PACCAR INC
Form 11-K
June 27, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 11-K

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from   to

Commission file number 0-6394

PACCAR INC SAVINGS INVESTMENT PLAN

(Full title of plan)

PACCAR Inc

777 106th Avenue, N.E.

Bellevue, Washington 98004

(Name of issuer of securities held pursuant to the

plan and address of its principal executive office)

REQUIRED INFORMATION

A. Financial Statements and Schedules:

Report of Independent Registered Public Accounting Firm

Financial Statements:

Statements of Net Assets Available for Benefits

Statement of Changes in Net Assets Available for Benefits

Notes to Financial Statements

Supplemental Schedules:

Schedule H, Line 4i Schedule of Assets (Held at End of Year)

Schedule H, Line 4j Schedule of Reportable Transactions

B. Exhibits

23 Consent of Independent Registered Public Accounting Firm

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Date	June 27, 2008	PACCAR INC SAVINGS INVESTMENT PLAN	
		By:	/s/ Jack LeVier J. K. LeVier Vice President - Human Resources PACCAR Inc

Financial Statements and Supplemental Schedules

PACCAR Inc Savings Investment Plan

December 31, 2007 and 2006 and Year Ended December 31, 2007

With Report of Independent Registered Public Accounting Firm

PACCAR Inc
Savings Investment Plan

Financial Statements and Supplemental Schedules

December 31, 2007 and 2006 and
Year Ended December 31, 2007

Contents

Report of Independent Registered Public Accounting Firm

The Administrator

PACCAR Inc Savings Investment Plan

We have audited the accompanying statements of net assets available for benefits of the PACCAR Inc Savings Investment Plan as of December 31, 2007 and 2006, and the related statement of changes in net assets available for benefits for the year ended December 31, 2007. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan s internal control over financial reporting. Our audits included consideration of the Plan s internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2007 and 2006, and the changes in its net assets available for benefits for the year ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of assets (held at end of year) as of December 31, 2007, and reportable transactions for the year then ended, are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan s management. The supplemental schedules have been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

Seattle, Washington
June 27, 2008

/s/ ERNST & YOUNG LLP

PACCAR Inc

Savings Investment Plan

Statements of Net Assets Available for Benefits

December 31		**2007**		**2006**
Assets				
Investments, at fair value:				
Money market funds	**$**	**155,323**	$	155,213
Commingled trust funds		**197,801,886**		199,031,987
Mutual funds		**452,163,839**		391,002,629
Common stock		**1,170,809,942**		981,906,112
Participant loans		**31,783,494**		32,111,609
Total investments		**1,852,714,484**		1,604,207,550
Dividends receivable		**22,088,061**		30,822,157
Due from broker for securities sold		**588,050**		1,534,267
Total assets		**1,875,390,595**		1,636,563,974
Liabilities				
Accrued expenses		**43,088**		41,903
Net assets reflecting all investments at fair value		**1,875,347,507**		1,636,522,071
Adjustment from fair value to contract value for investment contracts held by commingled trust funds (Note 7)		**870,201**		1,325,614
Net assets available for benefits	**$**	**1,876,217,708**	$	1,637,847,685

See accompanying notes.

PACCAR Inc

Savings Investment Plan

Statement of Changes in Net Assets Available for Benefits

Year Ended December 31		**2007**
Additions		
Investment income:		
Net appreciation of investments	**$**	**273,801,912**
Interest and dividends		**66,737,594**
		340,539,506
Contributions:		
Company		**18,422,744**
Participants		**38,983,336**
		57,406,080
Total additions		**397,945,586**
Deductions		
Benefits paid to participants		**159,349,434**
Administrative expenses		**226,129**
Total deductions		**159,575,563**
Net increase		**238,370,023**
Net assets available for benefits at beginning of year		**1,637,847,685**
Net assets available for benefits at end of year	**$**	**1,876,217,708**

See accompanying notes.

PACCAR Inc

Savings Investment Plan

Notes to Financial Statements

1. Description of the Plan

The PACCAR Inc Savings Investment Plan (the Plan) is a defined contribution plan covering substantially all non-union U.S. employees of PACCAR Inc and its U.S. subsidiaries (the Company). Covered employees are eligible to participate in the Plan after completion of 30 days of service. Participants are eligible to receive employer contributions after one year of service. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code of 1986 (the Code). This description of the Plan provides only general information. Participants should refer to the Plan document for a complete description of the Plan s provisions.

Contributions

Participants may elect to contribute not less than 1% and not more than 35% of their respective annual compensation (as defined in the Plan document) subject to the Code s annual maximum of $15,500 and $15,000 for 2007 and 2006, respectively. Participant contributions to the Plan are excluded from the participants current taxable earnings in accordance with Code Section 401(k). Beginning in 2002, catch-up contributions were made available under the Plan for those participants age 50 and older. The maximum annual catch-up contribution for 2007 and 2006 was $5,000.

For eligible participants who are actively employed at December 31 of each year, the Company matches participant contributions (excluding age 50 catch-up deferrals) to the lesser of 5% of the participants respective annual compensation or their annual salary deferrals. In certain cases, as described in the Plan document, employees who terminated during the year will be eligible to receive matching contributions. The Company s matching contributions of $18,422,744 and $18,462,196 were unallocated at December 31, 2007 and 2006, respectively. The matching contributions are allocated to participant accounts in January each year based on determination of eligibility as described above. The Company matches contributions in the form of PACCAR Inc common stock. The Company may suspend or reduce its contributions when its Consolidated Net Earnings are less than 8% of the Company s Capital Base, as defined by the Plan.

Participant Accounts

Individual accounts are maintained for all Plan participants that reflect their contributions and related Company contributions to the Plan and any earnings or losses on the Plan s investments.

PACCAR Inc

Savings Investment Plan

Notes to Financial Statements (continued)

1. Description of the Plan (continued)

Vesting

Plan participants are immediately 100% vested in participant and Company matching contributions when made, plus any investment earnings thereon.

Investment Options

Upon enrollment in the Plan, participants may direct their employee contributions in whole percentage increments to any of the Plan s fund options. Participants may subsequently change their investment options for either existing or future participant contributions, subject to trading limitations on certain of the Plan s individual fund options.

Effective April 1, 2005, PACCAR Inc amended and restated the Plan to provide that a portion of the Plan will constitute an employee stock ownership plan within the meaning of IRC Section 4975(e)(7). Effective July 1, 2005, participants can choose to reinvest dividends in PACCAR Inc common stock or they can elect to receive the dividends in cash.

Effective January 1, 2007, all participants with three or more years of service have the ability to make an unlimited number of transfers, at any time, of some or all of their Company matching contribution balances held in the PACCAR Inc common stock fund into any of the other investment fund options within the Plan.

Participant Loans

Actively employed participants may borrow from their individual accounts a minimum of $1,000, up to the lesser of $50,000 reduced by the highest outstanding loan balance during the previous 12 months, 50% of the participants total account balance, or the participants total account balance excluding Company matching contributions in the PACCAR Inc common stock fund and related earnings. Loan terms range from 1 to 5 years, or up to 15 years for the purchase of a primary residence, and early payoffs can be made without penalty. The loans are secured by the balance in the participant s account and bear interest at a fixed rate equal to the prime rate plus 1%, determined as of the loan date. Interest rates ranged from 5.0% to 10.5% on loans outstanding as of December 31, 2007. Principal and interest are repaid either through after-tax payroll deductions or by personal check sent directly to Fidelity Management Trust Company (the Trustee). Loans outstanding do not affect the amount of annual matching contributions the

PACCAR Inc

Savings Investment Plan

Notes to Financial Statements (continued)

1. Description of the Plan (continued)

Company pays to participants accounts. The number of loans that a participant can take is limited to two new loans per calendar year.

Benefit Payments

Participants who leave the Company may choose a single cash payment or whole shares of PACCAR Inc common stock included in the participant s account, plus a cash payment for the remaining balance. Participants who leave the Company whose account balance is less than $1,000 will automatically receive a single cash payment. Also, active employees who reach age 70½ have the additional options of electing to have their account balances distributed to them or to receive minimum required distributions.

Plan Termination

It is the intention of the Company that the Plan will continue indefinitely. However, should the Company elect to terminate the Plan subject to the provisions of ERISA, the termination date shall be treated as the valuation date, and the balances in the participants accounts will be distributed to them.

Expenses

Third-party management fees are charged to the Plan, and the Company pays all other expenses relating to the Plan s administration.

2. Summary of Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

Investment Valuation and Income Recognition

The Plan s investments are stated at fair value. Shares of mutual funds are valued based on quoted market prices which represent the net asset value of shares held by the Plan at year-end. The fair value of the participation units in common collective trusts (other than the Fidelity Managed Income Portfolio II (MIP II), as subsequently defined) is based on the net asset value of units on the last business day of the Plan s year-end. Participant loans are valued at their outstanding balances, which approximate fair value.

PACCAR Inc

Savings Investment Plan

Notes to Financial Statements (continued)

2. Summary of Accounting Policies (continued)

As described in Financial Accounting Standards Board Staff Position (FSP) AAG INV-1 and SOP 94-4-1, Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans (the FSP), investment contracts held by a defined contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The Plan invests in investment contracts through a common collective trust (MIP II Fund). As required by the FSP, the statements of net assets available for benefits present the fair value of the MIP II Fund and the adjustment from fair value to contract value. The fair value of the Plan s interest in the MIP II Fund is based on information reported by the issuer of the common collective trust at year-end. The contract value of the MIP II Fund represents contributions plus earnings, less participant withdrawals and administrative expenses.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Risks and Uncertainties

The Plan provides for various investment options. Investment securities, in general, are exposed to various risks, such as interest rate, market volatility, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the value of participants account balances and the amounts reported in the financial statements.

PACCAR Inc

Savings Investment Plan

Notes to Financial Statements (continued)

2. Summary of Accounting Policies (continued)

New Accounting Principle

In September 2006, the Financial Accounting Standards Board issued Statement on Financial Accounting Standards No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurement. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Plan will adopt the provisions of SFAS No. 157 for its December 31, 2008 financial statements. The Plan is currently evaluating the potential impact of adoption of SFAS No. 157; however, management does not believe adoption will have a material impact on the Plan s financial statements.

PACCAR Inc

Savings Investment Plan

Notes to Financial Statements (continued)

3. Investments

Assets held in the Plan are managed and investment transactions are executed by the Trustee or other outside mutual fund companies.

