

**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 **June 30, 2023**

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-27275

**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 August 4, 2023: 151,713,297

AKAMAI TECHNOLOGIES, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2023

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

	June 30, 2023	December 31, 2022
<i>(in thousands, except share data) (unaudited)</i>		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 298,612	\$ 542,337
Marketable securities	491,947	562,979
Accounts receivable, net of reserves of \$ 8,038 and \$ 5,917 at June 30, 2023, and December 31, 2022, respectively	698,445	679,206
Prepaid expenses and other current assets	229,468	185,040
Total current assets	1,718,472	1,969,562
Marketable securities	249,211	320,531
Property and equipment, net	1,746,081	1,540,182
Operating lease right-of-use assets	884,687	813,372
Acquired intangible assets, net	437,257	441,716
Goodwill	2,848,467	2,763,838
Deferred income tax assets	337,034	337,677
Other assets	124,756	116,522
Total assets	<u>\$ 8,345,965</u>	<u>\$ 8,303,400</u>

**AKAMAI TECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS, continued**

	June 30, 2023	December 31, 2022
<i>(in thousands, except share data) (unaudited)</i>		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 194,493	\$ 145,420
Accrued expenses	269,265	367,017
Deferred revenue	138,608	105,109
Revolving credit facility	20,000	—
Operating lease liabilities	217,224	196,094
Other current liabilities	21,184	5,228
Total current liabilities	860,774	818,868
Deferred revenue	27,149	22,117
Deferred income tax liabilities	18,839	18,400
Convertible senior notes	2,287,481	2,285,258
Operating lease liabilities	758,302	693,265
Other liabilities	104,253	105,305
Total liabilities	4,056,798	3,943,213
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; 157,982,228 shares issued and 151,790,861 shares outstanding at June 30, 2023, and 156,494,816 shares issued and outstanding at December 31, 2022	1,580	1,565
Additional paid-in capital	2,751,681	2,578,603
Accumulated other comprehensive loss	(119,964)	(140,332)
Treasury stock, at cost, 6,191,367 shares at June 30, 2023, and no shares at December 31, 2022	(490,403)	—
Retained earnings	2,146,273	1,920,351
Total stockholders' equity	4,289,167	4,360,187
Total liabilities and stockholders' equity	\$ 8,345,965	\$ 8,303,400

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

**AKAMAI TECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
<i>(in thousands, except per share data) (unaudited)</i>				
Revenue	\$ 935,721	\$ 903,332	\$ 1,851,419	\$ 1,806,979
Costs and operating expenses:				
Cost of revenue (exclusive of amortization of acquired intangible assets shown below)	373,275	346,649	734,591	679,401
Research and development	99,041	92,070	190,904	192,005
Sales and marketing	136,554	126,665	265,661	249,384
General and administrative	151,811	141,219	297,950	294,481
Amortization of acquired intangible assets	15,898	16,972	31,810	30,616
Restructuring charge	9,357	4,715	54,080	12,731
Total costs and operating expenses	785,936	728,290	1,574,996	1,458,618
Income from operations	149,785	175,042	276,423	348,361
Interest and marketable securities income (loss), net	4,509	(2,331)	9,801	(2,542)
Interest expense	(3,157)	(2,932)	(5,838)	(5,627)
Other (expense) income, net	(1,130)	816	(3,493)	(8,749)
Income before provision for income taxes	150,007	170,595	276,893	331,443
Provision for income taxes	(21,191)	(32,755)	(50,971)	(52,592)
Loss from equity method investment	—	—	—	(7,635)
Net income	\$ 128,816	\$ 137,840	\$ 225,922	\$ 271,216
Net income per share:				
Basic	\$ 0.85	\$ 0.86	\$ 1.47	\$ 1.69
Diluted	\$ 0.84	\$ 0.85	\$ 1.46	\$ 1.67
Shares used in per share calculations:				
Basic	152,064	160,038	153,850	160,266
Diluted	153,454	161,710	154,795	162,674

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 June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Net income	\$ 128,816	\$ 137,840	\$ 225,922	\$ 271,216
Other comprehensive income (loss):				
Foreign currency translation adjustments	(1,076)	(49,278)	10,646	(47,242)
Change in unrealized gain (loss) on available-for-sale investments, net of income tax (provision) benefit of \$(732), \$567, \$(3,131) and \$5,515 for the three and six months ended June 30, 2023 and 2022, respectively	2,273	(5,190)	9,722	(26,732)
Other comprehensive income (loss)	1,197	(54,468)	20,368	(73,974)
Comprehensive income	<u>\$ 130,013</u>	<u>\$ 83,372</u>	<u>\$ 246,290</u>	<u>\$ 197,242</u>

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

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

	For the Six Months Ended June 30,	
	2023	2022
<i>(in thousands) (unaudited)</i>		
Cash flows from operating activities:		
Net income	\$ 225,922	\$ 271,216
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	274,582	293,199
Stock-based compensation	149,327	108,109
Provision (benefit) for deferred income taxes	409	(75,980)
Amortization of debt issuance costs	2,196	2,210
(Gain) loss on investments	(201)	15,895
Other non-cash reconciling items, net	38,654	22,643
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(22,778)	(3,947)
Prepaid expenses and other current assets	(18,097)	(38,132)
Accounts payable and accrued expenses	(83,785)	(59,975)
Deferred revenue	37,051	26,178
Other current liabilities	16,145	(5,901)
Other non-current assets and liabilities	(19,615)	8,367
Net cash provided by operating activities	599,810	563,882
Cash flows from investing activities:		
Cash paid for acquisitions, net of cash acquired	(106,326)	(872,099)
Purchases of property and equipment	(254,005)	(125,220)
Capitalization of internal-use software development costs	(144,529)	(124,306)
Purchases of short- and long-term marketable securities	(134,821)	—
Proceeds from sales of short- and long-term marketable securities	200,568	573,274
Proceeds from maturities and redemptions of short- and long-term marketable securities	91,637	120,433
Other, net	(20,766)	(4,206)
Net cash used in investing activities	(368,242)	(432,124)
Cash flows from financing activities:		
Proceeds from borrowings under revolving credit facility	90,000	125,000
Repayment of borrowings under revolving credit facility	(70,000)	(50,000)
Proceeds related to the issuance of common stock under stock plans	31,331	29,145
Employee taxes paid related to net share settlement of stock-based awards	(39,606)	(63,142)
Repurchases of common stock	(485,958)	(267,642)
Other, net	(256)	(104)
Net cash used in financing activities	(474,489)	(226,743)
Effects of exchange rate changes on cash, cash equivalents and restricted cash	(710)	(15,260)
Net decrease in cash, cash equivalents and restricted cash	(243,631)	(110,245)
Cash, cash equivalents and restricted cash at beginning of period	543,022	537,751
Cash, cash equivalents and restricted cash at end of period	\$ 299,391	\$ 427,506

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

	For the Six Months Ended June 30,	
	2023	2022
<i>(in thousands) (unaudited)</i>		
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net of refunds received of \$ 691 and \$2,061 for the six months ended June 30, 2023 and 2022, respectively	\$ 100,017	\$ 113,082
Cash paid for interest expense	3,349	2,875
Cash paid for operating lease liabilities	113,698	111,601
Non-cash activities:		
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	196,338	78,189
Purchases of property and equipment and capitalization of internal-use software development costs included in accounts payable and accrued expenses	104,215	39,075
Capitalization of stock-based compensation	36,505	16,180
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 298,612	\$ 426,710
Restricted cash	779	796
Cash, cash equivalents and restricted cash	<u>\$ 299,391</u>	<u>\$ 427,506</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 June 30, 2023							
(in thousands, except share data) (unaudited)	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss		Treasury Stock	Retained Earnings	Total Stockholders' Equity
	Shares	Amount						
Balance at April 1, 2023	152,743,828	\$ 1,573	\$ 2,625,244	\$ (121,161)	\$ (351,772)	\$ 2,017,457	\$ 4,171,341	
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	283,464	3	(9,909)				(9,906)	
Issuance of common stock under employee stock purchase plan	399,395	4	31,265				31,269	
Stock-based compensation			105,081				105,081	
Repurchases of common stock	(1,635,826)				(138,631)		(138,631)	
Net income						128,816	128,816	
Foreign currency translation adjustment				(1,076)			(1,076)	
Change in unrealized gain on available-for-sale investments, net of tax				2,273			2,273	
Balance at June 30, 2023	151,790,861	\$ 1,580	\$ 2,751,681	\$ (119,964)	\$ (490,403)	\$ 2,146,273	\$ 4,289,167	

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

	Three Months Ended June 30, 2022							
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive		Treasury Stock	Retained Earnings	Total Stockholders'
(in thousands, except share data) (unaudited)	Shares	Amount		Loss				
Balance at April 1, 2022	160,535,769	\$ 1,615	\$ 2,974,529	\$ (88,611)	\$ (102,853)	\$ 1,530,055	\$ 4,314,735	
Issuance of common stock upon the vesting of restricted and deferred stock units, net of shares withheld for employee taxes	233,231	2	(9,891)				(9,889)	
Issuance of common stock under employee stock purchase plan	335,644	3	29,305				29,308	
Stock-based compensation			60,257				60,257	
Repurchases of common stock	(1,634,816)				(164,789)		(164,789)	
Net income						137,840	137,840	
Foreign currency translation adjustment				(49,278)			(49,278)	
Change in unrealized loss on available-for-sale investments, net of tax				(5,190)			(5,190)	
Balance at June 30, 2022	159,469,828	\$ 1,620	\$ 3,054,200	\$ (143,079)	\$ (267,642)	\$ 1,667,895	\$ 4,312,994	

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

	Six Months Ended June 30, 2023							
(in thousands, except share data) (unaudited)	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss		Treasury Stock	Retained Earnings	Total Stockholders' Equity
	Shares	Amount						
Balance at January 1, 2023	156,494,816	\$ 1,565	\$ 2,578,603	\$ (140,332)	\$ —	\$ 1,920,351	\$ 4,360,187	
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	1,088,017	11	(41,253)				(41,242)	
Issuance of common stock under employee stock purchase plan	399,395	4	31,265				31,269	
Stock-based compensation			183,066				183,066	
Repurchases of common stock	(6,191,367)				(490,403)		(490,403)	
Net income						225,922	225,922	
Foreign currency translation adjustment				10,646			10,646	
Change in unrealized gain on available-for-sale investments, net of tax				9,722			9,722	
Balance at June 30, 2023	151,790,861	\$ 1,580	\$ 2,751,681	\$ (119,964)	\$ (490,403)	\$ 2,146,273	\$ 4,289,167	

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

	Six Months Ended June 30, 2022						
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Treasury Stock	Retained Earnings	Total Stockholders' Equity
(in thousands, except share data) (unaudited)	Shares	Amount					
Balance at January 1, 2022	160,512,111	\$ 1,605	\$ 3,340,822	\$ (69,105)	\$ —	\$ 1,256,692	\$ 4,530,014
Cumulative-effect adjustment from adoption of new accounting pronouncement			(375,414)			139,987	(235,427)
Issuance of common stock upon the vesting of restricted and deferred stock units, net of shares withheld for employee taxes	1,181,381	12	(64,540)				(64,528)
Issuance of common stock under employee stock purchase plan	335,644	3	29,305				29,308
Stock-based compensation			124,027				124,027
Repurchases of common stock	(2,559,308)				(267,642)		(267,642)
Net income						271,216	271,216
Foreign currency translation adjustment				(47,242)			(47,242)
Change in unrealized loss on available-for-sale investments, net of tax				(26,732)			(26,732)
Balance at June 30, 2022	159,469,828	\$ 1,620	\$ 3,054,200	\$ (143,079)	\$ (267,642)	\$ 1,667,895	\$ 4,312,994

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 life online. Its massively distributed edge and cloud platform, or Akamai Connected Cloud, comprises more than 4,100 locations across more than 130 countries. The Company was incorporated in Delaware in 1998 and is headquartered in Cambridge, Massachusetts. The Company is currently organized and operates as one reportable and operating segment.

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 upon consolidation in the accompanying interim condensed consolidated financial statements.

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 interim 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, 2022, filed with the Securities and Exchange Commission on February 28, 2023. The December 31, 2022 condensed 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 interim 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. The presentation of certain items in the interim condensed consolidated statements of cash flows has changed for the prior periods to be comparable with the presentation for the quarter ended June 30, 2023. The change had no net impact on the Company’s cash flows from operating, investing or financing activities for the prior periods.

**Revision of Previously Issued Financial Statements**

During the preparation of the financial statements for the year ended December 31, 2022, an error was identified in the Company’s accounting for an intercompany sale of intellectual property that occurred during 2022. During each of the first three quarters of 2022, the Company failed to record a deferred tax asset in the jurisdiction where the intellectual property was sold for the step up in tax basis that was achieved with the sale. This caused net deferred taxes to be understated in the interim condensed consolidated balance sheets, the provision for income taxes to be overstated and net income and earnings per share to be understated in the interim condensed consolidated statements of income. Management evaluated the error and determined that the related impact was not material to any of the Company’s previously issued financial statements.

Changes to the interim condensed consolidated statements of income for the three and six months ended June 30, 2022, as a result of the error, were as follows (in thousands, except per share data):

	For the three months ended June 30, 2022			For the six months ended June 30, 2022		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
Provision for income taxes	\$ (51,058)	\$ 18,303	\$ (32,755)	\$ (85,108)	\$ 32,516	\$ (52,592)
Net income	119,537	18,303	137,840	238,700	32,516	271,216
Net income per share:						
Basic	\$ 0.75	\$ 0.11	\$ 0.86	\$ 1.49	\$ 0.20	\$ 1.69
Diluted	\$ 0.74	\$ 0.11	\$ 0.85	\$ 1.47	\$ 0.20	\$ 1.67

The condensed consolidated statements of comprehensive income, condensed consolidated statements of cash flows and condensed consolidated statements of shareholders’ equity for the three and six months ended June 30, 2022, were also revised

to reflect the impact to net income as stated in the table above. The benefit for deferred income taxes was also adjusted in the interim condensed consolidated statement of cash flows; however, the error had no net impact on cash flows from operating, investing or financing activities for the six months ended June 30, 2022.

