Many of our current and potential competitors have substantially greater financial, technical and marketing resources, larger customer bases, broader product portfolios, longer operating histories, greater brand recognition and more established relationships in the industry than we do. As a result, some of these competitors may be able to:

- develop superior products or services;
- leverage better name recognition, particularly in the security market;
- enter new markets more easily;
- gain greater market acceptance for their products and services;
- expand their offerings more efficiently and more rapidly;
- bundle their products that are competitive with ours with other solutions they offer in a way that makes our offerings less appealing to current and potential customers;
- more quickly adapt to new or emerging technologies and changes in customer requirements;
- take advantage of acquisition, investment and other opportunities more readily;
- offer lower prices than ours, including at levels that may not be profitable;
- spend more money on the promotion, marketing and sales of their products and services; and

- spend more money on research and development, including offering higher salaries to talented professionals which may impact our ability to hire or retain engineering and other personnel.

Smaller and more nimble competitors may be able to:

- attract customers by offering less sophisticated versions of products and services than we provide at lower prices than those we charge;
- develop new business models that are disruptive to us;
- in some cases, use funds from recent public securities offerings or private financings to strengthen their business to enable them to better compete with us; and
- respond more quickly than we can to new or emerging technologies, changes in customer requirements and market and industry developments, resulting in superior offerings.

Ultimately, any type of increased competition could result in price and revenue reductions, loss of customers and loss of market share, each of which could materially impact our business, profitability, financial condition, results of operations and cash flows.

We and other companies that compete in this industry and these markets experience continually shifting business relationships, commercial focuses and business priorities, all of which occur in reaction to industry and market forces and the emergence of new opportunities. These shifts have led or could lead to our customers or partners becoming our competitors; network suppliers no longer seeking to work with us; and large technology companies that previously did not appear to show interest in the markets we seek to address entering into those markets as our competitors. With this constantly changing environment, we may face operational difficulties in adjusting to the changes or our core strategies could become obsolete. Any of these developments could harm our business.

If current and potential large customers shift to hardware-based or other DIY internal solutions, our business will be negatively impacted.

We are reliant on large media and other customers to direct traffic to our network for a significant part of our revenues. In the past, some of those customers have determined that it is better for them to employ a “do-it-yourself” or “DIY” strategy by putting in place equipment, software and other technology solutions for content and application delivery and security protection within their internal systems instead of using our solutions for some or all of their needs. Essentially, this is another form of competition for us. As the amount of money a customer spends with us increases, the risk that they will seek alternative solutions such as DIY or a multi-vendor policy likewise increases. If additional large customers shift to this model, traffic on our network and our contracted revenue commitments would decrease, which would negatively impact our business, profitability, financial condition, results of operations and cash flows.

Cybersecurity breaches and attacks on us, as well as steps we need to take in an effort to prevent them, can lead to significant costs and disruptions that would harm our business, financial results and reputation.

We regularly face attempts to gain unauthorized access or deliver malicious software to the Akamai Intelligent Edge Platform and our internal IT systems, with the goal of stealing proprietary information related to our business, products, employees and customers; disrupting our systems and services or those of our customers or others; or demanding ransom to return control of such systems and services. These attempts take a variety of forms, including Distributed Denial of Service attacks, infrastructure attacks, botnets, malicious file uploads, cross-site scripting, credential abuse, ransomware, bugs, viruses, worms and malicious software programs. There could be attempts to infiltrate our systems through our supply chain and contractors. Malicious actors are known to attempt to fraudulently induce employees and suppliers to disclose sensitive information through illegal electronic spamming, phishing or other tactics. Other parties may attempt to gain unauthorized physical access to our facilities in order to infiltrate our internal-use information systems. To date, cyber threats and other attacks have not resulted in any material adverse impact to our business or operations, but such threats are constantly evolving, increasing the difficulty of detecting and successfully defending against them.

The complexities in managing the security profile of a distributed network with vast scale and geographic reach that evolves to incorporate new capabilities expose us to both known and unknown vulnerabilities. We have discovered vulnerabilities in software used in our technology and may have other undiscovered ones. These vulnerabilities, resident in either software or configurations, may persist for extended periods of time. Our ability to detect vulnerabilities could be particularly limited during extraordinary events, such as the COVID-19 pandemic, where more staff are working remotely and dealing with unusual distractions. Similar security risks exist with respect to acquired companies, our business partners and the

third-party vendors that we rely on for aspects of our information technology support services and administrative functions. As a result, we are subject to risks that the activities of our business partners and third-party vendors may adversely affect our business even if an attack or breach does not directly target our systems.