During the year ended December 31, 2007, the Plan s investments (including investments purchased, sold, as well as held during the year) appreciated (depreciated) in fair value as determined by quoted market prices as follows:

Year Ended December 31, 2007		Net Appreciation (Depreciation) in Fair Value of Investments
Fidelity commingled trust funds:		
U.S. Equity Index Commingled Pool	$	5,019,700
Fidelity mutual funds:		
Contrafund		20,318,092
Asset Manager 70%		2,248,385
Asset Manager 50%		(1,089,930)
Asset Manager 20%		(321,401)
Freedom Income		(106,355)
Freedom 2000		(25)
Freedom 2010		107,049
Freedom 2020		160,594
Freedom 2030		115,989
Freedom 2040		123,313
Other mutual funds:		
PIMCO Total Return Fund:		
Institutional Class		646,157
Morgan Stanley Institutional Fund, Inc:		
International Equity Portfolio Class I		(3,038,221)
JP Morgan Mid Cap Value Fund:		
Institutional Class		(2,339,499)
Other investments:		
PACCAR Inc common stock		251,958,064
	$	273,801,912

PACCAR Inc

Savings Investment Plan

Notes to Financial Statements (continued)

3. Investments (continued)

The fair value of investments that represent 5% or more of the Plan s net assets are as follows:

December 31		2007		2006
PACCAR Inc common stock*	**$**	**1,170,809,942**	$	981,906,112
Contrafund		**189,698,998**		171,562,761
Managed Income Portfolio II Class 2		**114,777,402**		110,559,124
U.S. Equity Index Commingled Pool**				88,472,863

* Includes Company matching contributions, some of which are nonparticipant-directed.

** The fair value of investments represents less than 5% of the Plan s net assets as of December 31, 2007.

4. Nonparticipant-Directed Investments

The only nonparticipant-directed investments in the Plan are held in PACCAR Inc common stock, in which participant-directed investments also are made. The investment activity cannot be split between participant-directed and nonparticipant-directed transactions. The information below regarding net assets and the significant changes in net assets relates to the nonparticipant-directed and participant-directed transactions in PACCAR Inc common stock.

December 31		2007		2006
Investments in PACCAR Inc common stock at fair value	**$**	**1,170,809,942**	$	981,906,112
Dividends receivable		**21,523,367**		30,350,298
	$	**1,192,333,309**	$	1,012,256,410

Year Ended December 31		2007
Changes in net assets:		
Contributions	**$**	**27,741,129**
Dividends and interest		**26,599,742**
Net appreciation in fair value		**251,958,064**
Net transfers to other participant-directed investments		**(63,565,568)**

Benefits paid to participants		**(62,772,778)**
Net participant loan repayments		**116,310**
	$	**180,076,899**

PACCAR Inc

Savings Investment Plan

Notes to Financial Statements (continued)

5. Income Tax Status

The Plan has received a determination letter from the Internal Revenue Service (IRS) dated October 2, 2002 stating that the Plan is qualified under Section 401(a) of the Code and, therefore, the related trust is exempt from taxation. Subsequent to this determination by the IRS, the Plan has been amended and restated. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan, as amended and restated, is qualified and the related trust is tax exempt.

To comply with the Pension Protection Act of 2006, the Plan was amended and restated effective January 1, 2006. On January 30, 2007, an application for a new determination letter for the Plan was submitted to the IRS. As of May 31, 2008, the application was still being processed.

6. Transactions with Parties in Interest

The Plan invests in the common stock of the Plan s sponsor, PACCAR Inc, which is purchased by the Trustee on the open market at fair value. The Plan made purchases totaling $161,494,185 and sales totaling $366,101,151 of PACCAR Inc common stock during 2007. The Plan received dividends on this stock totaling $35,426,673 in 2007. Dividends receivable as of December 31, 2007 and 2006 were $21,523,367 and $30,350,298, respectively.

7. Reconciliation of Financial Statements to Form 5500

Effective January 1, 2006, the Plan adopted the FSP. The FSP was effective for plan years ending after December 15, 2006 and required fully benefit-responsive investment contracts held by defined contribution plans to be reported at fair value instead of contract value. A fully benefit-responsive investment contract is defined in the FSP to include investment contracts that the Plan invests in through its participation in the MIP II, a commingled trust fund.

As required by the FSP, the statements of net assets available for benefits present the fair value of the investment in the MIP II, as well as the adjustment of the investment in the MIP II from fair value to contract value relating to those investment contracts. The statement of changes in net assets available for benefits is prepared on a contract value basis.

PACCAR Inc

Savings Investment Plan

Notes to Financial Statements (continued)

7. Reconciliation of Financial Statements to Form 5500 (continued)

The following is a reconciliation of net assets available for benefits per the financial statements at December 31, 2007 and 2006 to Form 5500:

December 31		**2007**		**2006**
Net assets available for benefits per the financial statements	**$**	**1,876,217,708**	$	1,637,847,685
Less: Adjustment from fair value to contract value for investment contracts held by commingled trust funds		**(870,201)**		(1,325,614)
Net assets available for benefits per Form 5500	**$**	**1,875,347,507**	$	1,636,522,071

The following is a reconciliation of changes in net assets per the financial statements for the year ended December 31, 2007 to Form 5500:

Year Ended December 31		**2007**
Increase in net assets per the financial statements	**$**	**397,945,586**
Less: Adjustment from fair value to contract value for investment contracts held by commingled trust funds December 31, 2007		**(870,201)**
Add: Adjustment from fair value to contract value for investment contracts held by commingled trust funds December 31, 2006		**1,325,614**
Net income per Form 5500	**$**	**398,400,999**

PACCAR Inc

Savings Investment Plan

EIN: 91-0351110 Plan Number: 002

Schedule H, Line 4i Schedule of Assets

(Held at End of Year)

December 31, 2007

(a)	(b) Identity of Issue, Fund or Borrower	(c) Description of Investment	(d) Cost	(e) Current Value
	Money market funds			
*	Fidelity Management Trust Company:			
	Retirement Money Market	155,323 units	(1)	$ 155,323
	Commingled trust funds			
*	Fidelity Management Trust Company:			
	Managed Income Portfolio II Class 2	115,647,603 units	(1)	114,777,402
	U.S. Equity Index Commingled Pool	1,734,012 units	(1)	83,024,484
	Mutual funds			
*	Fidelity Management Trust Company:			
	Contrafund	2,594,707 units	(1)	189,698,998
	Asset Manager 70%	2,704,515 units	(1)	45,949,713
	Asset Manager 50%	2,070,408 units	(1)	32,112,030
	Asset Manager 20%	1,864,541 units	(1)	23,250,824
	Freedom Income	501,172 units	(1)	5,738,416
	Freedom 2000	130,086 units	(1)	1,609,159
	Freedom 2010	1,332,837 units	(1)	19,752,651
	Freedom 2020	971,517 units	(1)	15,359,684
	Freedom 2030	496,025 units	(1)	8,194,337
	Freedom 2040	465,919 units	(1)	4,533,389
	PIMCO Total Return Fund:			
	Institutional Class	2,413,730 units	(1)	25,802,775
	Morgan Stanley Institutional Fund, Inc:			
	International Equity Portfolio Class I	1,914,590 units	(1)	36,224,045
	JP Morgan Mid Cap Value Fund:			
	Institutional Class	1,791,187 units	(1)	43,937,818
	Other investments			
*	PACCAR Inc common stock	21,490,534 shares	394,342,185	1,170,809,942
*	Participant loans	Maturing through November 23, 2022		

with interest rates					
	5.0%	10.5%	31,783,494		31,783,494
				$	1,852,714,484

* Indicates party in interest to the Plan.
(1) Cost information is omitted, as investments are participant-directed.

PACCAR Inc

Savings Investment Plan

EIN: 91-0351110 Plan Number: 002

Schedule H, Line 4j Schedule of Reportable Transactions

Year Ended December 31, 2007

(a) Identity of Party Involved	(b) Description of Asset	(c) Purchase Price	(d) Selling Price	(g) Cost of Asset	(h) Current Value of Asset on Transaction Date	(i) Net Gain
Category (iii)	**Series of securities transactions aggregating in excess of 5% of Plan assets.**					
PACCAR Inc	Common stock	$ 161,494,185	$	$ 161,494,185	$ 161,494,185	$
	Common stock	$	$ 366,101,151	$ 224,541,628	$ 366,101,151	$ 141,559,523

There were no category (i), (ii), or (iv) reportable transactions during the year.

Columns (e) and (f) are not applicable.

iv style="overflow:hidden;font-size:10pt;">
Average Price
Paid per Share

Total Number of
Shares Purchased
per the Publicly
Announced Plan

Approximate Dollar
Value of Shares
that May Yet be
Purchased

Under the Plan
October 1, 2016 — October 31, 2016

—

$
—

—

$
773,743

November 1, 2016 — November 30, 2016

1,055,640

$
142.11

1,055,640

$
623,722

December 1, 2016 — December 31, 2016

—

$
—

—

$
623,722

January 1, 2017 — January 31, 2017

—

$
—

—

$
623,722

February 1, 2017 — February 28, 2017

1,085,862

$
138.16

1,085,862

$
473,700

March 1, 2017 — March 31, 2017

—

$
—

—

$
473,700

April 1, 2017 — April 30, 2017

—

$
—

—

$
473,700

May 1, 2017 — May 31, 2017

1,159,665

$
129.37

1,159,665

$
323,677

June 1, 2017 — June 30, 2017

—

$
—

—

$
323,677

July 1, 2017 — July 31, 2017

—

$
—

—

$
323,677

August 1, 2017 — August 31, 2017

1,260,046

$
119.06

1,260,046

$
173,652

September 1, 2017 — September 30, 2017

—

$
—

—

$
173,652

32

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Performance Measurement Comparison of Shareholder Return

The following graph compares the annual percentage change in the cumulative total return on shares of our common stock, the Nasdaq Composite Index and the Nasdaq Computer Index for the period commencing September 30, 2012, and ending September 30, 2017.

Comparison of Cumulative Total Return

On Investment Since September 30, 2012*

The Company's closing stock price on September 29, 2017, the last trading day of the Company's 2017 fiscal year, was $120.56 per share.

* Assumes that $100 was invested September 30, 2012 in shares of Common Stock and in each index, and that all dividends were reinvested. Shareholder returns over the indicated period should not be considered indicative of future shareholder returns.

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Item 6. Selected Financial Data

The following selected consolidated historical financial data are derived from our audited financial statements. The consolidated balance sheet data as of September 30, 2017 and 2016 and the consolidated income statement data for the years ended September 30, 2017, 2016 and 2015 are derived from our audited consolidated financial statements and related notes that are included elsewhere in this report. The consolidated balance sheet data as of September 30, 2015, 2014 and 2013 and the consolidated income statement data for the years ended September 30, 2014 and 2013 are derived from our audited consolidated financial statements and related notes which are not included in this report. The information set forth below should be read in conjunction with our historical financial statements, including the notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this report.