### Significant Accounting Policies Update

The Company's significant accounting policies are detailed in Note 2 of its annual report on Form 10-K for the year ended December 31, 2022. The following policy has been updated as of January 1, 2023.

#### Property and Equipment

Property and equipment are recorded at cost, net of accumulated depreciation and amortization. Property and equipment generally includes purchases of items with a per-unit value greater than \$1,000 and a useful life greater than one year. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets. The Company periodically reviews the estimated useful lives of property and equipment. Changes to the estimated useful lives are recorded prospectively from the date of the change. Upon retirement or sale, the cost of the assets disposed of and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in income from operations.

The Company has implemented software and hardware initiatives to manage its global network more efficiently and, as a result, the expected average useful life of its servers increased from five years to six years, effective January 1, 2023. These changes decreased depreciation expense by \$15.9 million and \$32.6 million for the three and six months ended June 30, 2023, respectively, and increased net income by \$ 13.3 million and \$27.3 million for the three and six months ended June 30, 2023, respectively, or \$ 0.09 and \$0.18 per share, for the three and six months ended June 30, 2023, respectively.

## 2. Fair Value Measurements

Available-for-sale marketable securities held as of June 30, 2023 and December 31, 2022 were as follows (in thousands):

				Classification on Balance Sheet	
		Gross Unrealized	Aggregate	Short-Term	Long-Term
	Amortized Cost	Losses	Fair Value	Marketable Securities	Marketable Securities
As of June 30, 2023					
Commercial paper	\$ 973	\$ (3)	\$ 970	\$ 970	\$ —
Corporate bonds	493,528	(12,986)	480,542	280,980	199,562
U.S. government agency obligations	243,775	(5,576)	238,199	209,676	28,523
	<u>\$ 738,276</u>	<u>\$ (18,565)</u>	<u>\$ 719,711</u>	<u>\$ 491,626</u>	<u>\$ 228,085</u>
As of December 31, 2022					
Time deposits	\$ 19,530	\$ —	\$ 19,530	\$ 19,530	\$ —
Corporate bonds	624,082	(21,029)	603,053	362,458	240,595
U.S. government agency obligations	252,573	(10,391)	242,182	180,320	61,862
	<u>\$ 896,185</u>	<u>\$ (31,420)</u>	<u>\$ 864,765</u>	<u>\$ 562,308</u>	<u>\$ 302,457</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 interim 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 interim condensed consolidated balance sheets. Upon realization, those amounts are reclassified from accumulated other comprehensive loss to interest and marketable securities income (loss), net in the interim condensed consolidated statements of income. As of June 30, 2023, the Company held for investment corporate bonds and U.S. government agency obligations with a fair value of \$585.8 million, which are classified as available-for-sale marketable securities and have been in a continuous unrealized loss position for more than 12 months. The unrealized losses related to these securities were \$17.3 million and are included in accumulated other comprehensive loss as of June 30, 2023.

The unrealized losses are attributable to changes in interest rates. Based on the evaluation of available evidence, the Company does not believe any unrealized losses represent credit losses.

The fair value measurements within the fair value hierarchy of the Company's financial assets as of June 30, 2023 and December 31, 2022 were as follows (in thousands):

	Total Fair Value	Fair Value Measurements at Reporting Date Using	
		Level 1	Level 2
<u>As of June 30, 2023</u>			
<i>Cash Equivalents and Marketable Securities:</i>			
Money market funds	\$ 2,730	\$ 2,730	\$ —
Time deposits	25,591	—	25,591
Commercial paper	970	—	970
Corporate bonds	480,542	—	480,542
U.S. government agency obligations	238,199	—	238,199
Mutual funds	21,447	21,447	—
	<u>\$ 769,479</u>	<u>\$ 24,177</u>	<u>\$ 745,302</u>
<u>As of December 31, 2022</u>			
<i>Cash Equivalents and Marketable Securities:</i>			
Money market funds	\$ 999	\$ 999	\$ —
Time deposits	285,830	—	285,830
Corporate bonds	603,053	—	603,053
U.S. government agency obligations	242,182	—	242,182
Mutual funds	18,745	18,745	—
	<u>\$ 1,150,809</u>	<u>\$ 19,744</u>	<u>\$ 1,131,065</u>

As of June 30, 2023 and December 31, 2022, 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 June 30, 2023 and December 31, 2022, the Company grouped time deposits, commercial paper, corporate bonds and U.S. government agency obligations 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 or liabilities between Level 1 or Level 2 of the fair value measurement hierarchy during the six months ended June 30, 2023.

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 use primarily 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 the 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 June 30, 2023 and December 31, 2022 were as follows (in thousands):

	June 30, 2023	December 31, 2022
Due in 1 year or less	\$ 491,626	\$ 562,308
Due after 1 year through 5 years	228,085	302,457
	<u>\$ 719,711</u>	<u>\$ 864,765</u>

### 3. Accounts Receivable

Net accounts receivable consisted of the following as of June 30, 2023 and December 31, 2022 (in thousands):

	June 30, 2023	December 31, 2022
Trade accounts receivable	\$ 499,844	\$ 490,162
Unbilled accounts receivable	206,639	194,961
Gross accounts receivable	706,483	685,123
Allowances for current expected credit losses and other reserves	(8,038)	(5,917)
Accounts receivable, net	<u>\$ 698,445</u>	<u>\$ 679,206</u>

A summary of activity in the accounts receivable allowance for current expected credit losses and other reserves for the six months ended June 30, 2023 and 2022 was as follows (in thousands):

	June 30, 2023	June 30, 2022
Beginning balance	\$ 5,917	\$ 1,397
Charges to income from operations	6,152	2,968
Collections from customers previously reserved and other	(4,031)	(2,353)
Ending balance	<u>\$ 8,038</u>	<u>\$ 2,012</u>

Charges to income from operations primarily represents charges to provision for doubtful accounts for increases in the allowance for current expected credit losses.

### 4. Incremental Costs to Obtain a Contract with a Customer

Deferred costs associated with obtaining customer contracts, specifically commission and incentive payments, as of June 30, 2023 and December 31, 2022 were as follows (in thousands):

	June 30, 2023	December 31, 2022
Deferred costs included in prepaid expenses and other current assets	\$ 38,660	\$ 37,316
Deferred costs included in other assets	33,420	29,069
Total deferred costs	<u>\$ 72,080</u>	<u>\$ 66,385</u>

Information related to incremental costs to obtain a contract with a customer for the three and six months ended June 30, 2023 and 2022 were as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Amortization expense related to deferred costs	\$ 12,210	\$ 13,150	\$ 24,385	\$ 28,172
Incremental costs capitalized	17,381	11,269	29,798	20,753

Amortization expense related to deferred costs is primarily included in sales and marketing expense in the interim 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 June 30, 2023 and December 31, 2022 (in thousands):

	June 30, 2023			December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Completed technologies	\$ 354,288	\$ (179,471)	\$ 174,817	\$ 327,848	\$ (162,323)	\$ 165,525
Customer-related intangible assets	482,586	(257,717)	224,869	480,817	(244,158)	236,659
Non-compete agreements	248	(228)	20	244	(183)	61
Trademarks and trade names	14,657	(8,375)	6,282	14,642	(7,585)	7,057
Acquired license rights	34,810	(3,541)	31,269	34,810	(2,396)	32,414
Total	<u>\$ 886,589</u>	<u>\$ (449,332)</u>	<u>\$ 437,257</u>	<u>\$ 858,361</u>	<u>\$ (416,645)</u>	<u>\$ 441,716</u>

Aggregate expense related to amortization of acquired intangible assets for the three and six months ended June 30, 2023 was \$ 15.9 million and \$31.8 million, respectively. Aggregate expense related to amortization of acquired intangible assets for the three and six months ended June 30, 2022 was \$17.0 million and \$30.6 million, respectively. Based on the Company's acquired intangible assets as of June 30, 2023, aggregate expense related to amortization of acquired intangible assets is expected to be \$32.0 million for the remainder of 2023, and \$59.9 million, \$62.4 million, \$60.8 million and \$48.9 million for 2024, 2025, 2026 and 2027, respectively.

The changes in the carrying amount of goodwill for the six months ended June 30, 2023 were as follows (in thousands):

Balance as of January 1, 2023	\$ 2,763,838
Acquisition of StorageOS, Inc.	14,046
Acquisition of Neosec, Inc.	67,006
Foreign currency translation	3,577
Balance as of June 30, 2023	<u>\$ 2,848,467</u>

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

## 6. Acquisitions

Acquisition-related costs during the three and six months ended June 30, 2023 were \$ 0.3 million and \$2.5 million, respectively, and are included in general and administrative expense in the interim condensed consolidated statements of income. Pro forma results of operations for the acquisitions completed during the six months ended June 30, 2023 have not been presented because the effects of the acquisitions, individually and in the aggregate, were not material to the Company's consolidated financial results. Revenue and earnings of the acquired companies since the dates of the acquisitions are included in the Company's interim condensed consolidated statements of income and are not presented separately because they are not material.

### Neosec

In May 2023, the Company acquired all the outstanding equity interests of Neosec, Inc. ("Neosec") for \$ 91.5 million in cash. Neosec is an application programming interface ("API") detection and response platform based on data and behavioral analytics. The acquisition is intended to complement the Company's application and API security portfolio by extending its visibility into the rapidly growing API threat landscape. The Company allocated \$67.0 million of the purchase price to goodwill and \$ 19.9 million to identifiable intangible assets, primarily consisting of completed technologies. The total weighted average useful life of the intangible assets acquired from Neosec is 9.7 years. The value of the goodwill can be attributed to a number of business factors, including the expected impact from the ability to interface with the Company's platform. The Company expects that \$33.8 million of the goodwill related to the acquisition of Neosec will be deductible for tax purposes as a result of

post-acquisition transactions. As of June 30, 2023, the purchase price allocation was substantially complete except for net working capital adjustments and the finalization of certain income tax matters.

#### *StorageOS*

In March 2023, the Company acquired all the outstanding equity interests of StorageOS, Inc. ("StorageOS"), also known as Ondat, a cloud-based storage technology provider for \$20.6 million in cash. The acquisition of StorageOS's cloud storage technology and its industry-recognized talent is intended to strengthen the Company's cloud computing offerings. Storage is a key component of any cloud computing offering, and this acquisition is expected to enhance the Company's storage capabilities, allowing the Company to offer a fundamentally different approach to cloud that integrates core and distributed computing sites with a massively scaled edge network. The Company allocated \$14.0 million of the purchase price to goodwill and \$4.5 million to a completed technology identifiable intangible asset with a useful life of 8.8 years. The value of the goodwill is primarily attributable to synergies related to the integration of StorageOS technology onto the Company's platform as well as a trained technical workforce. All of the goodwill related to the acquisition of StorageOS is expected to be deductible for tax purposes as a result of post-acquisition transactions. As of June 30, 2023, the purchase price allocation was substantially complete except for net working capital adjustments and the finalization of certain income tax matters.

### **7. Debt**

#### ***Convertible Senior 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.

Each \$1,000 principal amount of the notes will be convertible into 8.6073 shares of the Company's common stock, which is equivalent to a conversion price of approximately \$116.18 per share, subject to adjustments in certain events. 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 will pay the principal amount in cash and will pay, or deliver, as the case may be, any amount in excess of the principal amount in cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election.

In accounting for the issuance of the 2027 Notes, the principal less debt issuance costs is recorded as debt on the Company's interim condensed consolidated balance sheets. The debt issuance costs are amortized to interest expense using the effective interest method over the contractual term of the 2027 Notes.

The 2027 Notes consisted of the following components as of June 30, 2023 and December 31, 2022 (in thousands):

	June 30, 2023	December 31, 2022
Principal	\$ 1,150,000	\$ 1,150,000
Less: issuance costs, net of amortization	(7,770)	(8,707)
Net carrying amount	\$ 1,142,230	\$ 1,141,293

The estimated fair value of the 2027 Notes at June 30, 2023 and December 31, 2022 was \$ 1,118.9 million and \$1,111.0 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 \$89.87 on June 30, 2023, 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 share repurchases, working capital and general corporate purposes, including potential acquisitions and other strategic transactions.

#### *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 receive 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 interim 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 or shares of the Company's common stock. The Company recorded the proceeds from the 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 interim condensed consolidated financial statements.

#### **Convertible Senior 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.

Each \$1,000 principal amount of the notes will be convertible into 10.5150 shares of the Company's common stock, which is equivalent to a conversion price of approximately \$95.10 per share, subject to adjustments in certain events. 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 will pay the principal amount in cash and will pay, or deliver, as the case may be, any amount in excess of the principal amount in cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election.

In accounting for the issuance of the 2025 Notes, the principal less debt issuance costs is recorded as debt on the Company's interim condensed consolidated balance sheets. The debt issuance costs are amortized to interest expense using the effective interest method over the contractual term of the 2025 Notes.

The 2025 Notes consisted of the following components as of June 30, 2023 and December 31, 2022 (in thousands):

	June 30, 2023	December 31, 2022
Principal	\$ 1,150,000	\$ 1,150,000
Less: issuance costs, net of amortization	(4,749)	(6,035)
Net carrying amount	\$ 1,145,251	\$ 1,143,965

The estimated fair value of the 2025 Notes at June 30, 2023 and December 31, 2022 was \$ 1,232.2 million and \$1,209.1 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 \$ 89.87 on June 30, 2023, the value of the 2025 Notes if converted to common stock was less 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 \$690.0 million in par value of convertible senior notes due in 2019. The remaining net proceeds are intended to be used for share repurchases, working capital and general corporate purposes, including potential acquisitions and other strategic transactions.

#### 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 receive 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 interim 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 or shares of the Company's common stock. The Company recorded the proceeds from the 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 interim condensed consolidated financial statements.

## ***Revolving Credit Facility***

In May 2018, the Company entered into a \$ 500.0 million five-year, revolving credit agreement (the "2018 Credit Agreement"). Borrowings under the 2018 Credit Agreement bore 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 2018 Credit Agreement. Regardless of what amounts, if any, outstanding under the 2018 Credit Agreement, the Company was 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 2018 Credit Agreement.