To protect our corporate and deployed networks, we must continuously engineer more secure solutions, enhance security and reliability features, improve the deployment of software updates to address security vulnerabilities, develop mitigation technologies that help to secure customers from attacks and maintain the digital security infrastructure that protects the integrity of our network and services. This is frequently costly, with a negative impact on near-term profitability. We may need to increase our spending in the future; these costs could reduce our operating margin.

Any actual, alleged or perceived breach of network security in our systems or networks, or any other actual, alleged or perceived data security incident we or our third-party suppliers suffer, can result in damage to our reputation; negative publicity; loss of channel partners, customers and sales; loss of competitive advantages; increased costs to remedy any problems and otherwise respond to any incident; regulatory investigations and enforcement actions; costly litigation; and other liability. In addition, we may incur significant costs and operational consequences of investigating, remediating, eliminating and putting in place additional tools and devices designed to prevent actual or perceived security breaches and other security incidents, as well as the costs to comply with any notification obligations resulting from any security incidents. Any of these negative outcomes could adversely impact the market perception of our solutions and customer and investor confidence in our company and otherwise seriously harm our business and operating results.

Defects or disruptions in our products and IT systems could require us to increase spending on upgrading systems, diminish demand for our solutions or subject us to substantial liability.

Our solutions are highly complex and are designed to be deployed in and across numerous large and complex networks that we do not control. From time to time, we have needed to correct errors and defects in the proprietary and open-source software that underlies our platform that have given rise to service incidents, outages and disruptions or otherwise impacted our operations. We could face loss of customers as a result of recent and any future incidents as they seek alternative or supplemental providers. We have also periodically experienced customer dissatisfaction with the quality of some of our media delivery and other services, which has led to loss of business and could lead to loss of customers in the future. While we have robust quality control processes in place, there may be additional errors and defects in our software and open-source software that we leverage that may adversely affect our operations. We may not have in place adequate quality assurance procedures to ensure that we detect errors in our software and open-source software we use in a timely manner, and we may have insufficient resources to efficiently address multiple service incidents happening simultaneously or in rapid succession. In light of recent incidents, we may increase investment in improving our processes and systems. If we are unable to efficiently and cost-effectively fix errors or other problems that we identify and improve the quality of our solutions or systems, or if there are unidentified errors that allow persons to improperly access our services or systems, we could experience litigation, the need to issue credits to customers, loss of revenue and market share, damage to our reputation, diversion of management attention, increased expenses and reduced profitability.

An increasing portion of our revenue is derived from sales of security solutions. Defects in our security solutions could lead to negative publicity, loss of business, damages payments to customers and other negative consequences. As our solutions are adopted by an increasing number of enterprises and governments, it is possible that the individuals and organizations behind advanced malware attacks will specifically focus on finding ways to defeat our products and services. If they are successful, we could experience a serious impact on our reputation as a provider of security solutions.

Our business relies on our data systems, traffic measurement systems, billing systems, ordering processes and other operational and financial reporting and control systems. All of these systems have become increasingly complex due to the complexity of our business, acquisitions of new businesses with different systems, and increased regulation over controls and procedures. As a result, these systems could generate errors that impact traffic measurement or invoicing, revenue recognition and financial forecasting. We will need to continue to upgrade and improve our data systems, traffic measurement systems, billing systems, ordering processes and other operational and financial systems, procedures and controls. These upgrades and improvements may be difficult and costly. In addition, we could face strains on, or failures of, our internal IT systems if the COVID-19 pandemic persists for a longer period or governmental restrictions or vaccine or other mandates limit the ability of our command center personnel to work in our physical locations. If we are unable to adapt our systems and organization in a timely, efficient and cost-effective manner to accommodate changing circumstances, our business may be adversely affected.

We face risks associated with global operations that could harm our business.

A significant portion of our revenue growth in recent quarters has been attributable to revenue gains outside the U.S. Our operations in foreign countries subject us to risks that may increase our costs, make our operations less efficient and require significant management attention. These risks include:

- uncertainty regarding liability for content or services, including uncertainty as a result of local laws and lack of legal precedent;
- loss of revenues if the U.S. or foreign governments impose limitations on doing business with significant current or potential customers;
- adjusting to different employee/employer relationships and different regulations governing such relationships;
- becoming subject to regulatory oversight;
- corporate and personal liability for alleged or actual violations of laws and regulations;
- difficulty in staffing, developing and managing foreign operations as a result of distance, language, cultural differences or regulations such as those implemented in connection with the COVID-19 pandemic;
- theft of intellectual property in high-risk countries where we operate;
- difficulties in transferring funds from, or converting currencies in, certain countries;
- managing the costs and processes necessary to comply with export control, sanctions, anti-corruption, data protection and competition laws and regulations;
- geopolitical developments that impact our customers' ability to operate or deliver content to a country;
- other circumstances outside of our control such as trade disputes, political unrest, public health emergencies such as the COVID-19 pandemic and natural disasters that could disrupt our ability to provide services or limit customer purchases of them;
- reliance on channel partners over which we have limited control or influence on a day-to-day basis; and
- potentially adverse tax consequences.