	Years Ended September 30,				
	2017	2016	2015	2014	2013
	(In thousands, except per share data)				
Consolidated Income Statement Data					
Net revenues					
Products	$964,662	$944,469	$991,539	$936,130	$798,856
Services	1,125,379	1,050,565	928,284	795,916	682,458
Total	2,090,041	1,995,034	1,919,823	1,732,046	1,481,314
Cost of net revenues					
Products	176,032	166,624	174,225	158,788	129,066
Services	177,453	170,581	158,036	151,171	123,981
Total	353,485	337,205	332,261	309,959	253,047
Gross profit	1,736,556	1,657,829	1,587,562	1,422,087	1,228,267
Operating expenses					
Sales and marketing	652,239	628,743	602,540	558,284	483,041
Research and development	350,365	334,227	296,583	263,792	209,614
General and administrative	156,887	138,431	135,540	106,454	102,401
Loss on facility sublease (1)	—	—	—	—	2,393
Litigation expense (2)	391	9,051	—	—	—
Restructuring charges (3)	12,718	—	—	—	—
Total	1,172,600	1,110,452	1,034,663	928,530	797,449
Income from operations	563,956	547,377	552,899	493,557	430,818
Other income, net	11,561	2,514	8,445	3,785	7,274
Income before income taxes	575,517	549,891	561,344	497,342	438,092
Provision for income taxes	154,756	184,036	196,330	186,159	160,778
Net income	$420,761	$365,855	$365,014	$311,183	$277,314
Net income per share — basic	$6.56	$5.43	$5.07	$4.13	$3.53
Weighted average shares — basic	64,173	67,433	71,944	75,395	78,565
Net income per share — diluted	$6.50	$5.38	$5.03	$4.09	$3.50
Weighted average shares — diluted	64,775	67,984	72,547	76,092	79,136
Consolidated Balance Sheet Data					
Cash, cash equivalents, and short-term investments	$1,016,928	$882,395	$774,342	$645,379	$542,143
Restricted cash (4)	1,224	1,151	1,149	798	860
Long-term investments	284,802	276,375	397,656	482,917	728,981
Total assets	2,480,800	2,306,323	2,312,290	2,184,950	2,230,554
Long-term liabilities	316,807	276,823	240,439	178,659	140,492
Total shareholders' equity	1,229,392	1,185,262	1,316,728	1,369,310	1,538,712

(1) Loss on facility sublease expense represents a charge related to the consolidation of certain subleases at our corporate headquarters in Seattle, Washington.

(2) Litigation expense primarily represents a patent-related jury verdict and legal fees associated with the litigation.

(3) Restructuring charges represent severance and other employee-related costs associated with a workforce reduction that took place in the fourth quarter of fiscal 2017.

(4) Restricted cash represents escrow accounts established in connection with lease agreements for our facilities.

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

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

Overview

We are a global provider of software-defined application delivery services designed to ensure the fast, secure and reliable delivery of applications and data. Our products include hardware-based software, software-only solutions, cloud-based subscription services and a common management framework that enable customers to accelerate, optimize, secure and manage applications across hybrid computing infrastructures that combine traditional networks and data centers with software-defined networks, virtualized data centers and cloud-based resources. We market and sell our products primarily through multiple indirect sales channels in the Americas (primarily the United States); Europe, the Middle East, and Africa (EMEA); Japan; and the Asia Pacific region (APAC). Enterprise customers (Fortune 1000 or Business Week Global 1000 companies) in the technology, telecommunications, financial services, transportation, education, manufacturing and health care industries, along with government customers, continue to make up the largest percentage of our customer base.

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

- Revenues. The majority of our revenues are derived from sales of our application delivery networking (ADN) products including our BIG-IP appliances and high end VIPRION chassis and related software modules and our software-only Virtual Editions; Local Traffic Manager (LTM), DNS Services (formerly Global Traffic Manager); Advanced Firewall Manager (AFM) and Policy Enforcement Manager (PEM), that leverage the unique performance characteristics of our hardware and software architecture; and products that incorporate acquired technology, including Application Security Manager (ASM) and Access Policy Manager (APM); signaling delivery controller products (SDC); and the WebSafe, MobileSafe, Secure Web Gateway and Silverline DDoS and Application security offerings which are sold to customers on a subscription basis. We also derive revenues from the sales of services including annual maintenance contracts, training and consulting services. We carefully monitor the sales mix of our revenues within each reporting period. We believe customer acceptance rates of our new products and feature enhancements are indicators of future trends. We also consider overall revenue concentration by customer and by geographic region as additional indicators of current and future trends.
- Cost of revenues and gross margins. We strive to control our cost of revenues and thereby maintain our gross margins. Significant items impacting cost of revenues are hardware costs paid to our contract manufacturers, third-party software license fees, amortization of developed technology and personnel and overhead expenses. Our margins have remained relatively stable; however, factors such as sales price, product and services mix, inventory obsolescence, returns, component price increases and warranty costs could significantly impact our gross margins from quarter to quarter and represent significant indicators we monitor on a regular basis.
- Operating expenses. Operating expenses are substantially driven by personnel and related overhead expenses. Existing headcount and future hiring plans are the predominant factors in analyzing and forecasting future operating expense trends. Other significant operating expenses that we monitor include marketing and promotions, travel, professional fees, computer costs related to the development of new products and provision of services, facilities and depreciation expenses.
- Liquidity and cash flows. Our financial condition remains strong with significant cash and investments and no long term debt. The increase in cash and investments for fiscal year 2017 was primarily due to cash provided by operating

activities of $740.3 million, partially offset by cash used to repurchase outstanding common stock under our share repurchase program of $600.1 million and capital expenditures of $38.7 million. Going forward, we believe the primary driver of cash flows will be net income from operations. Capital expenditures for fiscal year 2017 were primarily related to the expansion of our facilities to support our operations worldwide as well as investments in information technology infrastructure and equipment purchases to support our core business activities. We will continue to evaluate possible acquisitions of, or investments in businesses, products, or technologies that we believe are strategic, which may require the use of cash.

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- Balance sheet. We view cash, short-term and long-term investments, deferred revenue, accounts receivable balances and days sales outstanding as important indicators of our financial health. Deferred revenues continued to increase in fiscal 2017 due to growth in the amount of annual maintenance contracts purchased on new products and maintenance renewal contracts related to our existing product installation base. Our days sales outstanding for the fourth quarter of fiscal year 2017 was 49.

Critical Accounting Policies

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

We believe the following critical accounting policies affect the more significant estimates and judgments used in the preparation of our financial statements.

Revenue Recognition. We sell products through distributors, resellers, and directly to end users. Revenue is recognized provided that all of the following criteria have been met:

- Persuasive evidence of an arrangement exists. Evidence of an arrangement generally consists of a purchase order issued pursuant to the terms and conditions of a distributor, reseller or end user agreement.
- Delivery has occurred. We use shipping or related documents, or written evidence of customer acceptance, when applicable, to verify delivery or completion of any performance terms.
- The sales price is fixed or determinable. We assess whether the sales price is fixed or determinable based on payment terms associated with the transaction and whether the sales price is subject to refund or adjustment.
- Collectability is reasonably assured. We assess collectability primarily based on the creditworthiness of the customer as determined by credit checks and related analysis, as well as the customer’s payment history.

Revenue from the sale of products is generally recognized when the product has been shipped and the customer is obligated to pay for the product. When rights of return are present and we cannot estimate returns, revenue is recognized when such rights of return lapse. Payment terms to domestic customers are generally net 30 days to net 45 days. Payment terms to international customers range from net 30 days to net 120 days based on normal and customary trade practices in the individual markets.

Revenues for post-contract customer support (PCS) are recognized on a straight-line basis over the service contract term. PCS includes a limited period of telephone support, updates, repair or replacement of any failed product or component that fails during the term of the agreement, bug fixes and rights to upgrades, when and if available.

Consulting services are customarily billed at fixed hourly rates, plus out-of-pocket expenses, and revenues are recognized when the consulting has been completed. Training revenue is recognized when the training has been completed.

Arrangement consideration is first allocated between software (consisting of nonessential and stand-alone software) and non-software deliverables. The majority of our products are hardware appliances which contain software essential to the overall functionality of the products. Hardware appliances are generally sold with PCS and on occasion, with consulting and/or training services. Arrangement consideration in such multiple element transactions is allocated to each element based on a fair value hierarchy, where the selling price for an element is based on vendor specific objective evidence (VSOE), if available, third-party evidence (TPE), if available and VSOE is not available; or the best estimate of selling price (BESP), if neither VSOE or TPE is available.

For software deliverables, we allocate revenue between multiple elements based on software revenue recognition guidance. Software revenue recognition guidance requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair values of those elements. The fair value of an element must be based on VSOE. Where fair value of delivered elements is not available, revenue is recognized on the “residual method” based on the fair value of undelivered elements. If evidence of fair value of one or more undelivered elements does not exist, all revenue is deferred and recognized at the earlier of the delivery of those elements or the establishment of fair value of the remaining undelivered elements.

We establish VSOE for our products, PCS, consulting and training services based on the sales price charged for each element when sold separately. The sales price is discounted from the applicable list price based on various factors including the type of customer, volume of sales, geographic region and program level. Our list prices are generally not fair value as discounts

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may be given based on the factors enumerated above. We use historical sales transactions to determine whether VSOE can be established for each of the elements. In most instances, VSOE of fair value is the sales price of actual standalone (unbundled) transactions within the past 12 month period, when a substantial majority of transactions (more than 80%) are priced within a narrow range, which we have determined to be plus or minus 15% of the median sales price.

We believe that the VSOE of fair value of training and consulting services is represented by the billable rate per hour, based on the rates charged to customers when they purchase standalone training or consulting services. The price of consulting services is not based on the type of customer, volume of sales, geographic region or program level.

We are typically not able to determine VSOE or TPE for non-software products. TPE is determined based on competitor prices for similar elements when sold separately. Generally, our go-to-market strategy differs from that of other competitive products or services in its markets and our offerings contain a significant level of differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, we are unable to reliably determine the selling prices on a stand-alone basis of similar products offered by our competitors.

When we are unable to establish selling price using VSOE or TPE, we use BESP in our allocation of arrangement consideration. The objective of BESP is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. We have been able to establish BESP through the list price, less a discount deemed appropriate to maintain a reasonable gross margin. Management regularly reviews gross margin information at the consolidated level. Non-software product BESP is determined through our review of historical sales transactions within the past 12 month period. Additional factors considered in determining an appropriate BESP include, but are not limited to, cost of products, pricing practices, geographies, customer classes, and distribution channels.

We regularly validate the VSOE of fair value and BESP for elements in its multiple element arrangements. We account for taxes collected from customers and remitted to governmental authorities on a net basis and excluded these amounts from revenues.

Reserve for Doubtful Accounts. Estimates are used in determining our allowance for doubtful accounts and are based upon an assessment of selected accounts and as a percentage of our remaining accounts receivable by aging category. In determining these percentages, we evaluate historical write-offs, current trends in the credit quality of our customer base, as well as changes in the credit policies. We perform ongoing credit evaluations of our customers' financial condition and do not require any collateral. If there is deterioration of a major customer's credit worthiness or actual defaults are higher than our historical experience, our allowance for doubtful accounts may not be sufficient.