In November 2022, the Company entered into a \$ 500.0 million five-year, revolving credit agreement (the "2022 Credit Agreement"). The 2022 Credit Agreement replaces the 2018 Credit Agreement. Borrowings under the 2022 Credit Agreement may be used to finance working capital needs and for general corporate purposes. The 2022 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 2022 Credit Agreement expires in November 2027, and any amounts outstanding thereunder will become due and payable, subject to up to two one-year extensions at the Company's request and with the consent of the lenders party thereto.

Borrowings under the 2022 Credit Agreement bear interest, at the Company's option, and subject to a credit spread adjustment, at a term benchmark rate plus a spread of 0.75% to 1.125%, a reference rate plus a spread of 0.75% to 1.125%, or a base rate plus a spread of 0.00% to 0.125%, in each case with such spread being determined based on the Company's consolidated leverage ratio specified in the 2022 Credit Agreement. Regardless of what amounts, if any, are outstanding under the 2022 Credit Agreement, the Company is also obligated to pay an ongoing commitment fee on undrawn amounts at a rate of 0.07% to 0.125%, with such rate being based on the Company's consolidated leverage ratio specified in the 2022 Credit Agreement.

The 2022 Credit Agreement contains customary representations and warranties, affirmative and negative covenants and events of default. The negative covenants include restrictions on subsidiary indebtedness, liens and fundamental changes. These covenants are subject to a number of important exceptions and qualifications. The principal financial covenant requires a maximum consolidated leverage ratio. As of June 30, 2023, the Company was in compliance with all covenants. As of June 30, 2023, there were \$20.0 million of outstanding borrowings under the 2022 Credit Agreement, which the Company repaid in July 2023.

## Interest Expense

The 2027 Notes bear interest at a fixed rate of 0.375%, with interest payable semi-annually on March 1 and September 1 of each year. The 2025 Notes bear interest at a fixed rate of 0.125%, with interest payable semi-annually on May 1 and November 1 of each year. The Company is also obligated to pay ongoing commitment fees under the terms of its credit agreements, in addition to interest payable on outstanding borrowings. Interest expense included in the interim condensed consolidated statements of income for the three and six months ended June 30, 2023 and 2022 was as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Amortization of debt issuance costs	\$ 1,167	\$ 1,169	\$ 2,333	\$ 2,337
Coupon interest payable on 2025 Notes	359	359	718	718
Coupon interest payable on 2027 Notes	1,078	1,078	2,156	2,156
Interest payable under the credit agreements	622	404	768	543
Capitalization of interest expense	(69)	(78)	(137)	(127)
Total interest expense	<u>\$ 3,157</u>	<u>\$ 2,932</u>	<u>\$ 5,838</u>	<u>\$ 5,627</u>

## 8. Restructuring

During the first quarter of 2023, management committed to an action to restructure certain parts of the Company to enable it to prioritize investments in the fastest growing areas of the business. As a result, certain headcount reductions were necessary. The Company has incurred \$20.5 million related to this action during the six months ended June 30, 2023. The Company does not expect to incur material additional charges related to this action.

The Company launched its FlexBase program in May 2022, which is a flexible workspace arrangement that allows employees to choose to work from their home office, a Company office or a combination of both, which is a significant change to the way employees worked prior to the program. The Company began to identify certain facilities that were no longer needed in the fourth quarter of 2021. As a result, impairments of right-of-use assets and leasehold improvements were recognized. The Company has incurred \$32.8 million of restructuring charges related to this action, of which \$ 6.8 million and \$25.4 million was incurred during the three and six months ended June 30, 2023, respectively, and \$ 3.1 million was incurred during the six months ended June 30, 2022. As the Company continues to execute its FlexBase program, additional charges related to this action are expected to occur into early 2024.

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

The changes in the Company's accrual for employee severance and related benefits for all restructuring actions for the six months ended June 30, 2023 were as follows (in thousands):

Balance as of January 1, 2023	\$ 541
Costs incurred	20,953
Cash disbursements	(5,583)
Translation adjustments and other	6
Balance as of June 30, 2023	<u>\$ 15,917</u>

## 9. Stockholders' Equity

### Share Repurchase Program

Effective January 2022, the board of directors of the Company authorized a \$ 1.8 billion share repurchase program through December 2024. During the three and six months ended June 30, 2023, the Company repurchased 1.6 million and 6.2 million shares of its common stock, respectively, for \$137.4 million and \$486.0 million, respectively. The Company's goals for the share repurchase program are to offset the dilution created by its employee equity compensation programs over time and provide the flexibility to return capital to stockholders as business and market conditions warrant, while still preserving its

ability to pursue other strategic opportunities.

#### Stock-Based Compensation

Components of total stock-based compensation included in the Company's interim condensed consolidated statements of income for the three and six months ended June 30, 2023 and 2022 were as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Cost of revenue	\$ 11,339	\$ 7,134	\$ 20,668	\$ 13,367
Research and development	32,258	17,408	54,102	37,640
Sales and marketing	17,723	11,452	31,268	23,778
General and administrative	26,124	15,888	43,289	33,324
Total stock-based compensation	87,444	51,882	149,327	108,109
Provision for income taxes	(18,808)	(12,861)	(30,221)	(26,904)
Total stock-based compensation, net of income taxes	\$ 68,636	\$ 39,021	\$ 119,106	\$ 81,205

During 2023, the Company redesigned one of its non-executive short-term incentive compensation programs from a cash-based to a stock-based program that vests in one year. The Company also introduced a non-executive incentive program tied to its initiative to migrate certain applications from third-party cloud platforms onto the Akamai Connected Cloud that vests over two years. These programs, headcount growth and expected achievement of our executive performance-based compensation plans increased stock-based compensation for the three and six months ended June 30, 2023.

In addition to the amounts of stock-based compensation reported in the table above, the Company's interim condensed consolidated statements of income for the three and six months ended June 30, 2023 include stock-based compensation reflected as a component of amortization primarily consisting of capitalized internal-use software of \$7.9 million and \$15.4 million, respectively, before taxes, and for the three and six months ended June 30, 2022 include stock-based compensation reflected as a component of amortization of capitalized internal-use software of \$7.7 million and \$15.3 million, respectively, before taxes.

#### 10. Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss, net of tax, which is reported as a component of stockholders' equity, for the six months ended June 30, 2023 were as follows (in thousands):

	Foreign Currency Translation	Net Unrealized (Losses) Gains on Investments	Total
Balance as of January 1, 2023	\$ (116,474)	\$ (23,858)	\$ (140,332)
Other comprehensive income	10,646	9,722	20,368
Balance as of June 30, 2023	\$ (105,828)	\$ (14,136)	\$ (119,964)

The Company reclassified \$0.1 million from accumulated other comprehensive loss to net income for the six months ended June 30, 2023.

## 11. Revenue from Contracts with Customers

The Company sells its services 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. Revenue by geography included in the Company's interim condensed consolidated statements of income for the three and six months ended June 30, 2023 and 2022 was as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
U.S.	\$ 480,062	\$ 477,154	\$ 953,895	\$ 958,161
International	455,659	426,178	897,524	848,818
Total revenue	\$ 935,721	\$ 903,332	\$ 1,851,419	\$ 1,806,979

The Company reports its revenue in three solution categories: security, delivery and compute. Security includes solutions that are designed to protect business online by keeping infrastructure, websites, applications and users safe. Delivery includes solutions that are designed to enable business online, including media delivery and web performance. Compute includes cloud computing, edge applications, cloud optimization and storage. Revenue by solution category included in the Company's interim condensed consolidated statements of income for the three and six months ended June 30, 2023 and 2022 was as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Security	\$ 432,946	\$ 380,664	\$ 838,498	\$ 762,231
Delivery	379,698	416,678	774,082	860,826
Compute	123,077	105,990	238,839	183,922
Total revenue	\$ 935,721	\$ 903,332	\$ 1,851,419	\$ 1,806,979

Most security, delivery and compute 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 usage commitments that expire each period. Any usage over a given commitment is recognized in the period in which the units are served. A small percentage of the Company's contracts 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 six months ended June 30, 2023 and 2022, the Company recognized \$ 82.1 million and \$79.2 million of revenue that was included in deferred revenue as of December 31, 2022 and 2021, respectively.

As of June 30, 2023, the aggregate amount of remaining performance obligations from contracts with customers was \$ 3.3 billion. The Company expects to recognize approximately 70% of its remaining performance obligations as revenue over the next 12 months. The remainder of the balance is expected to be recognized over the next two to three years. 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 the six months ended June 30, 2023 and 2022, 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.

The Company's effective income tax rate was 18.4% and 15.9% for the six months ended June 30, 2023 and 2022, respectively. The higher effective tax rate for the six months ended June 30, 2023 was primarily due to an increase in non-deductible stock-based compensation, an increase in revaluation of certain foreign income tax liabilities due to foreign exchange rate fluctuations and a decrease in the excess tax benefit related to stock-based compensation. These amounts were partially offset by a decrease in intercompany sales of intellectual property.

For the six months ended June 30, 2023, the effective income tax rate was lower than the federal statutory tax rate due to foreign income taxed at lower rates and the benefit of U.S. federal, state and foreign research and development credits. These amounts were partially offset by tax on global intangible low taxed income, non-deductible stock-based compensation and a shortfall related to stock-based compensation.

For the six months ended June 30, 2022, 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 tax credits. These amounts were partially offset by an intercompany sale of intellectual property, the tax on global intangible low taxed income and non-deductible stock-based compensation.

### 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 is reflected in diluted earnings per share by application of the treasury stock method and the dilutive effect of the convertible securities is reflected in diluted earnings per share by application of the if-converted method.

The components used in the computation of basic and diluted net income per share for the three and six months ended June 30, 2023 and 2022 were as follows (in thousands, except per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
<b>Numerator:</b>				
Net income	\$ 128,816	\$ 137,840	\$ 225,922	\$ 271,216
<b>Denominator:</b>				
Shares used for basic net income per share	152,064	160,038	153,850	160,266
<b>Effect of dilutive securities:</b>				
Stock options	14	50	7	25
Stock awards	1,376	565	938	943
Convertible senior notes	—	1,057	—	1,440
Shares used for diluted net income per share	153,454	161,710	154,795	162,674
Basic net income per share	\$ 0.85	\$ 0.86	\$ 1.47	\$ 1.69
Diluted net income per share	\$ 0.84	\$ 0.85	\$ 1.46	\$ 1.67

For the three and six months ended June 30, 2023 and 2022, certain potential outstanding shares from service-based RSUs 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 market- and performance-based RSUs were excluded from the computation of diluted net income per share because the underlying market and performance conditions for such RSUs had not been met as of these dates. The number of potentially outstanding shares excluded from the computation of diluted net income per share for the three and six months ended June 30, 2023 and 2022 were as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Service-based RSUs	2,159	2,228	5,013	2,231
Market- and performance-based RSUs	1,270	1,022	1,425	1,038
Warrants related to issuance of convertible senior notes	21,991	21,991	21,991	21,991
Total shares excluded from computation	25,420	25,241	28,429	25,260

## 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 interim condensed consolidated financial statements included herein contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts are statements that could be deemed forward-looking statements. 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," "could," "expects," "anticipates," "intends," "plans," "projects," "estimates," "if," "continues," "goal," "likely," "may," "will" 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 as a result of various factors, including, but not limited to: potential slowing revenue growth, global economic and geopolitical conditions, our ability to acquire or develop new solutions, our ability to compete effectively, security risks stemming from ineffective information technology systems or cybersecurity breaches, risks of maintaining global operations, regulatory developments, intellectual property claims or disputes, investment related risks and maintaining an effective system of internal controls. See "Risk Factors" elsewhere in this quarterly report on Form 10-Q and in our other reports with the Securities and Exchange Commission 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 interim 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 ("GAAP"), for interim periods and with Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The preparation of these unaudited interim 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, 2022 for further discussion of our critical accounting policies and estimates.

### Overview

We provide solutions to power and protect life online through our massively distributed edge and cloud platform, Akamai Connected Cloud. Akamai Connected Cloud underpins our cloud computing, security and content delivery solutions, and is central to our financial success. The key factors that influence our financial success are our ability to build on recurring revenue commitments for our security and performance offerings, increase traffic on our network, continue to develop, scale and successfully bring to market our cloud computing platform and compute-to-edge solutions that meet the needs of professional

users and enterprises, effectively manage the prices we charge for our solutions, develop new products and appropriately manage our capital spending and other expenses. The purpose of this discussion and analysis section is to provide material information relevant to an assessment of our financial condition and results of operations from management's perspective, including 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 our ability to increase our product offerings and to cross-sell additional services to our existing customers, particularly for our security and compute solution portfolios. We are also dependent on our delivery customers, and to a lesser extent some security and compute customers, where usage of our solutions is more variable. As a result, our revenue is impacted by the amount of traffic we serve on our network and the usage of cloud computing services, the rate of adoption of gaming, social media and video platform offerings and the timing and variability of customer-specific one-time events. Geopolitical, economic and other developments that impact our customers' businesses can also impact our ability to attract new customers or continue to cross-sell additional services to existing customers. 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, led by application security solutions and segmentation solutions from our acquisition of Guardicore Ltd., and increased sales of our compute solutions, primarily attributable to our acquisition of Linode Limited Liability Company ("Linode") in early 2022, have made a significant contribution to revenue growth. During the first half of 2023, security represented the largest share of revenue with security and compute revenue representing over half of our total revenue. We plan to continue to invest in these areas with a focus on further enhancing our product portfolios and extending our go-to-market capabilities, particularly in certain markets and through our channel partners.
- Traffic on our network continues to grow as compared to prior years, however, the rate of traffic growth is impacted by a number of external factors. Most recently, as we and our customers manage through a time of economic headwinds and uncertainty, traffic growth rates have been impacted. Conversely, our rate of traffic growth increased significantly during the height of the COVID-19 pandemic in 2020 and 2021. These traffic fluctuations may continue to impact our delivery revenue. We expect traffic growth rates to improve for the remainder of 2023 as compared to last year.
- The prices paid by some of our delivery customers have declined in recent years due to competition and contract renewals, which negatively impacts our revenue growth rates. We have been able to mitigate some of the negative impacts to our revenue growth rates by upselling incremental solutions to our existing customers. We are taking steps to maintain alignment between customer traffic volumes and unit pricing.
- Revenue from our international operations has generally been growing at a faster pace in recent years than from our U.S. operations, particularly from 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 timing of large customer contract renewals; the frequency and timing of purchases of custom solutions or licensed software; the nature and timing of software and gaming releases by our customers; and whether there are large live sporting or other events or situations that impact the amount of media traffic on our network.