We are subject to laws and regulations worldwide that differ among jurisdictions, affecting our operations in areas such as intellectual property ownership and infringement; tax; anti-corruption; foreign exchange controls and cash repatriation; data privacy; competition; and employment. Compliance with such requirements can be onerous and expensive and may otherwise impact our business operations negatively. Although we have policies, controls, and procedures designed to help ensure compliance with applicable laws, there can be no assurance that our employees, contractors, suppliers or agents will not violate such laws or our policies. Violations of these laws and regulations can result in fines; criminal sanctions against us, our officers or our employees; prohibitions on the conduct of our business; and damage to our reputation. See also the risk factor captioned *Other regulatory developments could negatively impact our business* below.

Our business strategy depends on the ability to source adequate transmission capacity and the servers we need to operate our network; failure to have access to those resources could lead to loss of revenue and service disruptions.

To operate our network, we are dependent in part upon transmission capacity provided by third-party telecommunications network providers and availability of co-location facilities to house our servers. We may be unable to purchase the bandwidth and space we need from these providers due to limitations on their resources or other reasons outside of our control. Inability to access facilities where we would like to install servers, or perform maintenance on existing servers, because of governmental restrictions on access due to stay-at-home orders or social distancing requirements during pandemics or other events impedes our ability to expand or maintain capacity. As a result, there can be no assurance that we are adequately prepared for unexpected increases in bandwidth demands by our customers, particularly those under cyber-attack or impacted by pandemic-related events. Failure to put in place the capacity we require to operate our business effectively could result in a reduction in, or disruption of, service to our customers and ultimately a loss of those customers.

The Akamai Intelligent Edge Platform relies on hundreds of thousands of servers deployed around the world. Disruptions in our supply chain could prevent us from purchasing servers and other needed equipment at attractive prices or at all. For example, from time to time, it has been, and may continue to be, more difficult to purchase servers, component parts and other equipment that are manufactured in areas that face disruptions to operations due to unrest or other political activity, public health issues (such as the COVID-19 pandemic), safety issues, natural disasters or general economic conditions. Failure to have adequate server deployment could harm the quality of our services, which could lead to the loss of customers and revenue.

Acquisitions and other strategic transactions we complete could result in operating difficulties, dilution, diversion of management attention and other harmful consequences that may adversely impact our business and results of operations.

We expect to continue to pursue acquisitions and other types of strategic relationships that involve technology sharing or close cooperation with other companies. Acquisitions and other complex transactions are accompanied by a number of risks, including the following:

- difficulty integrating the technologies, operations and personnel of acquired businesses;
- potential disruption of our ongoing business;
- potential distraction of management;
- diversion of business resources from core operations;
- financial consequences, such as increased operating expenses and other dilutive effects on our earnings, particularly in the current environment where we have seen escalating valuations of many technology companies;
- assumption of legal risks related to compliance with laws, including privacy and anti-corruption regulations;
- failure to realize synergies or other expected benefits;
- acquisition of IT systems that expose us to cybersecurity risks;
- increased accounting charges such as impairment of goodwill or intangible assets, amortization of intangible assets acquired and a reduction in the useful lives of intangible assets acquired; and
- potential unknown liabilities associated with acquired businesses.

Any inability to integrate completed acquisitions or combinations in an efficient and timely manner could have an adverse impact on our results of operations. If we use a significant portion of our available cash to pay for acquisitions that are not successful, it could harm our balance sheet and limit our flexibility to pursue other opportunities without having enjoyed the intended benefits of the acquisition. As we complete any future acquisitions, we may encounter difficulty in incorporating acquired technologies into our offerings while maintaining the quality standards that are consistent with our brand and reputation. If we are not successful in completing acquisitions or other strategic transactions that we may pursue in the future, we may incur substantial expenses and devote significant management time and resources without a successful result. Future acquisitions could require use of substantial portions of our available cash or result in dilutive issuances of securities.

If we are unable to retain our key employees and hire and retain qualified sales, technical, marketing and support personnel, our ability to compete could be harmed.

Our future success depends upon the services of our executive officers and other key technology, sales, marketing and support personnel who have critical industry experience and relationships. There is significant competition for talented individuals in the regions in which our primary offices are located, which affects both our ability to retain key employees and hire new ones. None of our officers or key employees is bound by an employment agreement for any specific term, and members of our senior management have left our company over the years for a variety of reasons. The loss of the services of a significant number of our employees or any of our key employees or our inability to attract and retain new talent may be disruptive to our operations and overall business.