Reserve for Product Returns. In some instances, product revenue from distributors is subject to agreements allowing rights of return. Product returns are estimated based on historical experience and are recorded at the time revenues are recognized. Accordingly, we reduce recognized revenue for estimated future returns at the time revenue is recorded. When rights of return are present and we cannot estimate returns, revenue is recognized when such rights lapse. The estimates for returns are adjusted periodically based upon changes in historical rates of returns and other related factors. It is possible that these estimates will change in the future or that the actual amounts could vary from our estimates.

Accounting for Income Taxes. We are required to estimate our income taxes in each of the jurisdictions in which we operate as part of the process of preparing our consolidated financial statements. This process involves estimating our actual current tax exposure, including assessing the risks associated with tax audits, together with assessing temporary differences resulting from the different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. Due to the evolving nature and complexity of tax rules combined with the large number of jurisdictions in which we operate, it is possible that our estimates of our tax liability could change in the future, which may result in additional tax liabilities and adversely affect our results of operations, financial condition and cash flows.

Stock-based Compensation. We account for stock-based compensation using the straight-line attribution method for recognizing compensation expense over the requisite service period of the related award. We recognized $175.3 million and $156.8 million of stock-based compensation expense for the years ended September 30, 2017 and 2016, respectively. As of September 30, 2017, there was $126.1 million of total unrecognized stock-based compensation cost, the majority of which will be recognized over the next two years. Going forward, stock-based compensation expenses may increase as we issue additional equity-based awards to continue to attract and retain key employees. We issue incentive awards to our employees through stock-based compensation consisting of restricted stock units (RSUs). The value of RSUs is determined using the fair value method, which in this case, is based on the number of shares granted and the quoted price of our common stock on the date of grant. In determining the fair value of shares issued under the Employee Stock Purchase Plan (ESPP), we use the Black-Scholes option pricing model. We recognize compensation expense related to shares issued pursuant to the ESPP on a straight-line basis over the offering period.

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We recognize compensation expense for only the portion of RSUs that are expected to vest. Therefore, we apply estimated forfeiture rates that are derived from historical employee termination behavior. Based on historical differences with forfeitures of stock-based awards granted to our executive officers and Board of Directors versus grants awarded to all other employees, we developed separate forfeiture expectations for these two groups.

We recognize compensation costs for awards with performance conditions when we conclude it is probable that the performance condition will be achieved. We reassess the probability of vesting at each balance sheet date and adjust compensation costs based on our probability assessment.

Common stock repurchase. On April 20, 2016, we announced that our Board of Directors authorized an additional \$1.0 billion for our common stock share repurchase program. This new authorization is incremental to the existing \$2.4 billion program, initially approved in October 2010 and expanded in each fiscal year. Acquisitions for the share repurchase programs will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. The programs can be terminated at any time. During fiscal year 2017, we repurchased and retired 4,561,213 shares at an average price of \$131.56 per share and as of September 30, 2017, we had \$173.7 million remaining authorized to purchase shares.

Goodwill and acquired intangible assets. Goodwill represents the excess purchase price over the estimated fair value of net assets acquired as of the acquisition date. We test goodwill for impairment on an annual basis and between annual tests when impairment indicators are identified. Goodwill is written down when impaired. Goodwill was recorded in connection with various acquisitions in fiscal year 2014 and prior years. For our annual goodwill impairment test in all periods to date, we have operated under one reporting unit and the fair value of the reporting unit has been determined by the Company's enterprise value. We perform our annual goodwill impairment test during the second fiscal quarter.

As part of the annual goodwill impairment test, we have the option to perform a qualitative assessment to determine whether further impairment testing is necessary. If, as a result of its qualitative assessment, it is more-likely-than-not (i.e. greater than 50% chance) that the fair value of our reporting unit is less than its carrying amount, the quantitative impairment test will be required. Otherwise, no further testing will be required. If we choose to bypass the qualitative assessment, we complete a quantitative assessment in performing our annual impairment test.

Examples of events and circumstances that might indicate that a reporting unit's fair value is less than its carrying amount include macro-economic conditions such as deterioration in the entity's operating environment or industry or market considerations; entity-specific events such as increasing costs, declining financial performance, or loss of key personnel; or other events such as an expectation that a reporting unit will be sold or a sustained decrease in the stock price on either an absolute basis or relative to peers.

If it is determined, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of our reporting unit is less than its carrying amount, the provisions of authoritative guidance require that we perform a two-step impairment test on goodwill. The first step of the test identifies whether potential impairment may have occurred, while the second step of the test measures the amount of the impairment, if any. Impairment is recognized when the carrying amount of goodwill exceeds its fair value. During the year, we performed our goodwill impairment assessment and concluded that it was more-likely-than-not that the fair value of our reporting unit exceeded its carrying amount. We considered potential impairment indicators of goodwill and acquired intangible assets at September 30, 2017 and noted no indicators of impairment.

Software development costs. The authoritative guidance requires certain internal software development costs related to software to be sold to be capitalized upon the establishment of technological feasibility. Our software development costs incurred subsequent to achieving technological feasibility have not been significant, and all software development costs have been expensed as research and development activities as incurred.

Internal use software. In accordance with the authoritative guidance, we capitalize application development stage costs associated with the development of new functionality for internal-use software and software developed related to our SaaS-based product offerings. The capitalized costs are then amortized over the estimated useful life of the software, which is generally three to five years, and are included in property and equipment in the accompanying consolidated balance sheets.

Investments. Our investments are diversified among high-credit quality debt securities in accordance with our investment policy. We classify our investments as available-for-sale, which are reported at fair market value with the related unrealized gains and losses included in accumulated other comprehensive income or loss in stockholders' equity. Realized gains and losses and declines in value of these investments judged to be other than temporary are included in other income (expense). To date, we have not deemed it necessary to record any charges related to other-than-temporary declines in the estimated fair values of our marketable debt securities. However, the fair value of our investments is subject to volatility. Declines in the fair value of our investments judged to be other than temporary could adversely affect our future operating results.

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Results of Operations

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

	Years Ended September 30,		
	2017	2016	2015
	(in thousands, except percentages)		
Net Revenues			
Products	$964,662	$944,469	$991,539
Services	1,125,379	1,050,565	928,284
Total	$2,090,041	$1,995,034	$1,919,823
Percentage of net revenues			
Products	46.2 %	47.3 %	51.6 %
Services	53.8	52.7	48.4
Total	100.0 %	100.0 %	100.0 %

Net Revenues. Total net revenues increased 4.8% in fiscal year 2017 from fiscal year 2016, compared to an increase of 3.9% in fiscal year 2016 from the prior year. Overall revenue growth for the year ended September 30, 2017 was primarily due to increased demand for our core ADN products and increased service revenues as a result of our increased installed base of products. International revenues represented 48.6%, 48.9% and 47.7% of net revenues in fiscal years 2017, 2016 and 2015, respectively. We expect international sales will continue to represent a significant portion of net revenues, although we cannot provide assurance that international revenues as a percentage of net revenues will remain at current levels.

Net product revenues increased 2.1% in fiscal year 2017 from fiscal year 2016, compared to a decrease of 4.7% in fiscal year 2016 from the prior year. The increase of $20.2 million in net product sales for fiscal year 2017 was due to an increase of $27.7 million in sales of our ADN products. In particular, growth in sales of our security solutions and software-only Virtual Editions contributed to the increase in product revenue for fiscal year 2017. The decrease of $47.1 million in net product sales for fiscal year 2016 was primarily due to a $47.5 million decrease in the volume of sales of our ADN products.

Net service revenues increased 7.1% in fiscal year 2017 from fiscal year 2016, compared to an increase of 13.2% in fiscal year 2016 from the prior year. The increases in service revenue were the result of increased purchases or renewals of maintenance contracts driven by additions to our installed base of products.

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

	Years Ended September 30,		
	2017	2016	2015
Westcon Group, Inc. [2]	17.7%	18.7%	17.6%
Ingram Micro, Inc.	16.1%	14.9%	16.1%
Tech Data [1]	12.4%	13.3%	13.8%
Arrow ECS	10.4%	10.1%	10.4%

(1) On February 27, 2017, Tech Data completed the acquisition of Avnet Technology Solutions. Revenues for the year ended September 30, 2017 represent combined revenues for Tech Data and Avnet while revenues for years ended September 30, 2016 and 2015 represent revenues from Avnet only.

(2) On September 1, 2017, Synnex Corporation completed the acquisition of Westcon Americas.

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

	September 30,	
	2017	2016
Westcon Group, Inc.	— %	18.0%
Ingram Micro, Inc.	— %	15.5%
Synnex Corporation [1]	13.6%	— %
Arrow ECS	11.5%	— %

(1) On September 1, 2017, Synnex Corporation completed the acquisition of Westcon Americas.

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

	Years Ended September 30,		
	2017	2016	2015
	(in thousands, except percentages)		
Cost of net revenues and Gross Margin			
Products	$176,032	$166,624	$174,225
Services	177,453	170,581	158,036
Total	353,485	337,205	332,261
Gross profit	$1,736,556	$1,657,829	$1,587,562
Percentage of net revenues and Gross Margin (as a percentage of related net revenue)			
Products	18.2 %	17.6 %	17.6 %
Services	15.8	16.2	17.0
Total	16.9	16.9	17.3
Gross profit	83.1 %	83.1 %	82.7 %

Cost of Net Product Revenues. Cost of net product revenues consist of finished products purchased from our contract manufacturers, manufacturing overhead, freight, warranty, provisions for excess and obsolete inventory and amortization expenses in connection with developed technology from acquisitions. Cost of net product revenues increased to $176.0 million in fiscal year 2017, up 5.6% from the prior year, primarily due to a higher volume of hardware and software sales as well as an increase in sales of our subscription-based Silverline services. Cost of net product revenues decreased to $166.6 million in fiscal year 2016 from $174.2 million in fiscal year 2015, primarily due to a reduction in the volume of product sales.

Cost of Net Service Revenues. Cost of net service revenues consist of the salaries and related benefits of our professional services staff, travel, facilities and depreciation expenses. Cost of net service revenues as a percentage of net service revenues decreased to 15.8% in fiscal year 2017 compared to 16.2% in fiscal year 2016 and 17.0% in fiscal year 2015, primarily due to the scalability of our existing customer support infrastructure and increased revenue from maintenance contracts. Professional services headcount at the end of fiscal 2017 decreased to 895 from 903 at the end of fiscal 2016 due to a reduction in workforce that took place in the fourth quarter of fiscal 2017. Professional services headcount at the end of fiscal year 2016 increased to 903 from 877 at the end of fiscal 2015. In addition, cost of net service revenues included stock-based compensation expense of $19.3 million, $16.6 million and $12.7 million for fiscal years 2017, 2016 and 2015, respectively.