## *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, which includes energy to power our network. We have observed the following trends related to our profitability in recent years:

- 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. We will need to continue to effectively manage our bandwidth costs to maintain or improve current levels of profitability.
- Co-location costs are also a significant portion of our cost of revenue. As we continue to build out our new compute locations to provide us with the ability to scale our platform, we expect to enter into longer term leases that include certain financial commitments in order to achieve more favorable unit economics. The costs of the financial commitments are expensed ratably over the life of the lease, and, as a result, in some cases, we are incurring costs in advance of these compute locations being fully utilized. We continue to improve our internal-use software and remain disciplined in managing our hardware deployments, particularly for our delivery platform, which enables us to use servers more efficiently. With these efficiencies we have been able to minimize the impact of rising energy costs. We expect to continue to scale our network in the future, which will allow us to effectively manage our co-location costs to maintain or improve 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 compute infrastructure and maintain our global network, and costs of third-party cloud providers used for some of our operations. We have seen these costs increase in recent years as a result of our network expansion and increased use of third-party cloud services. As we continue to build out our compute infrastructure, we are in the process of migrating third-party cloud services to our own cloud solutions and optimizing third-party cloud spending, which we also expect will reduce our costs over time. We will need to effectively manage our network build-out and supporting costs to improve current levels of profitability.
- Our employees are core to the operations of our business, and payroll and related costs, including stock-based compensation, is one of our largest expenses. It is important to the success of operations that we offer competitive compensation packages. However, we remain disciplined in allocating our resources to support our faster growing security and compute solutions, including maintaining operational efficiencies to mitigate the rising cost of talent. In 2023, we implemented the redesign of one of our non-executive short-term incentive compensation programs by shifting certain employees from cash-based to stock-based programs. We also introduced a non-executive incentive program tied to our initiative to migrate certain applications from third-party cloud platforms onto the Akamai Connected Cloud. These programs are designed to better align employee incentives with the interests of our stockholders. Collectively, these programs will increase our stock-based compensation expense for 2023.
- Depreciation expense related to our network equipment also contributes to our overall expense levels. In recent years we have invested in our network as traffic levels have increased, which increased our capital expenditures and resulting depreciation expense. We plan to continue to make investments in capital expenditures, however, the focus is to further invest in support of our faster growing compute solutions. Due to the software and hardware initiatives we have undertaken to manage our global network more efficiently, the useful lives of our servers have been extended from five to six years effective January 1, 2023, which will partially offset increased depreciation expense from the build out of our compute infrastructure.
- Growth in our international operations incrementally increases our exposure to foreign currency fluctuations. Because we report in U.S. dollars, if the dollar strengthens, our expenses will be positively impacted. Conversely, a weaker dollar would negatively impact our expenses.

#### *Recent Acquisitions*

In March 2023, we acquired StorageOS, Inc., also known as Ondat, and in May 2023, we acquired Neosec, Inc. These acquisitions are expected to be slightly dilutive to our earnings per share at least through 2023.

## Global Economic Conditions

Global macroeconomic and geopolitical conditions continue to impact our business and revenue growth rates. We, along with our customers, continue to manage through an uncertain period of fluctuating inflation, recessionary concerns, uncertain energy supplies, heightened geopolitical tensions, fluctuations in foreign exchange rates and elevated interest rates. To the extent these macroeconomic conditions continue, we expect that it may adversely affect our business, operations and financial results.

## Results of Operations

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
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)	39.9	38.4	39.7	37.6
Research and development	10.6	10.2	10.3	10.6
Sales and marketing	14.6	14.0	14.3	13.8
General and administrative	16.2	15.6	16.1	16.3
Amortization of acquired intangible assets	1.7	1.9	1.7	1.7
Restructuring charge	1.0	0.5	2.9	0.7
Total costs and operating expenses	84.0	80.6	85.1	80.7
Income from operations	16.0	19.4	14.9	19.3
Interest and marketable securities income (loss), net	0.5	(0.3)	0.5	(0.1)
Interest expense	(0.3)	(0.3)	(0.3)	(0.3)
Other (expense) income, net	(0.1)	0.1	(0.2)	(0.5)
Income before provision for income taxes	16.0	18.9	15.0	18.3
Provision for income taxes	(2.3)	(3.6)	(2.8)	(2.9)
Loss from equity method investment	—	—	—	(0.4)
Net income	13.8 %	15.3 %	12.2 %	15.0 %

## Revenue

Revenue by solution category during the periods presented was as follows (in thousands):

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2023	2022	% Change	% Change at Constant Currency	2023	2022	% Change	% Change at Constant Currency
Security	\$ 432,946	\$ 380,664	13.7 %	14.4 %	\$ 838,498	\$ 762,231	10.0 %	11.6 %
Delivery	379,698	416,678	(8.9)	(8.2)	774,082	860,826	(10.1)	(8.7)
Compute	123,077	105,990	16.1	16.6	238,839	183,922	29.9	31.1
Total revenue	\$ 935,721	\$ 903,332	3.6 %	4.2 %	\$ 1,851,419	\$ 1,806,979	2.5 %	3.9 %

During the three and six months ended June 30, 2023, the increase in our revenue, as compared to the same periods in 2022, was primarily the result of continued growth in sales of our security solutions and the acquisition of Linode in March

2022 which contributed to the growth in our compute solutions. These increases were partially offset by a decline in revenue from our delivery solutions due to the pricing impact of renewals.

The increase in security solutions revenue for the three and six months ended June 30, 2023, as compared to the same periods in 2022, was due to growth in a number of key products in our security solutions portfolio, including our web application firewall, Bot Manager and segmentation solutions, as well as certain products that combine elements of our security and delivery offerings to provide robust security solutions.

The decrease in delivery solutions revenue for the three and six months ended June 30, 2023, as compared to the same periods in 2022, was due to the pricing impact of renewals and a reduction in the traffic growth rate among some of our largest customers, which we believe was attributed to macroeconomic challenges our customers are experiencing.

The increase in compute solutions revenue for the three months ended June 30, 2023, as compared to the same period in 2022, was due to a price increase for some of our compute solutions, in addition to increased usage of our compute solutions by our customers. The increase in compute solutions revenue for the six months ended June 30, 2023, as compared to the same period in 2022, was also impacted by our acquisition of Linode in March 2022.

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

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2023	2022	% Change	% Change at Constant Currency	2023	2022	% Change	% Change at Constant Currency
U.S.	\$ 480,062	\$ 477,154	0.6 %	0.6 %	\$ 953,895	\$ 958,161	(0.4) %	(0.4) %
International	455,659	426,178	6.9	8.3	897,524	848,818	5.7	8.9
Total revenue	<u>\$ 935,721</u>	<u>\$ 903,332</u>	<u>3.6 %</u>	<u>4.2 %</u>	<u>\$ 1,851,419</u>	<u>\$ 1,806,979</u>	<u>2.5 %</u>	<u>3.9 %</u>

For the three months ended June 30, 2023, approximately 48.7% of our revenue was derived from our operations located outside the U.S., compared to 47.2% for the three months ended June 30, 2022. For the six months ended June 30, 2023, approximately 48.5% of our revenue was derived from our operations located outside the U.S., compared to 47.0% for the six months ended June 30, 2022. 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 decreased our revenue by \$5.9 million and \$26.7 million during the three and six months ended June 30, 2023, respectively, as compared to the same periods in 2022.

## Cost of Revenue

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2023	2022	% Change	2023	2022	% Change
Bandwidth fees	\$ 55,910	\$ 50,863	9.9 %	\$ 111,626	\$ 101,945	9.5 %
Co-location fees	65,094	51,408	26.6	122,013	99,906	22.1
Network build-out and supporting services	53,453	46,417	15.2	107,234	89,336	20.0
Payroll and related costs	79,823	73,941	8.0	161,020	148,422	8.5
Stock-based compensation, including amortization of prior capitalized amounts	18,878	14,426	30.9	35,355	27,884	26.8
Acquisition-related costs	572	1,589	(64.0)	2,033	1,764	15.2
Depreciation of network equipment	55,212	66,724	(17.3)	107,388	128,110	(16.2)
Amortization of internal-use software	44,333	41,281	7.4	87,922	82,034	7.2
<b>Total cost of revenue</b>	<b>\$ 373,275</b>	<b>\$ 346,649</b>	<b>7.7 %</b>	<b>\$ 734,591</b>	<b>\$ 679,401</b>	<b>8.1 %</b>
<i>As a percentage of revenue</i>	<i>39.9 %</i>	<i>38.4 %</i>		<i>39.7 %</i>	<i>37.6 %</i>	

The increase in cost of revenue for the three and six months ended June 30, 2023, as compared to the same periods in 2022, was primarily due to:

- co-location fees and network build-out and supporting services as a result of investment in the Akamai Connected Cloud, particularly as we build out our compute infrastructure to support future growth and scalability; and
- payroll and related costs, including stock-based compensation, as a result of headcount growth to support our network and the increased expected achievement of our performance-based compensation plans; specifically, stock-based compensation increased due to the shift in one of our compensation programs from cash-based to stock-based.

The increases for the three and six months ended June 30, 2023 were partially offset by lower depreciation expense of network equipment due to software and hardware initiatives we have implemented to manage our global network more efficiently. We increased the expected average useful life of our servers from five to six years effective January 1, 2023, which resulted in a reduction to depreciation expense of \$15.9 million and \$32.6 million, respectively, for the three and six months ended June 30, 2023.

Additionally, due to our focus on third-party cloud application costs, which is included in network build-out and supporting services, our third-party cloud costs have decreased for the three months ended June 30, 2023, as compared to the same period in 2022. We expect this trend to continue for the remainder of 2023.

During the remainder of 2023, we expect our cost of revenue to increase as compared to 2022, in particular co-location costs, due to investments in our network to support the continued growth of our compute solutions. We plan to continue to focus our efforts on managing our operating margins, such as shifting workloads to our own cloud solutions and optimizing third-party cloud spending, which we expect will reduce network build-out and supporting services costs.

## Research and Development Expenses

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2023	2022	% Change	2023	2022	% Change
Payroll and related costs	\$ 120,542	\$ 111,377	8.2 %	\$ 245,175	\$ 233,625	4.9 %
Stock-based compensation	32,258	17,408	85.3	54,102	37,640	43.7
Capitalized salaries and related costs	(59,776)	(43,470)	37.5	(121,531)	(92,140)	31.9
Acquisition-related costs	248	692	(64.2)	217	768	(71.7)
Other expenses	5,769	6,063	(4.8)	12,941	12,112	6.8
Total research and development	\$ 99,041	\$ 92,070	7.6 %	\$ 190,904	\$ 192,005	(0.6) %
As a percentage of revenue	10.6 %	10.2 %		10.3 %	10.6 %	

The increase in research and development expenses during the three months ended June 30, 2023, as compared to the same period in 2022, was due to payroll and related costs, including stock-based compensation, as a result of headcount growth from our strategic initiatives and the increased expected achievement of our performance-based compensation plans. Specifically, stock-based compensation increased due to the shift in one of our compensation programs from cash-based to stock-based and a new compensation program tied to our initiative to migrate certain applications from third-party cloud platforms onto the Akamai Connected Cloud.

The decrease in research and development expenses during the six months ended June 30, 2023, as compared to the same period in 2022, was due to an increase in capitalized salaries and related costs as we focused resources to work on development activities related to our platform, partially offset by an increase in payroll and related costs, including stock-based compensation, as a result of headcount growth from our strategic initiatives and the increased expected achievement of our performance-based compensation plans.

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 months ended June 30, 2023 and 2022, we capitalized \$20.1 million and \$7.6 million, respectively, of stock-based compensation. During the six months ended June 30, 2023 and 2022, we capitalized \$33.3 million and \$14.8 million, respectively, of stock-based compensation. These capitalized internal-use software development costs are amortized to cost of revenue over their estimated useful lives, ranging from two to ten years based on the software developed and its expected useful life.

During the remainder of 2023, we expect our research and development costs to increase, in particular payroll and related costs, including stock-based compensation, in support of our faster growing security and compute solutions and the annual merit increase.



### Sales and Marketing Expenses

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2023	2022	% Change	2023	2022	% Change
Payroll and related costs	\$ 92,227	\$ 91,435	0.9 %	\$ 187,353	\$ 186,296	0.6 %
Stock-based compensation	17,723	11,452	54.8	31,268	23,778	31.5
Marketing programs and related costs	16,165	16,133	0.2	30,005	27,691	8.4
Acquisition-related costs	249	692	(64.0)	884	768	15.1
Other expenses	10,190	6,953	46.6	16,151	10,851	48.8
Total sales and marketing	\$ 136,554	\$ 126,665	7.8 %	\$ 265,661	\$ 249,384	6.5 %
As a percentage of revenue	14.6 %	14.0 %		14.3 %	13.8 %	

The increase in sales and marketing expenses during the three and six months ended June 30, 2023, as compared to the same periods in 2022, was due to payroll and related costs, including stock-based compensation, as a result of the increased expected achievement of our performance-based compensation plans and other expenses due to increased travel expenses associated with customer meetings and sales events. Specifically, stock-based compensation increased due to the shift in one of our compensation programs from cash-based to stock-based.

During the remainder of 2023, we expect our sales and marketing expenses to increase as a result of our continued investment in go-to-market efforts and payroll and related costs due to the annual merit increase. However, we plan to continue to carefully manage costs in an effort to improve our operating margins.