Our failure to effectively manage our operations as our business evolves could harm us.

Our future operating results will depend on our ability to manage our operations. As a result of the diversification of our business, personnel growth, increased usage of alternative working arrangements, acquisitions and international expansion in recent years, many of our employees are now based outside of our Cambridge, Massachusetts headquarters; however, most key management decisions are made by a relatively small group of individuals based primarily at our headquarters. If we are unable to appropriately increase management depth, enhance succession planning and decentralize our decision-making at a pace commensurate with our actual or desired growth rates, we may not be able to achieve our financial or operational goals. It is also important to our continued success that we hire qualified personnel, properly train them and manage out poorly-performing personnel, all while maintaining our corporate culture and spirit of innovation. If we are not successful in these efforts, our growth and operations could be adversely affected. With the restrictions on businesses intended to curb the spread of the COVID-19 virus, nearly all of our employees worldwide have been working remotely since the first quarter of 2020, and we are not requiring employees whose roles do not require in-person presence to perform their jobs to return to offices before May 1, 2022. The long-term continuation of pandemic-based restrictions could, among other things, negatively impact employee morale and productivity, inhibit our ability to hire and train new employees and impede our ability to support customers at the levels they expect. As a result, our business could suffer.

Our restructuring and reorganization activities may be disruptive to our operations and harm our business.

Over the past several years, we have implemented internal restructurings and reorganizations designed to reduce the size and cost of our operations, improve operational efficiencies, enhance our ability to pursue market opportunities and accelerate our technology development initiatives. In February 2021, we announced a significant reorganization to create two new business groups linked to our security and edge delivery technologies as well as establishing a unified global sales force. We may take similar steps in the future as we seek to realize operating synergies, optimize our operations to achieve our target operating model and profitability objectives, respond to market forces or better reflect changes in the strategic direction of our business. Disruptions in operations may occur as a result of taking these actions. Taking these actions may also result in significant expense for us, including with respect to workforce reductions, as well as decreased productivity due to employee distraction and unanticipated employee turnover. Substantial expense or business disruptions resulting from restructuring and reorganization activities could adversely affect our operating results.

We may have exposure to greater-than-anticipated tax liabilities.

Our future income taxes could be adversely affected by earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, or changes in tax laws, regulations or accounting principles, as well as certain discrete items such as equity-related compensation. In particular, in October 2021, a global consortium of countries agreed to establishing a new framework for international tax reform; if implemented, such reform may increase our tax liabilities and reduce our profitability. We have recorded certain tax reserves to address potential exposures involving our income tax and sales and use tax positions. These potential tax liabilities result from the varying application of statutes, rules, regulations and interpretations by different jurisdictions. We are currently subject to tax audits in various jurisdictions including the Commonwealth of Massachusetts. In the second quarter of 2018, we filed an appeal with the Massachusetts Appellate Tax Board, or MATB, contesting adverse audit findings relating to our eligibility to claim certain tax benefits and exemptions. In July 2020, the MATB ruled in our favor; however the decision is eligible for appeal by the Massachusetts Department of Revenue. If the ultimate outcome of the potential appeal and other audits are adverse to us, our reserves may not be adequate to cover our total actual liability, and we would need to take a financial charge. Although we believe our estimates, our reserves and the positions we have taken in all jurisdictions are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

Fluctuations in foreign currency exchange rates affect our reported operating results in U.S. dollar terms.

Revenue generated and expenses incurred by our international subsidiaries are often denominated in the currencies of the local countries. As a result, our consolidated U.S. dollar financial statements are subject to fluctuations due to changes in exchange rates as the financial results of our international subsidiaries are translated from local currencies into U.S. dollars. In addition, our financial results are subject to changes in exchange rates that impact the settlement of transactions in non-functional currencies. While we have implemented a foreign currency hedging program to mitigate transactional exposures, there is no guarantee that such program will be effective.

If the accounting estimates we make, and the assumptions on which we rely, in preparing our financial statements prove inaccurate, our actual reported results may be adversely affected.

Our financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and judgments about, among other things, taxes, revenue recognition, stock-based compensation, capitalization of internal-use software development costs, investments, contingent obligations, allowance for current expected credit losses, intangible assets and restructuring charges. These estimates and judgments affect, among other things, the reported amounts of our assets, liabilities, revenue and expenses, the amounts of charges accrued by us, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances and at the time they are made. If our estimates or the assumptions underlying them are not correct, actual results may differ materially from our estimates and we may need to, among other things, accrue significant additional charges that could adversely affect our results of operations, which in turn could adversely affect our stock price. In addition, new accounting pronouncements and interpretations of accounting pronouncements have occurred and may occur in the future that could adversely affect our reported financial results.