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	Years Ended September 30,		
	2017	2016	2015
	(in thousands, except percentages)		
Operating expenses			
Sales and marketing	$652,239	$628,743	$602,540
Research and development	350,365	334,227	296,583
General and administrative	156,887	138,431	135,540
Litigation expense	391	9,051	—
Restructuring charges	12,718	—	—
Total	$1,172,600	$1,110,452	$1,034,663
Operating expenses (as a percentage of net revenue)			
Sales and marketing	31.2 %	31.5 %	31.4 %
Research and development	16.8	16.8	15.4
General and administrative	7.5	6.9	7.1
Litigation expense	—	0.5	—
Restructuring charges	0.6	—	—
Total	56.1 %	55.7 %	53.9 %

Sales and Marketing. Sales and marketing expenses consist of the salaries, commissions and related benefits of our sales and marketing staff, the costs of our marketing programs, including public relations, advertising and trade shows, travel, facilities, and depreciation expenses. Sales and marketing expense increased 3.7% in fiscal year 2017 from the prior year, as compared to a year over year increase of 4.3% in fiscal year 2016. The increase in sales and marketing expense for fiscal year 2017 was primarily due to increases in commissions and personnel costs of $15.7 million, compared to the prior year. The increases in commissions and personnel costs were driven by growth in sales and marketing employee headcount during fiscal year 2017. However, sales and marketing headcount at the end of fiscal year 2017 decreased to 1,711 from 1,741 at the end of fiscal year 2016 due to a reduction in workforce that took place in the fourth quarter of fiscal year 2017. In fiscal year 2016, the increase in sales and marketing expense was primarily due to increases in commissions and personnel costs of $22.6 million, compared to the prior year. The increases in commissions and personnel costs were driven by growth in sales and marketing employee headcount and increased sales volume for fiscal year 2016 over the prior year. Sales and marketing headcount at the end of fiscal year 2016 increased to 1,741 from 1,705 at the end of fiscal year 2015. Sales and marketing expense included stock-based compensation expense of $69.7 million, $61.2 million and $56.8 million for fiscal years 2017, 2016 and 2015, respectively.

Research and Development. Research and development expenses consist of the salaries and related benefits of our product development personnel, prototype materials and other expenses related to the development of new and improved products, facilities and depreciation expenses. Research and development expense increased 4.8% in fiscal year 2017, compared to the prior year. The increase in research and development expense for fiscal year 2017 was primarily due to increased personnel costs of $13.3 million, compared to the prior year. The increase in personnel costs were driven by growth in research and development employee headcount during fiscal year 2017. However, research and development headcount at the end of fiscal year 2017 decreased to 1,192 from 1,211 at the end of fiscal year 2016 due to a reduction in workforce that took place in the fourth quarter of fiscal year 2017. In fiscal year 2016, research and development expense increased 12.7%, compared to the prior year. The increase in research and development expense for fiscal year 2016 was primarily due to increased personnel costs of $28.2 million, compared to the prior year. Research and development headcount at the end of fiscal year 2016 increased to 1,211 from 1,098 at the end of fiscal year 2015. Research and development expense included stock-based compensation expense of $53.4 million, $52.6 million and $46.1 million for fiscal years 2017, 2016 and 2015, respectively. We expect research and development expenses to be consistent as a percentage of net revenue in the foreseeable future.

General and Administrative. General and administrative expenses consist of the salaries, benefits and related costs of our executive, finance, information technology, human resource and legal personnel, third-party professional service fees, bad debt charges, facilities and depreciation expenses. General and administrative expense increased 13.3% in fiscal year 2017, compared to the prior year. The increase in general and administrative expense for fiscal year 2017 was primarily due to an increase in personnel costs of $7.4 million, compared to the prior year. In fiscal year 2016, general and administrative expense increased 2.1% compared to the prior year. The increase in general and administrative expense for fiscal year 2016 was primarily due to an increase in personnel costs of $8.1 million, compared to the prior year. General and administrative headcount at the end of fiscal year 2017 increased to 471 from 447 at the end of fiscal year 2016 and 417 at the end of fiscal

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year 2015. General and administrative expense included stock-based compensation expense of $30.8 million, $24.5 million and $28.5 million for fiscal years 2017, 2016 and 2015, respectively.

Litigation expense. In the second quarter of fiscal 2016, we accrued a litigation expense of $8.9 million, which included a patent-related jury verdict for $6.4 million and $2.5 million in legal fees and other costs associated with the litigation. The accrual was adjusted by immaterial amounts in the third and fourth quarters of fiscal 2016 and the second and third quarters of fiscal year 2017 to better reflect our total expected litigation expense. See Note 7 - Commitments and Contingencies of the Notes to Financial Statements (Part II, Item 8 of this Form 10-K) for additional information regarding this litigation.

Restructuring charges. In September 2017, we initiated a restructuring plan to reduce our operating expenses and better align our workforce and costs with market opportunities, product development and business strategies. As a result of these initiatives, we recorded a restructuring charge of $12.7 million in the fourth quarter of fiscal year 2017 related to a reduction in workforce.

	Years Ended September 30,		
	2017	2016	2015
	(in thousands, except percentages)		
Other income and income taxes			
Income from operations	$563,956	$547,377	$552,899
Other income, net	11,561	2,514	8,445
Income before income taxes	575,517	549,891	561,344
Provision for income taxes	154,756	184,036	196,330
Net income	$420,761	$365,855	$365,014
Other income and income taxes (as percentage of net revenue)			
Income from operations	27.0 %	27.4 %	28.8 %
Other income, net	0.5	0.1	0.4
Income before income taxes	27.5	27.5	29.2
Provision for income taxes	7.4	9.2	10.2
Net income	20.1 %	18.3 %	19.0 %

Other Income, Net. Other income, net, consists primarily of interest income and foreign currency transaction gains and losses. Other income, net increased $9.0 million in fiscal year 2017, as compared to fiscal year 2016 and decreased $5.9 million in fiscal year 2016, as compared to fiscal year 2015. Interest income was $8.5 million, $6.6 million and $5.4 million for fiscal years 2017, 2016 and 2015, respectively. The increase in other income, net for fiscal year 2017 was primarily due to $7.0 million in foreign currency gains, compared to the prior year. The decrease in other income, net for fiscal year 2016 as compared to fiscal year 2015 was primarily due to $7.2 million in foreign currency losses, compared to the prior year.

Provision for Income Taxes. We recorded a 26.9% provision for income taxes for fiscal year 2017, compared to 33.5% in fiscal year 2016 and 35.0% in fiscal year 2015. The decrease in the effective tax rate from fiscal year 2016 to 2017 was primarily due to the impact of foreign income, and foreign tax credits from a one time distribution of prior year foreign earnings, partially offset with a benefit recorded in fiscal year 2016 from the retroactive extension of the United States Federal Credit for Increasing Research Activities. The decrease in the effective tax rate from fiscal year 2015 to 2016 was primarily due to the impact of foreign income, and the permanent extension of the United States Federal Credit for Increasing Research Activities.

We record a valuation allowance to reduce our deferred tax assets to the amount we believe is more-likely-than-not to be realized. In making these determinations we consider historical and projected taxable income, and ongoing prudent and feasible tax planning strategies in assessing the appropriateness of a valuation allowance. The net increase in the valuation allowance of $3.9 million for fiscal year 2017 and $4.2 million for fiscal year 2016 was primarily related to tax net operating losses incurred in certain foreign jurisdictions, and state tax credit carryforwards. Our net deferred tax assets as of September 30, 2017, 2016 and 2015 were $53.2 million, $49.4 million and $55.7 million, respectively.

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

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potential exposures may be greater or less than the liabilities recorded which could result in an adjustment to our future tax expense.

Liquidity and Capital Resources

We have funded our operations with our cash balances, cash generated from operations and proceeds from public offerings of our securities.

	Years Ended September 30,		
	2017	2016	2015
	(in thousands)		
Liquidity and Capital Resources			
Cash and cash equivalents and investments	$1,301,730	$1,158,770	$1,171,998
Cash provided by operating activities	740,281	711,535	684,541
Cash (used in) provided by investing activities	(32,285)	62,720	(10,699)
Cash used in financing activities	(546,032)	(652,647)	(556,902)

Cash and cash equivalents, short-term investments and long-term investments totaled $1,301.7 million as of September 30, 2017, compared to $1,158.8 million as of September 30, 2016, representing an increase of $143.0 million. The increase was primarily due to cash provided by operating activities of $740.3 million, partially offset by $600.1 million of cash required for the repurchase of outstanding common stock under our share repurchase program in fiscal year 2017 and $38.7 million of capital expenditures related to the expansion of our facilities to support our operations worldwide. As of September 30, 2017, 37.7% of our cash and cash equivalents and investment balances were outside of the U.S., which may be subject to U.S. taxes if repatriated. The cash and cash equivalents and investment balances outside of the U.S. are subject to fluctuation based on the settlement of intercompany balances. In fiscal year 2016, the decrease to cash and cash equivalents, short-term investments and long-term investments from the prior year was primarily due to $700.1 million of cash required for the repurchase of outstanding common stock under our share repurchase program, and $63.5 million of capital expenditures related to the expansion of our facilities to support our operations worldwide, partially offset by cash provided by operating activities of $711.5 million. As of September 30, 2016, 30.7% of our cash and cash equivalents and investment balances were outside of the U.S., which may be subject to U.S. taxes if repatriated.

Cash provided by operating activities during fiscal year 2017 was $740.3 million compared to $711.5 million in fiscal year 2016 and $684.5 million in fiscal year 2015. Cash provided by operating activities resulted primarily from cash generated from net income, after adjusting for non-cash charges such as stock-based compensation, depreciation and amortization charges and changes in operating assets and liabilities.

Cash used in investing activities during fiscal year 2017 was $32.3 million compared to cash provided by investing activities of $62.7 million in fiscal year 2016 and cash used in investing activities of $10.7 million in fiscal year 2015. Cash used in investing activities for fiscal year 2017 was primarily the result of the purchase of investments and capital expenditures related to maintaining our operations worldwide, partially offset by the sale and maturity of investments. Cash provided by investing activities for fiscal year 2016 was primarily the result of the sale and maturity of investments partially offset by the purchase of investments and capital expenditures related to maintaining our operations worldwide. Cash used in investing activities for fiscal year 2015 was primarily the result of the purchase of investments and capital expenditures related to the expansion of our facilities to support our operations worldwide, partially offset by the sale and maturity of investments.

Cash used in financing activities was $546.0 million for fiscal year 2017, compared to $652.6 million for fiscal year 2016 and $556.9 million for fiscal year 2015. Cash used in financing activities for fiscal year 2017 included $600.1 million to repurchase common stock under our share repurchase program, which was partially offset by cash received from the exercise of employee stock options and stock purchases under our employee stock purchase plan of $47.0 million and excess tax benefits related to share-based compensation of $7.0 million. Cash used in financing activities for fiscal year 2016 included $700.1 million to repurchase common stock under our share repurchase program, which was partially offset by cash received from the exercise of employee stock options and stock purchases under our employee stock purchase plan of $44.9 million and excess tax benefits related to share-based compensation of $2.6

million. Cash used in financing activities for fiscal year 2015 included $606.9 million to repurchase common stock under our share repurchase program, which was partially offset by cash received from the exercise of employee stock options and stock purchases under our employee stock purchase plan of $40.4 million and excess tax benefits related to share-based compensation of $9.5 million.