### General and Administrative Expenses

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2023	2022	% Change	2023	2022	% Change
Payroll and related costs	\$ 51,817	\$ 52,974	(2.2)%	\$ 109,507	\$ 106,291	3.0 %
Stock-based compensation	26,124	15,888	64.4	43,289	33,324	29.9
Depreciation and amortization	16,231	18,423	(11.9)	32,952	38,101	(13.5)
Facilities-related costs	22,883	26,820	(14.7)	46,872	53,399	(12.2)
Provision for doubtful accounts	1,991	529	276.4	1,908	1,817	5.0
Acquisition-related costs	1,271	2,798	(54.6)	5,974	13,414	(55.5)
Software and related service costs	13,526	13,483	0.3	27,397	24,507	11.8
Other expenses	17,968	10,304	74.4	30,051	23,628	27.2
Total general and administrative	\$ 151,811	\$ 141,219	7.5 %	\$ 297,950	\$ 294,481	1.2 %
As a percentage of revenue	16.2 %	15.6 %		16.1 %	16.3 %	

The increase in general and administrative expenses during the three and six months ended June 30, 2023, as compared to the same periods in 2022, was due to payroll and related costs, including stock-based compensation, as a result of the increased expected achievement of our performance-based compensation plans and other expenses due to increased professional service fees to support our business. Specifically, stock-based compensation increased due to the shift in one of our compensation programs from cash-based to stock-based. These increases were partially offset by decreases in facilities-related costs as a result

of growth in sublease income from the execution of our FlexBase program and acquisition-related costs in connection with our acquisition of Linode in the first quarter of 2022.

General and administrative expenses for the three and six months ended June 30, 2023 and 2022 are broken out by category as follows (in thousands):

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2023	2022	% Change	2023	2022	% Change
Global functions	\$ 62,058	\$ 50,445	23.0 %	\$ 119,008	\$ 106,576	11.7 %
As a percentage of revenue	6.6 %	5.6 %		6.4 %	5.9 %	
Infrastructure	86,491	87,447	(1.1)	171,060	172,646	(0.9)
As a percentage of revenue	9.2 %	9.7 %		9.2 %	9.6 %	
Other	3,262	3,327	(2.0)	7,882	15,259	(48.3)
Total general and administrative	\$ 151,811	\$ 141,219	7.5 %	\$ 297,950	\$ 294,481	1.2 %
As a percentage of revenue	16.2 %	15.6 %		16.1 %	16.3 %	

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 related service 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, provision for doubtful accounts and legal settlements.

During the remainder of 2023, we expect our general and administrative expenses to increase as a result of payroll and related costs due to the annual merit increase. We expect the increase to be partially offset by a decrease in facility-related costs from reduced real estate expenses from our FlexBase program.

#### Amortization of Acquired Intangible Assets

(in thousands)	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2023	2022	% Change	2023	2022	% Change
Amortization of acquired intangible assets	\$ 15,898	\$ 16,972	(6.3) %	\$ 31,810	\$ 30,616	3.9 %
As a percentage of revenue	1.7 %	1.9 %		1.7 %	1.7 %	

The decrease in amortization of acquired intangible assets for the three months ended June 30, 2023, as compared to the same period in 2022, was due to a reduction of amortization expense from acquisitions completed in prior years. The increase in amortization of acquired intangible assets for the six months ended June 30, 2023, as compared to the same period in 2022, was the result of amortization of acquired intangible assets related to our acquisition of Linode. Based on acquired intangible assets at June 30, 2023, we expect amortization of acquired intangible assets to be approximately \$32.0 million for the remainder of 2023, and \$59.9 million, \$62.4 million, \$60.8 million and \$48.9 million for 2024, 2025, 2026 and 2027, respectively.

#### Restructuring Charge

(in thousands)	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2023	2022	% Change	2023	2022	% Change
Restructuring charge	\$ 9,357	\$ 4,715	98.5 %	\$ 54,080	\$ 12,731	324.8 %
As a percentage of revenue	1.0 %	0.5 %		2.9 %	0.7 %	

The restructuring charge for the three and six months ended June 30, 2023 was driven by our FlexBase program as we exited certain facilities that were no longer needed, resulting in impairments of right-of-use-assets and leasehold improvements. We expect to continue to reduce our facility footprint, including subleasing excess space, but we do not currently believe such charges will materially impact our financial condition or results of operation.

Additionally, the restructuring charge for the six months ended June 30, 2023 included the result of certain actions initiated in the first quarter of 2023. Management's commitment to an action to restructure certain parts of the company was to enable the prioritization of investments in the fastest growing areas of the business. The restructuring charge for this action includes severance and related expenses for certain headcount reductions. We do not expect to incur material additional charges related to this action.

The restructuring charge for the three months ended June 30, 2022 was primarily related to an impairment of a right-of-use asset for facilities that are no longer needed as a result of our FlexBase program. The restructuring charge for the six months ended June 30, 2022 was primarily related to software impairment charges related to the suspension of Global Open Network, Inc., or GO-NET. We do not expect to incur any material additional restructuring charges related to these actions.

#### Non-Operating Income (Expense)

(in thousands)	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2023	2022	% Change	2023	2022	% Change
Interest and marketable securities income (loss), net	\$ 4,509	\$ (2,331)	(293.4)%	\$ 9,801	\$ (2,542)	(485.6)%
As a percentage of revenue	0.5 %	(0.3)%		0.5 %	(0.1)%	
Interest expense	\$ (3,157)	\$ (2,932)	7.7 %	\$ (5,838)	\$ (5,627)	3.7 %
As a percentage of revenue	(0.3)%	(0.3)%		(0.3)%	(0.3)%	
Other (expense) income, net	\$ (1,130)	\$ 816	(238.5)%	\$ (3,493)	\$ (8,749)	(60.1)%
As a percentage of revenue	(0.1)%	0.1 %		(0.2)%	(0.5)%	

Interest and marketable securities income (loss), net consists of interest earned on invested cash and marketable securities balances and income and losses on mutual funds that are associated with our employee non-qualified deferred compensation plan. The increase for the three and six months ended June 30, 2023, as compared to the same periods in 2022, was due to increased gains associated with the non-qualified deferred compensation plan and higher interest earned on invested cash balances and marketable securities as a result of increased interest rates.

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

Other (expense) income, 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 as well as gains and losses on equity investments. The decrease in other (expense) income, net for the six months ended June 30, 2023, as compared to the same period in 2022, was primarily due to an \$8.9 million impairment from an equity investment during the six months ended June 30, 2022, partially offset by an unfavorable impact of changes in foreign currency exchange rates.

#### Provision for Income Taxes

(in thousands)	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2023	2022	% Change	2023	2022	% Change
Provision for income taxes	\$ (21,191)	\$ (32,755)	(35.3)%	\$ (50,971)	\$ (52,592)	(3.1) %
As a percentage of revenue	(2.3)%	(3.6)%		(2.8)%	(2.9)%	
Effective income tax rate	(14.1)%	(19.2)%		(18.4)%	(15.9)%	

For the three and six months ended June 30, 2023, as compared to the same periods in 2022, our provision for income taxes decreased due to a reduction in profitability and intercompany sales of intellectual property. These items were partially offset by

a decrease in the excess tax benefit related to stock-based compensation and the revaluation of certain foreign income tax liabilities due to foreign exchange rate fluctuations.

For the three and six months ended June 30, 2023, our effective income tax rate was lower than the federal statutory tax rate due to foreign income taxed at lower rates and the benefit of U.S. federal, state and foreign research and development credits. These amounts were partially offset by tax on global intangible low taxed income, non-deductible stock-based compensation and a shortfall related to stock-based compensation.

For the three and six months ended June 30, 2022, 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 and the benefit of U.S. federal, state and foreign research and development credits. These amounts were partially offset by an intercompany sale of intellectual property, the tax on global intangible low taxed income and non-deductible stock-based compensation.

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 June 30,			For the Six Months Ended June 30,		
	2023	2022	% Change	2023	2022	% Change
Loss from equity method investment	\$ —	\$ —	— %	\$ —	\$ (7,635)	(100.0)%
As a percentage of revenue	— %	— %		— %	(0.4)%	

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 ("MUFG") in a joint venture, GO-NET. GO-NET intended to operate a blockchain-based online payment network. In February 2022, MUFG, the majority owner of GO-NET, announced it was preparing to suspend the operations of GO-NET and to ultimately liquidate it. The loss from equity method investment for the six months ended June 30, 2022 was the result of our impairment of our investment in GO-NET in the first quarter of 2022 since the operations will no longer generate future cash flows. We do not expect additional material impacts related to this investment.

#### 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 ("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 diluted 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, as well as certain additional compensation costs payable to employees acquired from the Linode acquisition if employed for a certain period of time. The additional compensation cost was initiated by and determined by the seller and is in addition to normal levels of compensation, including retention programs, offered by Akamai. Acquisition-related costs are impacted by the timing and size of the acquisitions, and we exclude acquisition-related costs from our non-GAAP financial measures to provide a useful comparison of operating results to prior periods and to peer companies because such amounts vary significantly based on the magnitude of our acquisition transactions and do not reflect our core operations.
- **Restructuring charge** – We have incurred restructuring charges from programs that have significantly changed either the scope of the business undertaken by us or the manner in which that business is conducted. These charges include severance and related expenses for workforce reductions, impairments of long-lived assets that will no longer be used in operations (including right-of-use assets, other facility-related property and equipment and internal-use software) and termination fees for any contracts cancelled as part of these programs. 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 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 issuance costs of the convertible senior notes are amortized to interest expense and are excluded from our non-GAAP results because management believes the non-cash amortization 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.
- **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 have 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 June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Income from operations	\$ 149,785	\$ 175,042	\$ 276,423	\$ 348,361
Amortization of acquired intangible assets	15,898	16,972	31,810	30,616
Stock-based compensation	87,444	51,882	149,327	108,109
Amortization of capitalized stock-based compensation and capitalized interest expense	8,217	8,068	16,130	16,015
Restructuring charge	9,357	4,715	54,080	12,731
Acquisition-related costs	2,340	5,771	9,108	16,714
Non-GAAP income from operations	<u>\$ 273,041</u>	<u>\$ 262,450</u>	<u>\$ 536,878</u>	<u>\$ 532,546</u>
GAAP operating margin	16.0 %	19.4 %	14.9 %	19.3 %
Non-GAAP operating margin	29.2 %	29.1 %	29.0 %	29.5 %

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022 <sup>(1)</sup>	2023	2022 <sup>(1)</sup>
Net income	\$ 128,816	\$ 137,840	\$ 225,922	\$ 271,216
Amortization of acquired intangible assets	15,898	16,972	31,810	30,616
Stock-based compensation	87,444	51,882	149,327	108,109
Amortization of capitalized stock-based compensation and capitalized interest expense	8,217	8,068	16,130	16,015
Restructuring charge	9,357	4,715	54,080	12,731
Acquisition-related costs	2,340	5,771	9,108	16,714
Amortization of debt issuance costs	1,098	1,091	2,196	2,210
(Gain) loss on investments	(27)	(641)	(201)	8,260
Loss from equity method investment	—	—	—	7,635
Income tax effect of above non-GAAP adjustments and certain discrete tax items	(25,152)	(9,254)	(42,067)	(32,267)
Non-GAAP net income	<u>\$ 227,991</u>	<u>\$ 216,444</u>	<u>\$ 446,305</u>	<u>\$ 441,239</u>

(1) Net income and income tax effect of above non-GAAP adjustments and certain discrete tax items for the three and six months ended June 30, 2022, have been revised to reflect the correction of an error of provision for income taxes related to an intercompany sale of intellectual property that occurred in 2022.

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 June 30,		For the Six Months Ended June 30,	
	2023	2022 <sup>(1)</sup>	2023	2022 <sup>(1)</sup>
GAAP net income per diluted share	\$ 0.84	\$ 0.85	\$ 1.46	\$ 1.67
Amortization of acquired intangible assets	0.10	0.10	0.21	0.19
Stock-based compensation	0.57	0.32	0.96	0.66
Amortization of capitalized stock-based compensation and capitalized interest expense	0.05	0.05	0.10	0.10
Restructuring charge	0.06	0.03	0.35	0.08
Acquisition-related costs	0.02	0.04	0.06	0.10
Amortization of debt issuance costs	0.01	0.01	0.01	0.01
(Gain) loss on investments	—	—	—	0.05
Loss from equity method investment	—	—	—	0.05
Income tax effect of above non-GAAP adjustments and certain discrete tax items	(0.16)	(0.06)	(0.27)	(0.20)
Adjustment for shares <sup>(2)</sup>	—	0.01	—	0.03
Non-GAAP net income per diluted share <sup>(3)</sup>	\$ 1.49	\$ 1.35	\$ 2.88	\$ 2.74
Shares used in GAAP per diluted share calculations	153,454	161,710	154,795	162,674
Impact of benefit from note hedge transactions <sup>(2)</sup>	—	(1,057)	—	(1,440)
Shares used in non-GAAP per diluted share calculations <sup>(2)</sup>	153,454	160,653	154,795	161,234

(1) Net income and income tax effect of above non-GAAP adjustments and certain discrete tax items for the three and six months ended June 30, 2022, have been revised to reflect the correction of an error of provision for income taxes related to an intercompany sale of intellectual property that occurred in 2022.

(2) Shares used in non-GAAP per diluted share calculations have been adjusted for the three and six months ended June 30, 2022, for the benefit of our note hedge transactions.

During this period, our 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.

(3) Amounts may not foot due to rounding.