Our sales to government clients subject us to risks including early termination, audits, investigations, sanctions and penalties.

We have customer contracts with the U.S. government, as well as foreign, state and local governments and their respective agencies. Such government entities often have the right to terminate these contracts at any time, without cause. There is increased pressure for governments and their agencies, both domestically and internationally, to reduce spending. Most of our government contracts are subject to legislative approval of appropriations to fund the expenditures under these contracts. These factors may combine to potentially limit the revenue we derive from government contracts in the future. Additionally, government contracts generally have requirements that are more complex than those found in commercial enterprise agreements and therefore are more costly to comply with. Such contracts are also subject to audits and investigations that could result in civil and criminal penalties and administrative sanctions, including termination of contracts, refund of a portion of fees received, forfeiture of profits, suspension of payments, fines and suspensions or debarment from future government business.

We rely on certain “open-source” software, the use of which could result in our having to distribute our proprietary software, including our source code, to third parties on unfavorable terms, which could materially affect our business.

Certain of our offerings use software that is subject to open-source licenses. Open-source code is software that is freely accessible, usable and modifiable; however, certain open-source code is governed by license agreements, the terms of which could require users of such software to make any derivative works of the software available to others on unfavorable terms or at no cost. Because we use open-source code, we may be required to take remedial action in order to protect our proprietary software. Such action could include replacing certain source code used in our software, discontinuing certain of our products or taking other actions that could be expensive and divert resources away from our development efforts. In addition, the terms relating to disclosure of derivative works in many open-source licenses are unclear. If a court interprets one or more such open-source licenses in a manner that is unfavorable to us, we could be required to make certain of our key software available at no cost. Furthermore, open-source software may have security flaws and other deficiencies that could make our solutions less reliable and damage our business.

Legal and Regulatory Risks

Evolving privacy regulations could negatively impact our profitability and business operations.

Laws and regulations that apply to the internet related to privacy and data localization could pose risks to our revenues, intellectual property and customer relationships, as well as increase expenses or create other disadvantages to our business.

Privacy laws are rapidly proliferating, changing and evolving globally. Governments, privacy advocates and class action attorneys are increasingly scrutinizing how companies collect, process, use, store, share and transmit personal data. Laws, such as the European Union General Data Protection Regulation, or GDPR, and the California Consumer Privacy Act of 2018, or CCPA, and industry self-regulatory codes have been enacted, and more laws are being considered that may affect how we use data generated from our network as well as our ability to reach current and prospective customers, understand how our solutions are being used and respond to customer requests allowed under the laws. Any perception that our business practices, our data collection activities or how our solutions operate represent an invasion of privacy, whether or not consistent with current regulations and industry practices, may subject us to public criticism or boycotts, class action lawsuits, reputational harm or claims by regulators, industry groups or other third parties, all of which could disrupt our business and expose us to liability.

Engineering efforts to build new capabilities to facilitate compliance with data localization and privacy laws could require us to take on substantial expense and divert engineering resources from other projects. We might experience reduced demand for our offerings if we are unable to engineer products that meet our legal duties or help our customers meet their obligations under the GDPR, the CCPA or other data regulations, or if the changes we implement to comply with such laws and regulations make our offerings less attractive.

Our ability to leverage the data generated by our global network of servers is important to the value of many of the solutions we offer, our operational efficiency and future product development opportunities. Our ability to use data in this way may be constrained by regulatory developments. Compliance with applicable laws and regulations regarding personal data may require changes in services, business practices or internal systems that result in increased costs, lower revenue, reduced efficiency or greater difficulty in competing with other firms. Compliance with data regulations might limit our ability to innovate or offer certain features and functionality in some jurisdictions where we operate. Failure to comply with existing or new rules may result in significant penalties or orders to stop the alleged non-compliant activity, as well as negative publicity and diversion of management time and effort.

Although we take steps intended to improve the security controls across our business groups and geographies, our security controls over personal data, our training of employees and third parties on data security and other practices we follow may not prevent the improper disclosure or misuse of customer or end-user data we store and manage. Improper disclosure or misuse of personal data could harm our reputation, lead to legal exposure to customers or end users, or subject us to liability under laws that protect personal data, resulting in increased costs or loss of revenue.

Other regulatory developments could negatively impact our business.