Based on our current operating and capital expenditure forecasts, we believe that our existing cash and investment balances, together with cash generated from operations should be sufficient to meet our operating requirements for the next

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twelve months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities, the timing and extent of expansion into new territories, the timing of introductions of new products and enhancements of existing products, and the continuing market acceptance of our products.

Obligations and Commitments

The following table summarizes our contractual payment obligations and commitments as of September 30, 2017:

	Payment Obligations by Year						
	2018	2019	2020	2021	2022	Thereafter	Total
	(in thousands)						
Operating leases	$27,713	$24,864	$40,892	$38,764	$37,250	$298,605	$468,088
Purchase obligations	20,274	—	—	—	—	—	20,274
Total	$47,987	$24,864	$40,892	$38,764	$37,250	$298,605	$488,362

We lease our facilities under operating leases that expire at various dates through 2033.

As of September 30, 2017, we had approximately $24.3 million of tax liabilities, including interest and penalties, related to uncertain tax positions (See Note 5 to our Consolidated Financial Statements). Because of the high degree of uncertainty regarding the settlement of these liabilities, we are unable to estimate the years in which future cash outflows may occur.

Purchase obligations are comprised of purchase commitments with our contract manufacturers. The agreement with our primary contract manufacturer allows it to procure component inventory on our behalf based on our production forecast. We are obligated to purchase component inventory that the contract manufacturer procures in accordance with the forecast, unless cancellation is given within applicable lead times.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). ASU 2014-09 and the related amendments outline a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. The standard can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are continuing to evaluate the transition methods. In July 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delays the effective date of ASU 2014-09 by one year. The updated standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 with early adoption permitted for annual reporting periods beginning after December 15, 2016.

We currently plan to adopt ASU 2014-09 in the first quarter of fiscal 2019. We have initiated an assessment of our systems, data and processes related to the implementation of this accounting standard. Under the new standard, we expect to defer and amortize incremental costs to obtain a contract, which are primarily commission costs, over the expected product life rather than expensing them as incurred under current practice. Additionally, under the new standard,we would be required to recognize a portion of term license revenues upfront, at the time of delivery rather than ratably over the related contract period. We are continuing to evaluate the impact that this updated standard and the related amendments will have on our consolidated financial statements and footnote disclosures.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory (ASU 2015-11), which changes the subsequent measurement of inventory from lower of cost or market to lower of cost and net realizable value. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. We will adopt this standard in the first quarter of fiscal year 2018, and do not expect the adoption to have a material impact on our consolidated financial statements and footnote disclosures.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes (ASU 2015-17), which requires that all deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15,

2016. We will adopt this standard in the first quarter of fiscal year 2018, and do not expect the adoption to have a material impact on our consolidated financial statements and footnote disclosures.

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In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (ASU 2016-02), which requires lessees to recognize on the balance sheet a right-of-use asset, representing its right to use the underlying asset for the lease term, and a corresponding lease liability for all leases with terms greater than twelve months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing and uncertainty of cash flows arising from leases. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, and is required to be applied with a modified retrospective approach. Early adoption is permitted. We are currently assessing the impact that this updated standard will have on our consolidated financial statements and footnote disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09), which is intended to simplify several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. We will adopt this standard in the first quarter of fiscal year 2018. As permitted under the updated standard, we will continue to estimate forfeitures at each period and will not elect an accounting policy change to record forfeitures as they occur. Further, we do not expect the adoption to have a material impact within the accounting for income taxes, statutory tax withholding requirements, or in classification of the statement of cash flows.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13), which replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15), which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. We are currently assessing the impact that this updated standard will have on our consolidated financial statements and footnote disclosures.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18), which will require a company’s cash flow statement to explain the changes during a reporting period of the totals for cash, cash equivalents, restricted cash, and restricted cash equivalents. Additionally, amounts for restricted cash and restricted cash equivalents are to be included with cash and cash equivalents if the cash flow statement includes a reconciliation of the total cash balances for a reporting period. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business (ASU 2017-01), which provides a more robust framework to use in determining when a set of assets and activities is considered a business. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted for certain transactions. We are currently assessing the impact that this updated standard will have on our consolidated financial statements and footnote disclosures.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment (ASU 2017-04), which simplifies the goodwill impairment process by eliminating Step 2 from the quantitative goodwill impairment test. Under this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for annual goodwill impairment tests performed after January 1, 2017. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities (ASU 2017-08), which shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

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In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (ASU 2017-09), which provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This ASU does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions or award classification and would not be required if the changes are considered non-substantive. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

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Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Risk. Our cash equivalents consist of high-quality securities, as specified in our investment policy guidelines. The policy limits the amount of credit exposure to any one issue or issuer to a maximum of 5% of the total portfolio with the exception of U.S. treasury and agency securities, commercial paper and money market funds, which are exempt from size limitation. The policy requires investments in securities that mature in three years or less, with the average maturity being no greater than one and a half years. These securities are subject to interest rate risk and will decrease in value if interest rates increase. A decrease of one percent in the average interest rate would have resulted in a decrease of approximately $7.3 million in our interest income for the fiscal year 2017.

	Maturing in Three Months or Less	Three Months to One Year	Greater Than One Year	Total	Fair Value
	(in thousands, except for percentages)				
September 30, 2017					
Included in cash and cash equivalents	$16,909	$—	$—	$16,909	$16,909
Weighted average interest rate	0.5 %	—	—	—	—
Included in short-term investments	$105,713	$237,987	$—	$343,700	$343,700
Weighted average interest rates	0.9 %	1.1 %	—	—	—
Included in long-term investments	$—	$—	$284,802	$284,802	$284,802
Weighted average interest rate	—	—	1.4 %	—	—
September 30, 2016					
Included in cash and cash equivalents	$56,525	$—	$—	$56,525	$56,525
Weighted average interest rate	0.3 %	—	—	—	—
Included in short-term investments	$78,969	$288,855	$—	$367,824	$367,824
Weighted average interest rates	0.4 %	0.6 %	—	—	—
Included in long-term investments	$—	$—	$276,375	$276,375	$276,375
Weighted average interest rate	—	—	1.0 %	—	—
September 30, 2015					
Included in cash and cash equivalents	$60,144	$—	$—	$60,144	$60,144
Weighted average interest rate	0.1 %	—	—	—	—
Included in short-term investments	$74,744	$309,138	$—	$383,882	$383,882
Weighted average interest rates	0.5 %	0.5 %	—	—	—
Included in long-term investments	$—	$—	$397,656	$397,656	$397,656
Weighted average interest rate	—	—	0.9 %	—	—

Foreign Currency Risk. The majority of our sales and expenses are denominated in U.S. dollars and as a result, we have not experienced significant foreign currency transaction gains and losses to date. While we have conducted some transactions in foreign currencies during the fiscal year ended September 30, 2017 and expect to continue to do so, we do not anticipate that foreign currency transaction gains or losses will be significant at our current level of operations. However, as we continue to expand our operations internationally, transaction gains or losses may become significant in the future. We have not engaged in foreign currency hedging to date. However, we may do so in the future.

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Item 8. Financial Statements and Supplementary Data
F5 NETWORKS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm
To the Board of Directors and Shareholders of F5 Networks, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders’ equity and cash flows present fairly, in all material respects, the financial position of F5 Networks, Inc. and its subsidiaries as of September 30, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
/s/ PricewaterhouseCoopers LLP
Seattle, Washington
November 3, 2017

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F5 NETWORKS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	September 30, 2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	$673,228	$514,571
Short-term investments	343,700	367,824
Accounts receivable, net of allowances of $1,815 and $2,062	291,924	268,175
Inventories	29,834	34,051
Deferred tax assets	53,084	51,601
Other current assets	67,538	52,579
Total current assets	1,459,308	1,288,801
Property and equipment, net	122,420	123,248
Long-term investments	284,802	276,375
Deferred tax assets	4,530	2,044
Goodwill	555,965	555,965
Other assets, net	53,775	59,890
Total assets	$2,480,800	$2,306,323
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities		
Accounts payable	$50,760	$34,117
Accrued liabilities	187,379	178,353
Deferred revenue	696,404	631,768
Deferred tax liabilities	58	—
Total current liabilities	934,601	844,238
Other long-term liabilities	44,589	34,138
Deferred revenue, long-term	267,902	238,473
Deferred tax liabilities	4,316	4,212
Total long-term liabilities	316,807	276,823
Commitments and contingencies (Note 7)		
Shareholders’ equity		
Preferred stock, no par value; 10,000 shares authorized, no shares outstanding	—	—
Common stock, no par value; 200,000 shares authorized, 62,594 and 65,315 shares issued and outstanding	17,627	13,191
Accumulated other comprehensive loss	(17,997)	(13,194)
Retained earnings	1,229,762	1,185,265
Total shareholders’ equity	1,229,392	1,185,262
Total liabilities and shareholders’ equity	$2,480,800	$2,306,323

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

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

	Years Ended September 30,		
	2017	2016	2015
Net revenues			
Products	$964,662	$944,469	$991,539
Services	1,125,379	1,050,565	928,284
Total	2,090,041	1,995,034	1,919,823
Cost of net revenues			
Products	176,032	166,624	174,225
Services	177,453	170,581	158,036
Total	353,485	337,205	332,261
Gross profit	1,736,556	1,657,829	1,587,562
Operating expenses			
Sales and marketing	652,239	628,743	602,540
Research and development	350,365	334,227	296,583
General and administrative	156,887	138,431	135,540
Litigation expense	391	9,051	—
Restructuring charges	12,718	—	—
Total	1,172,600	1,110,452	1,034,663
Income from operations	563,956	547,377	552,899
Other income, net	11,561	2,514	8,445
Income before income taxes	575,517	549,891	561,344
Provision for income taxes	154,756	184,036	196,330
Net income	$420,761	$365,855	$365,014
Net income per share — basic	$6.56	$5.43	$5.07
Weighted average shares — basic	64,173	67,433	71,944
Net income per share — diluted	$6.50	$5.38	$5.03
Weighted average shares — diluted	64,775	67,984	72,547

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

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

	Years Ended September 30,		
	2017	2016	2015
Net income	$420,761	$365,855	$365,014
Other comprehensive (loss) income:			
Foreign currency translation adjustment	(3,671)	2,067	(5,997)
Available-for-sale securities:			
Unrealized (losses) gains on securities, net of taxes of $(493), $14, and $222 for the years ended September 30, 2017, 2016, and 2015, respectively	(822)	23	379
Reclassification adjustment for realized (gains) losses included in net income, net of taxes of $186, $(2), and $50 for the years ended September 30, 2017, 2016, and 2015, respectively	(310)	4	(86)
Net change in unrealized (losses) gains on available-for-sale securities, net of tax	(1,132)	27	293
Total other comprehensive (loss) income	(4,803)	2,094	(5,704)
Comprehensive income	$415,958	$367,949	$359,310