Non-GAAP net income per diluted share is calculated as non-GAAP net income divided by weighted average diluted common shares outstanding. 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 issuances of \$1,150 million of convertible senior notes due 2027 and 2025, respectively. 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 operating performance. With respect to the convertible senior notes due in each of 2027 and 2025, unless our weighted average stock price is greater than \$116.18 and \$95.10, respectively, the initial conversion price, there will be no difference between 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 and marketable securities income and losses; income taxes; depreciation and amortization of tangible and intangible assets; stock-based compensation; amortization of capitalized stock-based compensation; acquisition-related costs; restructuring charges; 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 June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Net income	\$ 128,816	\$ 137,840	\$ 225,922	\$ 271,216
Interest and marketable securities (income) loss, net	(4,509)	2,331	(9,801)	2,542
Provision for income taxes	21,191	32,755	50,971	52,592
Depreciation and amortization	115,208	125,815	227,095	247,003
Amortization of capitalized stock-based compensation and capitalized interest expense	8,217	8,068	16,130	16,015
Amortization of acquired intangible assets	15,898	16,972	31,810	30,616
Stock-based compensation	87,444	51,882	149,327	108,109
Restructuring charge	9,357	4,715	54,080	12,731
Acquisition-related costs	2,340	5,771	9,108	16,714
Interest expense	3,157	2,932	5,838	5,627
(Gain) loss on investments	(27)	(641)	(201)	8,260
Loss from equity method investment	—	—	—	7,635
Other expense (income), net	1,157	(175)	3,694	489
Adjusted EBITDA	<u>\$ 388,249</u>	<u>\$ 388,265</u>	<u>\$ 763,973</u>	<u>\$ 779,549</u>
Net income margin	13.8 %	15.3 %	12.2 %	15.0 %
Adjusted EBITDA margin	41.5 %	43.0 %	41.3 %	43.1 %

#### 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, 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 June 30, 2023, our cash, cash equivalents and marketable securities, which primarily consisted of commercial paper, corporate bonds and U.S. government agency obligations, totaled \$1.0 billion. 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, cash paid for acquisitions and similar events. We believe 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. We expect to continue to evaluate strategic investments to strengthen our business.

As of June 30, 2023, we had cash and cash equivalents of \$237.4 million held in accounts outside the U.S. The U.S. Tax Cuts and Jobs Act 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 Six Months Ended June 30,	
	2023	2022
Net income	\$ 225,922	\$ 271,216
Non-cash reconciling items included in net income	464,967	366,076
Changes in operating assets and liabilities	(91,079)	(73,410)
Net cash provided by operating activities	<u>\$ 599,810</u>	<u>\$ 563,882</u>

The increase in cash provided by operating activities for the six months ended June 30, 2023, as compared to the same period in 2022, was due to cash paid for income taxes related to an intercompany sale of intellectual property and additional compensation costs paid to employees acquired from the Linode acquisition based on an agreement with the acquiree, both of which occurred in 2022 and did not re-occur in 2023.

#### Cash Used in Investing Activities

(in thousands)	For the Six Months Ended June 30,	
	2023	2022
Cash paid for acquisitions, net of cash acquired	\$ (106,326)	\$ (872,099)
Purchases of property and equipment and capitalization of internal-use software development costs	(398,534)	(249,526)
Net marketable securities activity	157,384	693,707
Other, net	(20,766)	(4,206)
Net cash used in investing activities	<u>\$ (368,242)</u>	<u>\$ (432,124)</u>

The decrease in cash used in investing activities during the six months ended June 30, 2023, as compared to the same period in 2022, was driven by cash paid for the acquisition of Linode in March 2022, which was partially offset by net marketable securities activity as we sold marketable securities during the six months ended June 30, 2022 to fund the acquisition. These decreases were also partially offset by an increase in purchases of property and equipment related to our compute infrastructure build-out.

#### Cash Used in Financing Activities

(in thousands)	For the Six Months Ended June 30,	
	2023	2022
Net revolving credit facility activity	\$ 20,000	\$ 75,000
Activity related to stock-based compensation	(8,275)	(33,997)
Repurchases of common stock	(485,958)	(267,642)
Other, net	(256)	(104)
Net cash used in financing activities	<u>\$ (474,489)</u>	<u>\$ (226,743)</u>

The increase in cash used in financing activities during the six months ended June 30, 2023, as compared to the same period in 2022, was primarily the result of increases in share repurchases. Effective January 2022, our board of directors

authorized a new \$1.8 billion share repurchase program through December 2024. As of June 30, 2023, \$0.7 billion remained available for future share repurchases under this authorization. Our goal for the share repurchase program is to offset the dilution created by our employee equity compensation programs over time and provide the flexibility to return capital to stockholders as business and market conditions warrant, while still preserving our ability to pursue other strategic opportunities.

During the six months ended June 30, 2023, we repurchased 6.2 million shares of common stock at a weighted average price of \$78.49 per share for an aggregate of \$486.0 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 interim condensed consolidated financial statements.

#### *Revolving Credit Facility*

In May 2018, we entered into a \$500.0 million, five-year revolving credit agreement ("2018 Credit Agreement"). Borrowings under the 2018 Credit Agreement bore 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 2018 Credit Agreement. Regardless of what amounts, if any, were outstanding under the 2018 Credit Agreement, we were 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 2018 Credit Agreement.

In November 2022, we entered into a \$500.0 million, five-year revolving credit agreement ("2022 Credit Agreement"). The 2022 Credit Agreement replaces the 2018 Credit Agreement. Borrowings under the 2022 Credit Agreement may be used to finance working capital needs and for general corporate purposes. The 2022 Credit Agreement provides for an initial \$500.0 million revolving loans. Under specified circumstances, the facility can be increased to up to \$1.0 billion in aggregate principal amount.

Borrowings under the 2022 Credit Agreement bear interest, at our option, and subject to a credit spread adjustment, at a term benchmark rate plus a spread of 0.75% to 1.125%, a reference rate plus a spread of 0.75% to 1.125%, or a base rate plus a spread of 0.00% to 0.125%, in each case with such spread being determined based on our consolidated leverage ratio specified in the 2022 Credit Agreement. Regardless of what amounts, if any, are outstanding under the 2022 Credit Agreement, we are also obligated to pay an ongoing commitment fee on undrawn amounts at a rate of 0.07% to 0.125%, with such rate being based on our consolidated leverage ratio specified in the 2022 Credit Agreement.

The 2022 Credit Agreement contains customary representations and warranties, affirmative and negative covenants and events of default. The negative covenants include restrictions on subsidiary indebtedness, liens and fundamental changes. These covenants are subject to a number of important exceptions and qualifications. The principal financial covenant requires a maximum consolidated leverage ratio. The 2022 Credit Agreement expires in November 2027, and any amounts outstanding thereunder will become due and payable, subject to up to two one-year extensions at our request and with the consent of the lenders party thereto. As of June 30, 2023, we were in compliance with all covenants. As of June 30, 2023, we had \$20.0 million of outstanding borrowings under the 2022 Credit Agreement, which was repaid in July 2023.

#### *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, potential strategic acquisitions, anticipated share repurchases, lease and purchase commitments and

settlements of other 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, and on our plans for network expansion, including our expansion plans related to our compute business. As of June 30, 2023, 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, 2022, other than normal period-to-period variations and increases to our co-location commitments related to our expansions plans for our compute business.

#### *Off-Balance Sheet Arrangements*

We have entered into indemnification agreements with third parties, including vendors, customers, landlords, our officers and directors, stockholders 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, 2022 for further discussion of these indemnification agreements. The fair value of guarantees issued or modified during the six months ended June 30, 2023 was determined to be immaterial.

As of June 30, 2023, we did not have any additional material off-balance sheet arrangements.

#### **Significant Accounting Policies and Estimates**

See Note 1 to the interim condensed consolidated financial statements included elsewhere in this quarterly report on Form 10-Q for information regarding significant accounting policy updates, including our expected average useful life increase of our servers. See also Note 2 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2022. Other than the expected average useful life change of our servers, 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, 2022.

#### **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, commercial paper and high-quality corporate bonds. 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. If market interest rates were to increase by 100 basis points from June 30, 2023 levels, the fair value of our available-for-sale portfolio would decline by approximately \$5.4 million.

In August 2019, we issued \$1,150.0 million aggregate principal amount of 0.375% convertible senior notes due 2027. In May 2018, we issued \$1,150.0 million aggregate principal amount of 0.125% convertible senior notes due 2025. These notes have a fixed annual interest rate, so they do not give rise to financial or economic interest exposure associated with changes in interest rates. However, the fair value of fixed rate debt instruments fluctuates when interest rates change. Additionally, the fair value can be affected when the market price of our common stock fluctuates. We carry the notes at face value less an unamortized discount on our interim condensed consolidated balance sheet, and we present the fair value for required disclosure purposes only.

Our exposure to risk for changes in interest rates relates primarily to any borrowings under our 2022 Credit Agreement,

which has a variable rate of interest. As of June 30, 2023, we had \$20.0 million of outstanding borrowings under the 2022 Credit Agreement, which was repaid in July 2023.

### **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. Due to the strengthening U.S. dollar, our revenue results have been negatively impacted. The strengthening U.S. dollar has the opposite effect on expenses that are denominated in foreign currencies, but only partially offsets the impact to our revenue. A hypothetical 10% strengthening or weakening in the value of the U.S. dollar relative to the foreign currencies in which our revenues and expenses are denominated would not result in a material impact to our interim condensed consolidated financial statements.

#### *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 functional currencies result in gains and losses that are reflected in our interim 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 interim condensed consolidated statements of income within other expense, net. Foreign currency transaction gains and losses from these forward contracts were determined to be immaterial during the six months ended June 30, 2023. 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 interim 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 June 30, 2023 and December 31, 2022, there was one customer with an accounts receivable balance greater than 10% of our accounts receivable. We believe that at June 30, 2023, the concentration of credit risk related to accounts receivable was insignificant.

### **Item 4. Controls and Procedures**

#### *Evaluation of Disclosure 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 June 30, 2023. 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 ("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. Based on the evaluation of our disclosure controls and procedures as of June 30, 2023, our Chief Executive Officer and Chief Financial

Officer concluded that, as of such date, our disclosure controls and procedures were not effective due to a material weakness in internal control over financial reporting as described below.

#### *Material Weakness in Internal Control Over Financial Reporting*

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

A material weakness in internal control over financial reporting related to income taxes was identified in the Company's internal control over financial reporting as of December 31, 2022, which continues to exist as of June 30, 2023. Specifically, the Company did not design and maintain effective controls over the adoption and application of new accounting standards related to income taxes.

This material weakness resulted in immaterial errors to net deferred tax assets and provision for income taxes for the interim periods ended March 31, 2022, June 30, 2022 and September 30, 2022. These immaterial errors also resulted in a revision to previously issued quarterly financial statements for each of these periods. Additionally, this material weakness could result in misstatements of the aforementioned account balances or disclosures that would result in a material misstatement to the Company's annual or interim consolidated financial statements that would not be prevented or detected.

#### *Remediation Plan for the Material Weakness*

The Company's management, under the oversight of the Audit Committee, has designed and implemented changes to remediate the material weakness. We have taken steps to enhance the design and precision of our process and control for evaluating the adoption and application of new accounting standards in the area of income taxes. Our enhanced design includes the involvement of external tax advisors, as applicable.

The material weakness will not be considered remediated until management completes its remediation plan and the enhanced control operates for a sufficient period of time and management has concluded, through testing, that the related control is operating effectively.

#### *Changes in Internal Control over Financial Reporting*

During the quarter ended June 30, 2023, there was a change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) related to the implementation of an enhanced control for evaluating the adoption and application of new accounting standards in the area of income taxes, 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 various litigation matters, governmental proceedings, investigations, claims and disputes that we consider routine and incidental to our business. We do not currently expect the results of any of these matters to have a material effect on our business, results of operations, financial condition or cash flows.

### **Item 1A. Risk Factors**

*Certain factors may have a material adverse effect on our business, financial condition, and results of operations. You should consider carefully the risks and uncertainties described below, in addition to other information contained in this Quarterly Report on Form 10-Q. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks actually occurs, our business, financial condition, results of operations, and future prospects could be materially and adversely affected. In that event, the trading price of our common stock could decline, and you could lose part or all of your investment.*

## Summary Risk Factors

Our business is subject to a number of risks, including risks that may prevent us from achieving our business objectives or may adversely affect our business, financial condition, results of operations, cash flows, and prospects. These risks are discussed more fully below and include, but are not limited to:

- We may face slowing revenue growth or may fail to control our expenses which could negatively impact our profitability and stock price.
- Global economic and geopolitical conditions, including, but not limited to, inflation, interest rates, tax rates, economic uncertainty, political instability, warfare, changes in laws, trade barriers, the actual or perceived failure or financial difficulties of financial institutions, reduced consumer confidence and spending and economic and trade sanctions, may harm our industry, business and results of operations.
- If we do not develop or acquire new solutions that are attractive to our customers or if we are unable to compete effectively and adapt to changing market conditions, our revenue and operating results could be adversely affected.
- Cybersecurity breaches or attacks, as well as defects or disruptions in our products and IT systems, could lead to significant costs and disruptions that would harm our business, financial results and reputation, or subject us to substantial liability.
- If we cannot maintain compatibility with our customers' IT infrastructure, including their chosen third-party applications, or our customers shift to hardware-based or other DIY internal solutions, our business will be harmed.
- We face risks associated with global operations that could harm our business including, but not limited to, foreign exchange rate risks, changes in the regulatory landscape, oversight and reform, macroeconomic developments, geopolitical developments, and various other circumstances outside of our control.
- Our business strategy depends on the ability to source adequate transmission capacity, co-location facilities and the equipment we need to operate our network; failure to have access to those resources could lead to loss of revenue and service disruptions.
- 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.
- If we are unable to recruit and retain key employees and qualified sales, research and development, technical, marketing and support personnel, our ability to compete could be harmed.
- Our failure to effectively manage our operations and maintain our company culture as our business evolves could harm us.
- Our restructuring and reorganization activities may be disruptive to our operations and harm our business.
- We may have exposure to greater-than-anticipated tax liabilities stemming from various tax reform efforts in jurisdiction in which we operate.
- Fluctuations in foreign currency exchange rates affect our reported operating results in U.S. dollar terms.
- 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 sales to government clients subject us to risks, including early termination, audits, investigations, sanctions and penalties.
- We utilize third-party technology in our business, and failures or vulnerabilities, and/or litigation, related to these technologies may adversely affect our business.
- We rely on certain "open-source" software, which may contain security flaws or other deficiencies, and the use of which could result in our having to distribute our proprietary software, including source code, to third parties on unfavorable terms, either of which could materially affect our business.
- Regulatory developments, including rapidly evolving privacy regulations, could negatively impact our business.
- 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.
- Our business will be adversely affected if we are unable to protect our intellectual property rights from unauthorized use or infringement by third parties.
- Litigation relating to matters incidental to the ordinary course of our business may adversely impact our business, results of operations, financial condition or cash flows.
- Global climate change and related natural resource conservation regulations could adversely impact our business.
- Our stock price has been, and may continue to be, volatile as a result of a number of different circumstances, events and factors, and your investment could lose value.
- Any failure to meet our debt obligations or obtain financing would damage our business.
- 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.
- 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.