Laws and regulations that apply to the internet related to, among other things, content liability, security requirements, law enforcement access to information, critical infrastructure, data localization requirements and restrictions on social media or other content could pose risks to our revenues, intellectual property and customer relationships as well as increase expenses or create other disadvantages to our business. Section 230 of the U.S. Communications Decency Act, often referred to as Section 230, gives websites that host user-generated content broad protection from legal liability for content posted on their sites. Proposals to repeal or amend Section 230 could expose us to greater legal liability in the conduct of our business. Our Acceptable Use Policy prohibits customers from using our network to deliver illegal or inappropriate content; if customers violate that policy, we may nonetheless face reputational damage or lawsuits related to their content. Regulations have been enacted or proposed in a number of countries that limit the delivery of certain types of content into those countries; these include restrictions adopted in India in 2020 prohibiting access to identified Chinese applications (which caused a reduction in revenue to us). Enactment and expansion of such laws and regulations would negatively impact our revenues. Interpretations of laws or regulations that would subject us to regulatory supervision or, in the alternative, require us to exit a line of business or a country, could lead to loss of significant revenues and have a negative impact on the quality of our solutions. As noted with privacy compliance above, engineering efforts to build new capabilities to facilitate compliance with law enforcement access requirements, content access restrictions, or other regulations could require us to take on substantial expense and divert engineering resources from other projects. These circumstances could harm our profitability.

We may need to defend against patent or copyright infringement claims, which would cause us to incur substantial costs or limit our ability to use certain technologies in the future.

As we expand our business and develop new technologies, products and services, we have become increasingly subject to intellectual property infringement and other claims and related litigation. We have also agreed to indemnify our customers and channel and strategic partners if our solutions infringe or misappropriate specified intellectual property rights; as a result, we have been and could again become involved in litigation or claims brought against customers or channel or strategic partners if our solutions or technology are the subject of such allegations. Any litigation or claims, whether or not valid, brought against us or pursuant to which we indemnify our customers or partners could result in substantial costs and diversion of resources and require us to do one or more of the following:

- cease selling, incorporating or using features, functionalities, products or services that incorporate the challenged intellectual property;
- pay substantial damages and incur significant litigation expenses;
- obtain a license from the holder of the infringed intellectual property right, which license may not be available on reasonable terms or at all; or
- redesign products or services.

If we are forced to take any of these actions, our business may be seriously harmed.

Our business will be adversely affected if we are unable to protect our intellectual property rights from unauthorized use or infringement by third parties.

We rely on a combination of patent, copyright, trademark and trade secret laws and contractual restrictions on disclosure to protect our intellectual property rights. These legal protections afford only limited protection, particularly in some regions outside the United States. We have previously brought lawsuits against entities that we believed were infringing our intellectual property rights but have not always prevailed. Such lawsuits can be expensive and require a significant amount of attention from our management and technical personnel, and the outcomes are unpredictable. Monitoring unauthorized use of our solutions is difficult, and we cannot be certain that the steps we have taken or will take will prevent unauthorized use of our technology. Furthermore, we cannot be certain that any pending or future patent applications will be granted, that any future patent will not be challenged, invalidated or circumvented, or that rights granted under any patent that may be issued will provide competitive advantages to us. If we are unable to protect our proprietary rights from unauthorized use, the value of our

intellectual property assets may be reduced. Although we have licensed from other parties proprietary technology covered by patents, we cannot be certain that any such patents will not be challenged, invalidated or circumvented. Such licenses may also be non-exclusive, meaning our competition may also be able to access such technology.

Litigation may adversely impact our business.

From time to time, we are or may become involved in various legal proceedings relating to matters incidental to the ordinary course of our business, including patent, commercial, product liability, breach of contract, employment, class action, whistleblower and other litigation and claims, and governmental and other regulatory investigations and proceedings. In addition, under our charter, we could be required to indemnify and advance expenses to our directors and officers in connection with their involvement in certain actions, suits, investigations and other proceedings. Such matters can be time-consuming, divert management's attention and resources and cause us to incur significant expenses. Furthermore, because litigation is inherently unpredictable and may not be covered by insurance, there can be no assurance that the results of any litigation matters will not have an adverse impact on our business, results of operations, financial condition or cash flows.

Global climate change and related natural resource conservation regulations could adversely impact our business.

The long-term effects of climate change on the global economy and our industry in particular remain unknown. Changes in weather where we operate may increase the costs of powering and cooling computer hardware we use to develop software and provide cloud-based services. Catastrophic natural disasters could negatively impact our office locations. In response to concerns about global climate change, governments may adopt new regulations affecting the use of fossil fuels or requiring the use of alternative fuel sources. Our deployed network of servers consumes significant energy resources, including those generated by the burning of fossil fuels. While we have invested in projects to support renewable energy development, our customers, investors and other stakeholders may require us to take more steps to demonstrate that we are taking ecologically responsible measures in operating our business. The costs and any expenses we may incur to make our network more energy-efficient and comply with any new regulations could make us less profitable in future periods. Failure to comply with applicable laws and regulations or other requirements imposed on us could lead to fines, lost revenue and damage to our reputation.