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

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

	Common Stock		Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
Balance, September 30, 2014	73,390	$15,753	$ (9,584)	$1,363,141	$1,369,310
Exercise of employee stock options	37	215	—	—	215
Issuance of stock under employee stock purchase plan	411	40,224	—	—	40,224
Issuance of restricted stock	1,232	—	—	—	—
Repurchase of common stock	(4,932)	(200,560)	—	(406,298)	(606,858)
Tax benefit from employee stock transactions	—	8,974	—	—	8,974
Stock-based compensation	—	145,553	—	—	145,553
Net income	—	—	—	365,014	365,014
Other comprehensive loss	—	—	(5,704)	—	(5,704)
Balance, September 30, 2015	70,138	$10,159	$ (15,288)	$1,321,857	$1,316,728
Exercise of employee stock options	19	179	—	—	179
Issuance of stock under employee stock purchase plan	492	44,690	—	—	44,690
Issuance of restricted stock	1,275	—	—	—	—
Repurchase of common stock	(6,609)	(197,677)	—	(502,447)	(700,124)
Tax loss from employee stock transactions	—	(920)	—	—	(920)
Stock-based compensation	—	156,760	—	—	156,760
Net income	—	—	—	365,855	365,855
Other comprehensive income	—	—	2,094	—	2,094
Balance, September 30, 2016	65,315	$13,191	$ (13,194)	$1,185,265	$1,185,262
Exercise of employee stock options	9	201	—	—	201
Issuance of stock under employee stock purchase plan	469	46,838	—	—	46,838
Issuance of restricted stock	1,362	—	—	—	—
Repurchase of common stock	(4,561)	(223,826)	—	(376,264)	(600,090)
Tax benefit from employee stock transactions	—	5,897	—	—	5,897
Stock-based compensation	—	175,326	—	—	175,326
Net income	—	—	—	420,761	420,761
Other comprehensive loss	—	—	(4,803)	—	(4,803)
Balance, September 30, 2017	62,594	$17,627	$ (17,997)	$1,229,762	$1,229,392

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

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

	Years Ended September 30,		
	2017	2016	2015
Operating activities			
Net income	$420,761	$365,855	$365,014
Adjustments to reconcile net income to net cash provided by operating activities:			
Realized (gain) loss on disposition of assets and investments	(439)	693	282
Stock-based compensation	175,326	156,760	145,553
Provisions for doubtful accounts and sales returns	366	1,526	1,488
Depreciation and amortization	61,148	56,776	52,583
Deferred income taxes	(4,626)	2,967	(12,571)
Changes in operating assets and liabilities:			
Accounts receivable	(24,115)	9,732	(38,680)
Inventories	4,218	(334)	(9,246)
Other current assets	(14,890)	(1,876)	(6,533)
Other assets	(2,056)	(712)	569
Accounts payable and accrued liabilities	30,524	33,217	39,521
Deferred revenue	94,064	86,931	146,561
Net cash provided by operating activities	740,281	711,535	684,541
Investing activities			
Purchases of investments	(446,838)	(354,708)	(609,875)
Maturities of investments	390,449	418,821	461,327
Sales of investments	66,858	66,848	205,292
Increase in restricted cash	(73)	(3)	(357)
Acquisition of intangible assets	(4,000)	(4,750)	(6,779)
Purchases of property and equipment	(38,681)	(63,488)	(60,307)
Net cash (used in) provided by investing activities	(32,285)	62,720	(10,699)
Financing activities			
Excess tax benefit from stock-based compensation	7,019	2,608	9,517
Proceeds from the exercise of stock options and purchases of stock under employee stock purchase plan	47,039	44,869	40,439
Repurchase of common stock	(600,090)	(700,124)	(606,858)
Net cash used in financing activities	(546,032)	(652,647)	(556,902)
Net increase in cash and cash equivalents	161,964	121,608	116,940
Effect of exchange rate changes on cash and cash equivalents	(3,307)	2,503	(7,982)
Cash and cash equivalents, beginning of year	514,571	390,460	281,502
Cash and cash equivalents, end of year	$673,228	$514,571	$390,460
Supplemental information			
Cash paid for taxes	$162,944	$164,362	$189,235

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

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F5 NETWORKS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
1. Summary of Significant Accounting Policies
The Company
F5 Networks, Inc. (the “Company”) is the leading developer and provider of software-defined application services. The Company’s core technology is a full-proxy, programmable, highly-scalable software platform called TMOS, which supports a broad array of features and functions designed to ensure that applications delivered over Internet Protocol (IP) networks are secure, fast and available. The Company’s TMOS-based offerings include software products for local and global traffic management, network and application security, access management, web acceleration and a number of other network and application services. These products are available as modules that can run individually or as part of an integrated solution on the Company’s high-performance, scalable, purpose-built BIG-IP appliances and VIPRION chassis-based hardware, or as software-only Virtual Editions. The Company also offers distributed denial-of-service (DDoS) protection, application security and other application services by subscription on its cloud-based Silverline platform. In connection with its products, the Company offers a broad range of support services including consulting, training, installation and maintenance.
Accounting Principles
The Company’s consolidated financial statements and accompanying notes are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America (GAAP).
Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.
Use of Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates are used in accounting for revenue recognition, reserves for doubtful accounts, product returns, obsolete and excess inventory and valuation allowances on deferred tax assets. Actual results could differ from those estimates.
Cash and Cash Equivalents
The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company invests its cash and cash equivalents in deposits with five major financial institutions, which, at times, exceed federally insured limits. The Company has not experienced any losses on its cash and cash equivalents.
Investments
The Company classifies its investment securities as available-for-sale. Investment securities, consisting of certificates of deposit, corporate and municipal bonds and notes, United States government and agency securities and international government securities are reported at fair value with the related unrealized gains and losses included as a component of accumulated other comprehensive income (loss) in shareholders’ equity. Realized gains and losses and declines in value of securities judged to be other than temporary are included in other income (expense). The cost of investments for purposes of computing realized and unrealized gains and losses is based on the specific identification method. Investments in securities with maturities of less than one year or where management’s intent is to use the investments to fund current operations are classified as short-term investments. Investments with maturities of greater than one year are classified as long-term investments.

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Concentration of Credit Risk

The Company extends credit to customers and is therefore subject to credit risk. The Company performs initial and ongoing credit evaluations of its customers' financial condition and does not require collateral. An allowance for doubtful accounts is recorded to account for potential bad debts. Estimates are used in determining the allowance for doubtful accounts and are based upon an assessment of selected accounts and as a percentage of remaining accounts receivable by aging category. In determining these percentages, the Company evaluates historical write-offs, and current trends in customer credit quality, as well as changes in credit policies. At September 30, 2017, Synnex Corporation and Arrow ECS, Inc. accounted for 13.6% and 11.5% of the Company's accounts receivable, respectively. At September 30, 2016, Westcon Group, Inc. and Ingram Micro, Inc. accounted for 18.0% and 15.5% of the Company's accounts receivable, respectively.

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

Fair Value of Financial Instruments

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

Inventories

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

Inventories consist of the following (in thousands):

	September 30,	
	2017	2016
Finished goods	$20,280	$23,642
Raw materials	9,554	10,409
	$29,834	$34,051

Property and Equipment

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

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

	September 30,	
	2017	2016
Computer equipment	$177,235	$158,127
Office furniture and equipment	32,781	28,557
Leasehold improvements	88,410	83,712
	298,426	270,396
Accumulated depreciation and amortization	(176,006)	(147,148)
	$122,420	$123,248

Depreciation expense totaled approximately $44.6 million, $36.4 million, and $30.1 million for the fiscal years ended September 30, 2017, 2016 and 2015, respectively.

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Goodwill

Goodwill represents the excess purchase price over the estimated fair value of net assets acquired as of the acquisition date. The Company tests goodwill for impairment on an annual basis and between annual tests when impairment indicators are identified, and goodwill is written down when impaired. Goodwill was recorded in connection with various acquisitions in fiscal year 2014 and prior years. For its annual goodwill impairment test in all periods to date, the Company has operated under one reporting unit and the fair value of its reporting unit has been determined by the Company's enterprise value. The Company performs its annual goodwill impairment test during the second fiscal quarter.

As part of the annual goodwill impairment test, the Company has the option to perform a qualitative assessment to determine whether further impairment testing is necessary. If, as a result of its qualitative assessment, it is more-likely-than-not (i.e. greater than 50% chance) that the fair value of the Company's reporting unit is less than its carrying amount, the quantitative impairment test will be required. Otherwise, no further testing will be required. If the Company chooses to bypass the qualitative assessment, it completes a quantitative assessment in performing its annual impairment test.

Examples of events and circumstances that might indicate that a reporting unit's fair value is less than its carrying amount include macro-economic conditions such as deterioration in the entity's operating environment or industry or market considerations; entity-specific events such as increasing costs, declining financial performance, or loss of key personnel; or other events such as an expectation that a reporting unit will be sold or a sustained decrease in the stock price on either an absolute basis or relative to peers.

If it is determined, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the Company's reporting unit is less than its carrying amount, the provisions of authoritative guidance require that the Company perform a two-step impairment test on goodwill. The first step of the test identifies whether potential impairment may have occurred, while the second step of the test measures the amount of the impairment, if any. Impairment is recognized when the carrying amount of goodwill exceeds its fair value. During the year, the Company performed its goodwill impairment assessment and concluded that it was more-likely-than-not that the fair value of its reporting unit exceeded its carrying amount. The Company considered potential impairment indicators of goodwill at September 30, 2017 and noted no indicators of impairment.

Acquired Technology and Intangible Assets

Acquired technology is recorded at cost and amortized over its estimated useful life of five years. The estimated useful life of these assets is assessed and evaluated for reasonableness periodically.

Acquired in-process research and development (IPR&D) are intangible assets initially recognized at fair value and classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. During the development period, these assets will not be amortized as charges to earnings; instead these assets will be tested for impairment on an annual basis or more frequently if impairment indicators are identified.

Amortization expense related to acquired technology totaled $8.8 million, $10.6 million and $10.6 million during the fiscal years 2017, 2016 and 2015, respectively, and is charged to cost of product revenues.

The Company's intangible assets subject to amortization are amortized using the straight-line method over their estimated useful lives, ranging from three to ten years. The Company evaluates the recoverability of intangible assets periodically by taking into account events or circumstances that may warrant revised estimates of useful lives or that indicate the asset may be impaired. Amortization expense of all other intangible assets, including customer relationships, patents and trademarks was not material during the fiscal years 2017, 2016 and 2015.

Software Development Costs

The authoritative guidance requires certain internal software development costs related to software to be sold to be capitalized upon the establishment of technological feasibility. Thereafter, software development costs incurred after the establishment of technological feasibility and prior to a product being released for sale are capitalized and reported at the lower of unamortized cost or net realizable value. Capitalized software development costs are amortized over the remaining estimated economic life of the product. The establishment of technological feasibility and the ongoing assessment of recoverability of costs require considerable judgment by the Company with respect to certain internal and external factors, including, but not limited to, anticipated future gross product revenues, estimated economic life and changes in hardware and software technology.