- We recently identified a material weakness in our internal control over financial reporting, and 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.

## Financial and Operational Risks

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

The revenue growth 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 services we deliver, continued growth in demand for our delivery, compute and security solutions and our ability to maintain the prices we charge for them.

A significant portion of our revenue is generated by our delivery solutions. We have experienced revenue declines in our delivery solutions and expect this trend to continue because of pricing pressure due to competition and fluctuations in traffic growth rates. Revenue from our delivery solutions is impacted by numerous factors, including:

- the pace of introduction of over-the-top video delivery initiatives by our customers;
- the popularity of our customers' streaming offerings as compared to those offered by other companies;
- factors that impact the pricing and unit pricing we can obtain for our offerings;
- variation in the popularity of online gaming;
- customers utilizing their own data centers and implementing solutions that limit or eliminate reliance on third-party providers like us;
- the adoption of permanent hybrid or work from home policies by employees; and
- the ability of larger competitors to offer similar solutions at lower prices.

For example, revenue from our delivery solutions increased significantly in 2020 due in large part to greater consumption of online media and games during the onset of the COVID-19 pandemic and the associated stay-at-home orders across the globe. However, as these orders were lifted, our revenue from delivery solutions declined.

In recent years, an increasing proportion of our revenue is generated by our security and compute solutions. If we do not increase our industry recognition as a security and compute solutions provider, develop or acquire new solutions in a rapidly-changing environment where security threats are constantly evolving or ensure that our solutions operate effectively and are competitive with products offered by others, our security or compute revenue, or both, may decline.

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;
- continue to expand our sales internationally;
- successfully integrate our recent acquisitions into our business;
- address potential commoditization of certain of our solutions, which can lead to lower prices and loss of customers to competitors;
- maintain pricing and make decisions on pricing strategy;
- successfully manage the sales cycle, including improving the ability of or pace at which our customers or prospects purchase new services and solutions;
- 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, geopolitical conditions, industry pressures, 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.



***Global economic and geopolitical conditions may harm our industry, business and results of operations.***

We operate globally and as a result, our business, revenues and profitability are impacted by global macroeconomic conditions. The success of our activities is affected by general economic and market conditions, including, among others, inflation, interest rates, tax rates, economic uncertainty, political instability, warfare, changes in laws, trade barriers, the actual or perceived failure or financial difficulties of financial institutions, reduced consumer confidence and spending and economic and trade sanctions. For example, approximately 1% of our 2021 revenue had been generated from traffic into Russia, Belarus and Ukraine, and we experienced a decline in revenue in 2022 related to the war in Ukraine due to a decrease in traffic in these countries. The U.S. capital markets experienced and continue to experience extreme volatility and disruption in the recent past. Furthermore, inflation rates in the U.S. have recently increased to levels not seen in decades. Such economic volatility could adversely affect our business, financial condition, results of operations and cash flows, and future market disruptions could negatively impact us. These unfavorable economic conditions could increase our operating costs, which could negatively impact our profitability. Geopolitical destabilization and warfare have impacted and could continue to impact global currency exchange rates, resources from our suppliers, and our ability to operate or grow our business. For example, as a result of the recent uncertain macroeconomic environment, we have experienced elongated sales cycles with our customers and prospects and customers are delaying purchases of our solutions. In addition, we have recently experienced rising energy costs in areas in which we operate, particularly in Europe.

Additionally, we have offices and employees located in regions that historically have and may again experience periods of political instability, warfare, changes in laws, trade barriers, and economic and trade sanctions. Adverse conditions in these countries directly affect our operations. As a result, our operations and employees could be disrupted and may not be able to function at full capacity, which could adversely affect our business, results of operations, financial condition, and cash flows.

***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 and limit our expenses. We base our decisions about expense levels and investments on estimates of our future revenue and future anticipated rates of growth and may incur varying levels of expense based on strategic initiatives, including the build out of our network to support our compute solutions. In addition, many of our expenses are fixed costs for a certain amount of time which may impact our ability to reduce costs in a timely manner or without incurring additional costs. If we are unable to increase revenue and limit expenses, our results of operations will suffer. We may take certain steps to reduce expenses, however, there are no assurances that we will be able to effectively reduce our expenses and such actions may negatively affect our ability to invest in our business for innovation, systems improvements and other initiatives.

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

Innovation is important to our future success. In particular, as security and compute 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 solutions that meet the constantly-changing threat landscape and compute and compute-to-edge solutions that meet the needs of professional users and enterprises looking to increase the utility of the internet for their business.

The process of developing new solutions and product enhancements is complex, lengthy and uncertain and has become increasingly complex due to the sophistication of our customers' needs. The development timetable is uncertain and we may commit significant resources to developing solutions for which a viable market may not ultimately develop. For example, with the acquisition of Linode, we are investing significant resources in our compute solutions and platform, including connecting Linode's existing locations into our private backbone, working on expanding the capacity of these facilities, adding additional sites and developing compute solutions. Success in these efforts is not guaranteed and will largely depend on our ability to create products that are competitive in the enterprise market, source additional co-location facilities and manage an uncertain supply chain for server related hardware. In addition, we have also experienced, and may in the future experience, delays in developing and releasing new products and product enhancements. 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.

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. This is particularly true with respect to our compute solutions, as a small number of very large competitors have established themselves as leaders in the compute business. As a result, some of these competitors may be able to:

- develop superior products or services;
- leverage better name recognition, particularly in the security and compute markets;
- enter new markets more easily or better manage the impact of changes in general economic conditions, geopolitical conditions and industry pressures;
- gain greater market acceptance for their products and services;
- enter into long-term contracts with our potential customers;
- increase their points of presence and proximity to enterprise data centers and end users faster than us;
- 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, or more costly for, 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 for us to match;
- spend more money on the promotion, marketing and sales of their products and services;
- 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; and
- implement shorter sales cycles with customers and prospects.

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 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 or inability to penetrate new markets, 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, reputations, 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 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 or other developments could harm our business.

***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 the 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 delivery, security, compute and other services, which has led to a loss of business and could lead to a loss of customers in the future. Furthermore, most of our customer agreements contain service level commitments. If we fail to meet these contractual commitments, we could be obligated to provide credits for future service, or face contract termination with refunds of prepaid amounts, which could harm our business.

While we have robust quality control processes in place, there may be additional errors and defects in our hardware, software and open-source components 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 hardware, software and open-source components we use in a timely manner, and we may have insufficient resources to efficiently address multiple service incidents happening simultaneously or in rapid succession. We continue to invest 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 adversaries behind advanced malicious actions 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.

An increasing portion of our revenue is also derived from the sales of compute solutions. We are devoting significant resources to develop and deploy our own competing cloud-based and SaaS software and services strategies. While we believe our expertise and infrastructure provides us with a strong foundation to compete, it is uncertain whether our strategies will attract the customers or generate the revenue required to be successful. These costs may reduce the gross and operating margins we have previously achieved. Failure to adequately and rapidly deploy additional points of presence, increased proximity to enterprise data centers and end users and develop competitive offerings could result in negative publicity, loss of business, diminishing customer appeal and other negative consequences which could harm our business.

Our business relies on our data systems, traffic measurement systems, billing systems, ordering processes and other operational and financial reporting and control systems. We also rely on third-party software for certain essential operational services and a failure or disruption in these services could materially and adversely affect our ability to manage our business effectively. All of these systems have become increasingly complex due to the complexity of our business, use of third-party software and services, 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 or other parts of our business. 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. 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.

***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 Connected Cloud 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, application abuse, 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. Furthermore, nation state attacks against us or our customers may intensify during periods of heightened geopolitical tensions or armed conflict, such as the ongoing war in Ukraine. While we have taken and continue to take actions to mitigate against attacks by state actors and others, we may not be able to anticipate the techniques used in such attacks, as they change frequently and may not be recognized until launched. 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, such as the vulnerability in Apache Log4j 2 referred to as "Log4Shell" identified in late 2021 that impacted a large portion of the internet ecosystem, and may have other undiscovered vulnerabilities. While the impact to date of Log4Shell on our systems was relatively modest, these or similar vulnerabilities, resident in either software or configurations, may require significant operational efforts to mitigate and may persist for extended periods of time and the effects of any such vulnerability could be exacerbated. 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 related spending in the future, which 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, our customers 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 liabilities. With the acquisition of Linode, we are adapting procedures for mitigating harms that may arise from abuse of our compute products. If we fail to mitigate these or if there is a significant cybersecurity event using our compute products or our compute products are perceived to be less reliable than our competitors, it could result in loss of customers and reputational damage. 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.

***If we cannot maintain compatibility with our customers' IT infrastructure, including their chosen third-party applications, our business will be harmed.***

Our products interoperate with our customers' IT infrastructures that often have different specifications, utilize diverse technology, and require compatibility with multiple communication protocols. Therefore, the functionality of our technology often needs to have, and maintain, compatibility with our customers' technology environment, including their chosen third-party technology. Customers, and in particular these chosen third-party applications, may change features, restrict our access to, or alter their applications in a manner that causes incompatibilities or causes us significant costs to maintain compatibility, and as a result our business could be adversely affected. Such changes could functionally limit or prevent the compatibility of our products with our customers' IT infrastructure, which would negatively affect adoption of our products and harm our business. If we fail to update our products to achieve compatibility with new third-party applications that our customers use, we may not be able to offer the functionality that our customers need, which would harm our business.

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

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

- foreign exchange rate risks, including the recent strengthening of the U.S. dollar which has led to a decrease in our revenue from certain customers and corresponding pressure on our earnings;
- 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;
- becoming subject to regulatory oversight;
- corporate and personal liability for alleged or actual violations of laws and regulations;
- difficulty in staffing, training, developing and managing foreign operations as a result of distance, language, cultural differences, differences in employee/employer relationships or regulations;
- theft of intellectual property in high-risk countries where we operate;
- difficulties in enforcing contracts, collecting accounts and longer payment cycles in certain countries;
- difficulties in transferring funds from, or converting currencies in, certain countries;
- managing the costs and processes necessary to comply with export control, sanctions, such as the sanctions imposed in connection with the Russian invasion of Ukraine, anti-corruption, data protection and competition laws and regulations or other regulatory or contractual limitations on our ability to sell or develop our products and services in certain foreign markets;
- macroeconomic developments and changes in the labor markets in which we operate;
- geopolitical developments, including any that impact our or our customers' ability to operate in or deliver content to a country;
- other circumstances outside of our control such as trade disputes, political unrest, the imposition of sanctions, export controls, warfare, military or armed conflict, such as the Russian invasion of Ukraine, terrorist attacks, public health emergencies such as the COVID-19 pandemic, energy crises and natural disasters that could disrupt our ability to provide services or limit customer purchases of them;
- reliance on one or more 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; internet and technology regulations; so-called "fair share" or internet content taxes; foreign exchange controls and cash repatriation; data privacy; cyber security; competition; consumer protection; 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.

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

To operate and grow our network, we are dependent in part upon transmission capacity provided by third-party telecommunications network providers, the availability of co-location facilities to house our servers and equipment to support our operations. We may be unable to purchase the bandwidth and space we need from these providers due to limitations on their resources, increasing energy costs or other reasons outside of our control. In particular, following our acquisition of Linode, our plans to increase the size and scale of our cloud solutions have required and will continue to require procuring significant additional space in co-location facilities. Inability to access facilities where we would like to install servers, or perform maintenance on existing servers for any reason 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 capacity demands by our customers, particularly those under cyber-attack or impacted by geopolitical conditions. 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 Connected Cloud relies on hardware equipment, including hundreds of thousands of servers deployed around the world. Disruptions in our supply chain could prevent us from purchasing 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 equipment that is manufactured in areas that face disruptions to operations due to unrest, trade sanctions or other political activity, public health issues, safety

issues, natural disasters or general economic conditions. Failure to have adequate equipment, including server equipment, 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 disruptions of our ongoing business;
- potential distraction of management;
- diversion of business resources from core operations;
- financial consequences, such as increased operating expenses, incurrence of material post-closing liabilities, incurrence of additional debt and other dilutive effects on our earnings, particularly in the current environment where we have generally seen escalating valuations of many technology companies and increasing allocation of risk to acquirors;
- assumption of legal risks related to compliance with laws, including privacy and anti-corruption regulations;
- failure to realize synergies or other expected benefits;
- lawsuits resulting from an acquisition or disposition;
- retention of the acquired company's key talent;
- there may be unexpected regulatory changes resulting in operating difficulties and expenditures;
- acquisition of IT systems that expose us to cybersecurity risks and additional costs to remedy such 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 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. 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.

***If we are unable to recruit and retain key employees and qualified sales, research and development, 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, research and development, marketing and support personnel who have critical industry experience and relationships. Like other companies in our industry, we have experienced difficulty in hiring and retaining highly skilled employees with appropriate qualifications, and, if we fail to attract new personnel or fail to retain and motivate our current personnel or effectively train our current employees to support our business needs, our business and future growth prospects could suffer. For example, 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. In addition, effective succession planning is important to our

long-term success and our failure to ensure effective transfer of knowledge and smooth transitions involving our officers and other key personnel could hinder our strategic planning and execution.

In addition, our future success will depend upon our ability to attract, train and retain employees, particularly in our expected areas of growth such as security and cloud computing. Such efforts will require time, expense and attention by our employees as there is significant competition for talented individuals which affects both our ability to retain key employees and hire new ones and new hires require significant training. This competition results in increased costs in the form of cash and stock-based compensation and can have a dilutive impact on our stock. In addition, we are retasking certain of our employees to work on our compute solutions which will require the use of our resources and if we are unable to successfully retrain our employees, our compute business may suffer. 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 in a timely fashion may be disruptive to our operations and overall business.