Investment-Related Risks

Our stock price has been, and may continue to be, volatile, and your investment could lose value.

The market price of our common stock has historically been volatile. Trading prices may continue to fluctuate in response to a number of events and factors, including the following:

- quarterly variations in operating results;
- announcements by our customers related to their businesses that could be viewed as impacting their usage of our solutions;
- market speculation about whether we are a takeover target or considering a strategic transaction;
- announcements by competitors;
- activism by any single large stockholder or combination of stockholders or rumors about such activity;
- changes in financial estimates and recommendations by securities analysts;
- failure to meet the expectations of securities analysts;
- purchases or sales of our stock by our officers and directors;
- general economic conditions and other macro-economic factors;
- repurchases of shares of our common stock;
- successful cyber-attacks affecting our network or systems;
- performance by other companies in our industry; and
- geopolitical conditions such as acts of terrorism, military conflicts or global pandemics.

Furthermore, our revenue, particularly that portion attributable to usage of our solutions beyond customer commitments, can be difficult to forecast, and, as a result, our quarterly operating results can fluctuate substantially. This concern is particularly acute with respect to our media and commerce customers. We have introduced new billing models over the years, including recently offering a zero overage plan that eliminates surcharges for certain traffic. In the future, our customer contracting models may change to move away from a committed revenue structure to a "pay-as-you-go" approach, which could make it easier for customers to reduce the amount of business they do with us or leave altogether. Changes in billing models and committed revenue requirements could, therefore, create challenges with our forecasting processes. Because a significant portion of our cost structure is largely fixed in the short-term, revenue shortfalls tend to have a disproportionately negative

impact on our profitability. If we announce revenue or profitability results that do not meet or exceed our guidance or make changes in our guidance with respect to future operating results, our stock price may decrease significantly as a result.

Any of these events, as well as other circumstances discussed in these Risk Factors, may cause the price of our common stock to fall. In addition, the stock market in general, and the market prices of stock of publicly-traded technology companies in particular, have experienced significant volatility that often has been unrelated to the operating performance of affected companies. These broad stock market fluctuations may adversely affect the market price of our common stock, regardless of our operating performance.

Any failure to meet our debt obligations would damage our business.

As of the date of this report, we had total principal amount of \$1,150.0 million of convertible senior notes outstanding due in 2025, and we had total principal amount of \$1,150.0 million of convertible senior notes outstanding due in 2027. We also entered into a credit facility in May 2018 that provides for an initial \$500.0 million in revolving loans; under specified circumstances, we would be able to borrow an additional \$500.0 million thereunder. Our ability to repay any amounts we borrow under our credit facility, refinance the notes, make cash payments in connection with conversions of the notes or repurchase the notes in the event of a fundamental change (as defined in the applicable indenture governing the notes) will depend on market conditions and our future performance, which is subject to economic, financial, competitive and other factors beyond our control. We also may not use the cash we have raised through future borrowing under the credit facility or the issuance of the convertible senior notes in an optimally productive and profitable manner. If we are unable to remain profitable or if we use more cash than we generate in the future, our level of indebtedness at such time could adversely affect our operations by increasing our vulnerability to adverse changes in general economic and industry conditions and by limiting or prohibiting our ability to obtain additional financing for additional capital expenditures, acquisitions and general corporate and other purposes. In addition, if we are unable to make cash payments upon conversion of the notes, we would be required to issue significant amounts of our common stock, which would be dilutive to the stock of existing stockholders. If we do not have sufficient cash to repurchase the notes following a fundamental change, we would be in default under the terms of the notes, which could seriously harm our business. Although the terms of our credit facility include certain financial ratios that potentially limit our future indebtedness, the terms of the notes do not do so. If we incur significantly more debt, this could intensify the risks described above.

We may issue additional shares of our common stock or instruments convertible into shares of our common stock and thereby materially and adversely affect the market price of our common stock.

Our board of directors has the authority to issue additional shares of our common stock or other instruments convertible into, or exchangeable or exercisable for, shares of our common stock. If we issue additional shares of our common stock or instruments convertible into, or exchangeable or exercisable for, shares of our common stock, it may materially and adversely affect the market price of our common stock.

Because we currently do not intend to pay dividends, stockholders will benefit from an investment in our common stock only if it appreciates in value.

We currently intend to retain our future earnings, if any, for use in the operation of our business and do not expect to pay any cash dividends in the foreseeable future on our common stock. As a result, the success of an investment in our common stock will depend upon any future appreciation in its value. There is no guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

Provisions of our charter, by-laws and Delaware law may have anti-takeover effects that could prevent a change in control even if the change in control would be beneficial to our stockholders.

Provisions of our charter, by-laws and Delaware law could make it more difficult for a third party to control or acquire us, even if doing so would be beneficial to our stockholders. These provisions include:

- our board of directors having the right to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director;
- stockholders needing to provide advance notice to nominate individuals for election to the board of directors or to propose matters that can be acted upon at a stockholders' meeting; and
- the ability of our board of directors to issue, without stockholder approval, shares of undesignated preferred stock.

Further, as a Delaware corporation, we are also subject to certain Delaware anti-takeover provisions. Under Delaware law, a corporation may not engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction. Our board of directors could rely on Delaware law to prevent or delay an acquisition of us.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, our stockholders could lose confidence in our financial reporting, which could harm our business and the trading price of our common stock.

We have complied with Section 404 of the Sarbanes-Oxley Act of 2002 by assessing, strengthening and testing our system of internal controls. Even though we concluded our internal control over financial reporting and disclosure controls and procedures were effective as of the end of the period covered by this report, we need to continue to maintain our processes and systems and adapt them to changes as our business evolves and we rearrange management responsibilities and reorganize our business. This continuous process of maintaining and adapting our internal controls and complying with Section 404 is expensive and time-consuming and requires significant management attention. We cannot be certain that our internal control measures will continue to provide adequate control over our financial processes and reporting and ensure compliance with Section 404. Furthermore, as our business changes, including by expanding our operations in different markets, increasing reliance on channel partners and completing acquisitions, our internal controls may become more complex and we will be required to expend significantly more resources to ensure our internal controls remain effective. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we or our independent registered public accounting firm identify material weaknesses, the disclosure of that fact, even if quickly remediated, could reduce the market's confidence in our financial statements and harm our stock price.

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

(c) Issuer Purchases of Equity Securities

The following is a summary of our repurchases of our common stock in the third quarter of 2021 (in thousands, except share and per share data):

Period ⁽¹⁾	(a) Total Number of Shares Purchased ⁽²⁾	(b) Average Price Paid per Share ⁽³⁾	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽⁴⁾	(d) Approximate Dollar Value of Shares that May Yet be Purchased Under Plans or Programs ⁽⁴⁾
July 1, 2021 – July 31, 2021	254,737	\$ 117.52	254,737	\$ 387,539
August 1, 2021 – August 31, 2021	286,093	115.13	286,093	354,600
September 1, 2021 – September 30, 2021	305,702	111.11	305,702	320,635
Total	846,532	\$ 114.40	846,532	\$ 320,635

(1) Information is based on settlement dates of repurchase transactions.

(2) Consists of shares of our common stock, par value \$0.01 per share.

(3) Includes commissions paid.

(4) Effective November 2018, our board of directors authorized a \$1.1 billion repurchase program through December 2021. In October 2021, our board of directors authorized a new \$1.8 billion share repurchase program, effective January 1, 2022 through December 31, 2024. As of September 30, 2021, we had \$320.6 million remaining on the prior authorization which is expiring on December 31, 2021.

Item 6. Exhibits

Exhibit 31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/ Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/ Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
Exhibit 32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document – The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.*
101.SCH	Inline XBRL Taxonomy Extension Schema Document*
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	Inline XBRL Taxonomy Label Linkbase Document*
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document*
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101.INS)

* Submitted electronically herewith

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2021 and December 31, 2020, (ii) Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2021 and 2020, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2021 and 2020, (iv) Condensed Consolidated Statements of Stockholders' Equity for the three and nine months ended September 30, 2021 and 2020, (v) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2021 and 2020 and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.

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.

Akamai Technologies, Inc.

November 8, 2021

By: /s/ Edward McGowan

Edward McGowan

Chief Financial Officer

(Duly Authorized Officer, Principal Financial Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, F. Thomson Leighton, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Akamai Technologies, Inc.;
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 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 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 8, 2021

/s/ F. Thomson Leighton

F. Thomson Leighton, Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Edward McGowan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Akamai Technologies, Inc.;
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 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 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 8, 2021

/s/ Edward McGowan

Edward McGowan, Chief Financial Officer

**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 Akamai Technologies, Inc. (the "Company") for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, F. Thomson Leighton, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that to his knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; 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 8, 2021

/s/ F. Thomson Leighton

F. Thomson Leighton, Chief Executive Officer

**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 Akamai Technologies, Inc. (the "Company") for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Edward McGowan, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that to his knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; 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 8, 2021

/s/ Edward McGowan

Edward McGowan, Chief Financial Officer