***Our failure to effectively manage our operations and maintain our company culture as our business evolves and our work practices change could harm us.***

Our future operating results will depend on our ability to manage our operations and we believe our culture has been a key contributor to our success to date. As a result of the diversification of our business, personnel growth, the imposition of our FlexBase program, acquisitions and international expansion in recent years, many of our employees are now based outside of our Cambridge, Massachusetts 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.

We rolled out our FlexBase program in May 2022, which allows the more than 95% of our workforce designated as flexible to choose to work from an Akamai office, their home office or a combination of both. Although we believe a flexible working policy will help us attract and retain talent, our FlexBase program 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. In addition, certain security systems in homes or other remote workplaces may be less secure than those used in our offices, which may subject us to increased security risks, including cybersecurity-related events, and expose us to risks of data or financial loss and associated disruptions to our business operations. Members of our workforce who access company data and systems remotely may not have access to technology that is as robust as that in our offices, which could cause the networks, information systems, applications and other tools available to those remote workers to be more limited or less reliable than in our offices. We may also be exposed to risks associated with the locations of remote workers, including compliance with local laws and regulations or exposure to compromised internet infrastructure. Allowing members of our workforce to work remotely may create intellectual property risk if employees create intellectual property on our behalf while residing in a jurisdiction with unenforced or uncertain intellectual property laws. Further, if employees fail to inform us of changes in their work location, we may be exposed to additional risks without our knowledge. If we are unable to effectively transition to a hybrid workforce, manage the cybersecurity and other risks of remote work, and maintain our corporate culture and workforce morale, our business could be harmed or otherwise negatively impacted.

***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. During the first quarter of 2023, management committed to an action to restructure certain parts of the Company, including reducing headcounts, to enable it to prioritize investments in the fastest growing areas of the business. 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 establish a new framework for international tax reform, including the general rules for redefined jurisdictional taxation rights and a global minimum tax of 15% (Pillar 2). In December 2022, the European Union member states voted unanimously to adopt a Directive implementing the Pillar 2 (global minimum tax) rules giving member states until December 31, 2023 to implement the Directive into national legislation. Further details regarding the implementation of these rules are expected and if implemented, such reform may increase our tax liabilities and compliance costs 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. If the ultimate outcome of any tax 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.

On August 16, 2022, President Joseph R. Biden signed into law the Inflation Reduction Act of 2022 ("IRA"). The IRA includes a 15% corporate alternative minimum tax for companies with modified GAAP net income in excess of \$1 billion, a 1% excise tax on certain stock repurchases, and numerous environmental and green energy tax credits. Currently, we are not subject to the corporate alternative minimum tax. The impact of the excise tax on our stock repurchase program was immaterial for the three months ended June 30, 2023.

***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 their local currencies. 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 it 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. Errors in our financial statements have occurred in the past and may occur in the future. For example, see Note 1 for a description of an error identified in January 2023. 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 and we may in the future increase sales to government entities. Sales to government entities are subject to a number of risks. Selling to government entities can be highly competitive, expensive, and time consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. 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 and demand and payment for our services may be impacted by public sector budgetary cycles and funding authorizations. 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 utilize third-party technology in our business, and failures or vulnerabilities, and/or litigation, related to these technologies may adversely affect our business.***

We utilize third-party technology software, services, and other technology in order to operate critical functions of our business, including the integration of certain of these technologies into our network, products and services. If these software, services, or other technology become unavailable or contain vulnerabilities, our expenses could increase and our ability to operate our network, provide our products, and our results of operations could be impaired until equivalent software, technology, or services are purchased or developed or any identified vulnerabilities are remedied. If we are unable to procure the necessary third-party technology we may need to acquire or develop alternative technology, or we may have to resort to utilizing alternative technology of lower quality. This could limit and delay our ability to offer new or competitive products and increase our costs of production. As a result, our business could be significantly harmed. In addition, the use of third-party technology may expose us to third-party claims of intellectual property infringement which could cause us to incur significant costs in defense or alternative sourcing.

***We rely on certain “open-source” software, which may contain security flaws or other deficiencies, and the use of which could result in our having to distribute our proprietary software, including source code, to third parties on unfavorable terms, either of 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 and have not been interpreted by U.S. courts. 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 generally available at no cost. We could also be subject to similar conditions or restrictions should there be any changes in the licensing terms of the open-source software incorporated into our products. In either event, we could be required to seek licenses from third parties in order to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely or successful basis, any of which could adversely affect our business, operating results and financial condition. 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 international data transfer restrictions 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, private citizens and privacy advocates with class action attorneys are increasingly scrutinizing how companies collect, process, use, store, share and transmit personal data. Numerous laws, such as the European Union's General Data Protection Regulation ("GDPR"), and the California Consumer Privacy Act of 2018 ("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 or improper practice, whether or not consistent with current regulations and industry practices, may subject us to public

criticism or boycotts, class action lawsuits, reputational harm, or actions by regulators, or claims by 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 increasing international data transfer restrictions and new and changing privacy laws and related customer demands 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 networks 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 privacy, data security and other practices we follow may not prevent the improper disclosure or misuse of customer or end-user data we process. 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.***

Local and foreign laws and regulations that apply to the internet related to, among other things, content liability, security requirements, law enforcement access to information, critical infrastructure, so-called "fair share" or internet content taxes, international data transfer restrictions, sanctions, export controls 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, enforcement actions 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. Enactment and expansion of such laws and regulations would negatively impact our revenues. For example, restrictions were adopted in India in 2020 prohibiting access to identified Chinese applications which caused a reduction in revenue to us. In addition, such laws and regulations could cause internet service providers, or others, to block our products in order to enforce content-blocking efforts. In addition, efforts to block a single product or domain name may end up blocking a number of other products or domain names in an overbroad manner that could affect our business. Interpretations of laws or regulations that would subject us to regulatory enforcement actions, supervision or, in the alternative, require us to exit a line of business or a country, could lead to the loss of significant revenues and have a negative impact on the quality of our solutions. 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 U.S. 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.

In addition, from time to time, we use various contractual, technical and expert resources to reduce the likelihood of end user activity that is illegal, fraudulent or harmful to third parties. There can be no assurance that any of these initiatives will be successful or reduce such illegal, fraudulent or harmful content on our platform. Furthermore, such initiatives may also result in negative interactions with end users, negative perceptions of our policies or increased onboarding time for new customers.

***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. For example, 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. In addition, catastrophic natural disasters, such as an earthquake, fire, flood or other act of God, catastrophic event or pandemic, and any similar disruption, as well as any derivative disruption, such as those to services provided through localized physical infrastructure, including utility or telecommunication outages, or any to the continuity of our, our partners', suppliers' and our customers' workforce, could have a material adverse impact on our business and operating results. Our global operations are dependent on our network infrastructure, technology systems and website, including the supply of servers from our third-party partners, as well as our intellectual property and personnel and any disruption to these dependencies may negatively impact our ability to respond to customers, provide services and maintain local and global business continuity. Furthermore, some of our products and business functions are hosted or carried out by third parties that may be vulnerable to these same types of disruptions, the response to or resolution of which may be beyond our control. Any disruption to our business could cause us to incur significant costs to repair damages to our facilities, equipment, infrastructure and business relationships.

In addition, 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 which could adversely impact our business. 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 macroeconomic factors, such as inflationary pressures, foreign currency exchange rate fluctuations, energy prices, reduced consumer spending, increasing interest rates, recessionary economic cycles, protracted economic slowdowns and overall market volatility;
- repurchases of shares of our common stock;
- successful cyber-attacks affecting our network or systems;
- changes in the composition of company management, including company executives and the board of directors;
- entry into, or termination of, relationships with material customers and partners;
- performance by other companies in our industry; and
- geopolitical conditions such as acts of terrorism, military or armed conflicts, such as the Russian invasion of Ukraine, 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. 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 or obtain financing 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 November 2022 that provides for an initial \$500.0 million revolving credit facility, and under specified circumstances, the credit facility can be increased to up to \$1 billion in aggregate principal amount. As of June 30, 2023, there were \$20.0 million of outstanding borrowings under the credit facility. 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. If we do not have sufficient cash upon conversion of the notes or 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. If we incur significantly more debt, this could intensify the risks described above. In addition, if we are unable to obtain financing to fund additional capital expenditures, acquisitions, and general corporate and other purposes on reasonable terms, or at all, then our business, operations and financial condition may be harmed.

***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, additional disclosures and representations and warranties 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.

***We have identified a material weakness in our internal control over financial reporting, and our management has concluded that our disclosure controls and procedures are not effective. While we are working to remediate the identified material weakness, we cannot assure you that additional material weaknesses or significant deficiencies will not occur in the future. 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.***

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. As disclosed in this Form 10-K, in the course of our audit for fiscal 2022, we identified a material weakness in the Company's internal control over financial reporting as of December 31, 2022 related to income taxes. The material weakness was caused by an inadequate control over the adoption and application of new accounting standards related to income taxes and resulted in immaterial errors to net deferred tax assets and provision for income taxes for the interim periods ended March 31, 2022, June 30, 2022 and September 30, 2022. We have designed and implemented changes in processes and controls to remediate the material weakness. We cannot assure you that the measures we may take in the future will be sufficient to remediate the control deficiencies that led to a material weakness in our internal controls over financial reporting or that they will prevent or avoid potential future material weaknesses. The material weakness in the Company's internal control over financial reporting will not be considered remediated until the controls operate for a sufficient period of time and management has concluded, through testing that these controls operate effectively. If we do not successfully remediate

the material weakness, or if other material weaknesses or other deficiencies arise in the future, we may be unable to accurately report our financial results, which could cause our financial results to be materially misstated and require restatement.

We need to continue to enhance and 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 provide in the future adequate control over our financial processes and reporting and ensure compliance with Section 404. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results, may result in a restatement of our financial statements for prior periods, cause us to fail to meet our reporting obligations, and could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we are required to include in the periodic reports we will file with the Securities and Exchange Commission. 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 may 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 additional 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 second quarter of 2023 (in thousands, except share and per share data):

Period <sup>(1)</sup>	(a) Total Number of Shares Purchased <sup>(2)</sup>	(b) Average Price Paid per Share <sup>(3)</sup>	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(4)</sup>	(d) Approximate Dollar Value of Shares that May Yet be Purchased Under Plans or Programs <sup>(4)</sup>
April 1, 2023 – April 30, 2023	628,530	\$ 79.92	628,530	\$ 793,159
May 1, 2023 – May 31, 2023	661,304	83.59	661,304	737,882
June 1, 2023 – June 30, 2023	345,992	92.05	345,992	706,033
Total	<u>1,635,826</u>	<u>\$ 83.97</u>	<u>1,635,826</u>	

(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, but excludes any estimated excise taxes payable on share repurchases.

(4) Effective January 2022, our board of directors authorized a \$1.8 billion share repurchase program through December 2024.

## Item 5. Other Information

### (a) Frequency of Say on Pay

As previously reported on Form 8-K, in a non-binding advisory vote on the frequency of future advisory votes on named executive officer compensation held at the Company's 2023 annual meeting of stockholders ("2023 annual meeting") on May 11, 2023, 118,490,155 shares voted for one year, 42,655 shares voted for two years, 2,617,556 shares voted for three years, 143,368 shares abstained and there were 7,347,846 broker non-votes. The Company has considered the outcome of this advisory vote and has determined, as was recommended with respect to this proposal by the Company's board of directors in the proxy statement for the 2023 annual meeting, that the Company will hold future votes to approve the compensation paid to the Company's named executive officers ("say on pay votes") on an annual basis until the next required vote on the frequency of say on pay votes. This disclosure is intended to satisfy Item 5.07(d) of Form 8-K.

*(c) Director and Officer Trading Arrangements*

The following table describes, for the quarterly period covered by this report, each trading arrangement for the sale or purchase of Company securities adopted, terminated or for which the amount, pricing or timing provisions were modified by our directors and officers that is either (1) a contract, instruction or written plan intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) (a “Rule 10b5-1 trading arrangement”) or (2) a “non-Rule 10b5-1 trading arrangement” (as defined in Item 408(c) of Regulation S-K):

Name (Title)	Action Taken (Date of Action)	Type of Trading Arrangement	Nature of Trading Arrangement	Duration of Trading Arrangement	Aggregate Number of Securities to be Purchased or Sold
Paul C. Joseph (EVP, Global Sales and Services)	Adoption (May 23, 2023)	Rule 10b5-1 trading arrangement	Sales	Until March 15, 2024, or such earlier date upon which all transactions are completed or expire without execution	16,000 shares of common stock
Edward McGowan (EVP, Chief Financial Officer and Treasurer)	Adoption (June 14, 2023)	Rule 10b5-1 trading arrangement	Sales	Until March 18, 2024, or such earlier date upon which all transactions are completed or expire without execution	11,096 shares of common stock

**Item 6. Exhibits**

Exhibit 10.1	<a href="#">Akamai Technologies, Inc. Second Amended and Restated 2013 Stock Incentive Plan, as amended (incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-27275) filed with the Securities and Exchange Commission on May 15, 2023)</a>
Exhibit 31.1	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/ Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended</a>
Exhibit 31.2	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/ Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended</a>
Exhibit 32.1	<a href="#">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</a>
Exhibit 32.2	<a href="#">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</a>
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 June 30, 2023 and December 31, 2022, (ii) Condensed Consolidated Statements of Income for the three and six months ended June 30, 2023 and 2022, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2023 and 2022, (iv) Condensed Consolidated Statements of Stockholders' Equity for the three and six months ended June 30, 2023 and 2022, (v) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2023 and 2022 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.

August 8, 2023

By: /s/ Edward McGowan

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Edward McGowan

Executive Vice President, Chief Financial Officer and Treasurer (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: August 8, 2023

/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: August 8, 2023

/s/ Edward McGowan

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Edward McGowan, Executive Vice President, Chief Financial Officer and Treasurer

**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 June 30, 2023 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: August 8, 2023

/s/ F. Thomson Leighton

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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 June 30, 2023 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: August 8, 2023

/s/ Edward McGowan

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Edward McGowan, Executive Vice President, Chief Financial Officer and  
Treasurer