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The Company's software development costs incurred subsequent to achieving technological feasibility have not been significant, and all software development costs have been expensed as research and development activities as incurred.

Internal Use Software

In accordance with the authoritative guidance, the Company capitalizes costs incurred during the application development stage associated with the development of new functionality for internal-use software and developed software related to the infrastructure of its SaaS-based product offerings. The capitalized costs are then amortized over the estimated useful life of the software, which is generally three to five years, and are included in property and equipment in the accompanying consolidated balance sheets.

Impairment of Long-Lived Assets

The Company assesses the impairment of long-lived assets whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be recoverable. When such events occur, management determines whether there has been impairment by comparing the anticipated undiscounted net future cash flows to the related asset's carrying value. If impairment exists, the asset is written down to its estimated fair value. No impairment of long-lived assets was noted as of and for the years ended September 30, 2017, 2016 and 2015.

Revenue Recognition

The Company sells products through distributors, resellers, and directly to end users. Revenue is recognized provided that all of the following criteria have been met:

- Persuasive evidence of an arrangement exists. Evidence of an arrangement generally consists of a purchase order issued pursuant to the terms and conditions of a distributor, reseller or end user agreement.
- Delivery has occurred. The Company uses shipping or related documents, or written evidence of customer acceptance, when applicable, to verify delivery or completion of any performance terms.
- The sales price is fixed or determinable. The Company assesses whether the sales price is fixed or determinable based on payment terms associated with the transaction and whether the sales price is subject to refund or adjustment.
- Collectability is reasonably assured. The Company assesses collectability primarily based on the creditworthiness of the customer as determined by credit checks and related analysis, as well as the Customer's payment history.

Revenue from the sale of products is generally recognized when the product has been shipped and the customer is obligated to pay for the product. When rights of return are present and the Company cannot estimate returns, revenue is recognized when such rights of return lapse. Payment terms to domestic customers are generally net 30 days to net 45 days. Payment terms to international customers range from net 30 days to net 120 days based on normal and customary trade practices in the individual markets.

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

Arrangement consideration is first allocated between software (consisting of nonessential and stand-alone software) and non-software deliverables. The majority of the Company's products are hardware appliances which contain software essential to the overall functionality of the products. Hardware appliances are generally sold with PCS and on occasion, with consulting and/or training services. Arrangement consideration in such multiple element transactions is allocated to each element based on a fair value hierarchy, where the selling price for an element is based on vendor specific objective evidence (VSOE), if available, third-party evidence (TPE), if available and VSOE is not available; or the best estimate of selling price (BESP), if neither VSOE or TPE is available.

For software deliverables, the Company allocates revenue between multiple elements based on software revenue recognition guidance. Software revenue recognition guidance requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair values of those elements. The fair value of an element must be based on VSOE. Where VSOE of the fair value of delivered elements is not available, revenue is recognized on the "residual method" based on the fair value of undelivered elements. If evidence of fair value of one or more undelivered elements does not exist, all revenue is deferred and recognized at the earlier of the delivery of those elements or the establishment of fair value of the remaining undelivered elements.

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The Company establishes VSOE for its products, PCS, consulting and training services based on the sales price charged for each element when sold separately. The sales price is discounted from the applicable list price based on various factors including the type of customer, volume of sales, geographic region and program level. The Company's list prices are generally not fair value as discounts may be given based on the factors enumerated above. The Company uses historical sales transactions to determine whether VSOE can be established for each of the elements. In most instances, VSOE of fair value is the sales price of actual standalone (unbundled) transactions within the past 12 month period, when a substantial majority of transactions (more than 80%) are priced within a narrow range, which the Company has determined to be plus or minus 15% of the median sales price.

The Company believes that the VSOE of fair value of training and consulting services is represented by the billable rate per hour, based on the rates charged to customers when they purchase standalone training or consulting services. The price of consulting services is not based on the type of customer, volume of sales, geographic region or program level.

The Company is typically not able to determine VSOE or TPE for non-software products. TPE is determined based on competitor prices for similar elements when sold separately. Generally, the Company's go-to-market strategy differs from that of other competitive products or services in its markets and the Company's offerings contain a significant level of differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, the Company is unable to reliably determine the selling prices on a stand-alone basis of similar products offered by its competitors.

When the Company is unable to establish selling price using VSOE or TPE, the Company uses BESP in its allocation of arrangement consideration. The objective of BESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. The Company has been able to establish BESP through the list price, less a discount deemed appropriate to maintain a reasonable gross margin. Management regularly reviews the gross margin information. Non-software product BESP is determined through the Company's review of historical sales transactions within the past 12 month period. Additional factors considered in determining an appropriate BESP include, but are not limited to, cost of products, pricing practices, geographies, customer classes, and distribution channels.

The Company regularly validates the VSOE of fair value and BESP for elements in its multiple element arrangements.

The Company accounts for taxes collected from customers and remitted to governmental authorities on a net basis and excluded these amounts from revenues.

Shipping and Handling

Shipping and handling fees charged to the Company's customers are recognized as product revenue in the period shipped and the related costs for providing these services are recorded as a cost of sale.

Guarantees and Product Warranties

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

The Company offers warranties of one year for hardware for those customers without service contracts, with the option of purchasing additional warranty coverage in yearly increments. The Company accrues for warranty costs as part of its cost of sales based on associated material product costs and technical support labor costs. Accrued warranty costs as of September 30, 2017, 2016 and 2015 were not considered material.

Research and Development

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

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Advertising

Advertising costs are expensed as incurred. The Company incurred $3.5 million, $4.0 million and $4.6 million in advertising costs during the fiscal years 2017, 2016 and 2015, respectively.

Income Taxes

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

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

Foreign Currency

The functional currency for the Company's foreign subsidiaries is the local currency in which the respective entity is located, with the exception of F5 Networks Singapore Pte Ltd., F5 Networks (UK) Ltd., F5 Networks Benelux B.V. (Netherlands), F5 Networks Japan G.K., F5 Networks Canada Ltd., F5 Networks GmbH (Germany), F5 Networks (Israel) Ltd., Traffix Communication Systems Ltd. (Israel) and Versafe Ltd. (Israel), that use the U.S. dollar as their functional currency. An entity's functional currency is determined by the currency of the economic environment in which the majority of cash is generated and expended by the entity. The financial statements of all majority-owned subsidiaries and related entities, with a functional currency other than the U.S. dollar, have been translated into U.S. dollars. All assets and liabilities of the respective entities are translated at year-end exchange rates and all revenues and expenses are translated at average rates during the respective period. Translation adjustments are reported as other comprehensive income (loss) in the consolidated statements of comprehensive income.

Foreign currency transaction gains and losses are a result of the effect of exchange rate changes on transactions denominated in currencies other than the functional currency, including U.S. dollars. Gains and losses on those foreign currency transactions are included in determining net income or loss for the period of exchange and are recorded in other income, net. The net effect of foreign currency gains and losses was not significant during the fiscal years ended September 30, 2017, 2016 and 2015.

Segments

Management has determined that the Company was organized as, and operated in, one reportable operating segment for fiscal year 2017 and prior years: the development, marketing and sale of application delivery networking products that optimize the security, performance and availability of network applications, servers and storage systems.

Stock-based Compensation

The Company accounts for stock-based compensation using the straight-line attribution method for recognizing compensation expense. The Company recognized $175.3 million, $156.8 million and $145.6 million of stock-based compensation expense for the fiscal years ended September 30, 2017, 2016 and 2015, respectively. As of September 30, 2017, there was $126.1 million of total unrecognized stock-based compensation cost, the majority of which will be recognized over the next two years. Going forward, stock-based compensation expenses may increase as the Company issues additional equity-based awards to continue to attract and retain key employees.

The Company issues incentive awards to its employees through stock-based compensation consisting of restricted stock units (RSUs). On October 27, 2017, the Company's Board of Directors and Compensation Committee approved 1,086,939 RSUs to employees and executive officers pursuant to the Company's annual equity awards program. The value of RSUs is determined using the fair value method, which in this case, is based on the number of shares granted and the quoted price of the Company's common stock on the date of grant. No stock options were granted in fiscal years 2017, 2016 and 2015. In determining the fair value of shares issued under the Employee Stock Purchase Plan (ESPP), the Company uses the Black-Scholes option pricing model that employs the following key assumptions.

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	Employee Stock Purchase Plan		
	Years Ended September 30,		
	2017	2016	2015
Risk-free interest rate	1.14 %	0.44 %	0.17 %
Expected dividend	—	—	—
Expected term	0.5 years	0.5 years	0.5 years
Expected volatility	22.03 %	29.97 %	24.44 %

The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The Company does not anticipate declaring dividends in the foreseeable future. Expected volatility is based on the annualized daily historical volatility of the Company's stock price commensurate with the expected life of the ESPP option. Expected term of the ESPP option is based on an offering period of six months. The assumptions above are based on management's best estimates at that time, which impact the fair value of the ESPP option calculated under the Black-Scholes methodology and, ultimately, the expense that will be recognized over the life of the ESPP option.

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

The Company issues incentive awards to certain current executive officers as part of its annual equity awards program. Fifty percent of the aggregate number of RSUs issued to executive officers vest in equal quarterly increments, and 50% are subject to the Company achieving specified quarterly revenue and EBITDA goals. In each case, 70% of the quarterly performance stock grant is based on achieving at least 80% of the quarterly revenue goal set by the Company's Board of Directors, and the other 30% is based on achieving at least 80% of the quarterly EBITDA goal set by the Company's Board of Directors. The quarterly performance stock grant is paid linearly over 80% of the targeted goals. At least 100% of both goals must be attained in order for the quarterly performance stock grant to be awarded over 100%. Each goal is evaluated individually and subject to the 80% achievement threshold and the 100% over-achievement threshold. Each goal is also capped at achievement of 200% above target.

As of September 30, 2017, the following annual equity grants for executive officers or a portion thereof are outstanding:

Grant Date	RSUs Granted	Vesting Schedule	Vesting Period	Date Fully Vested
November 1, 2016	115,347	Quarterly	4 years	November 1, 2020
November 2, 2015	145,508	Quarterly	4 years	November 1, 2019
November 1, 2014	171,575	Quarterly	4 years	November 1, 2018
November 1, 2013	231,320	Quarterly	4 years	November 1, 2017

The Company recognizes compensation costs for awards with performance conditions when it concludes it is probable that the performance condition will be achieved. The Company reassesses the probability of vesting at each balance sheet date and adjusts compensation costs based on the probability assessment.

Common Stock Repurchase

On April 20, 2016, the Company announced that its Board of Directors authorized an additional $1.0 billion for its common stock share repurchase program. This new authorization is incremental to the existing $2.4 billion program, initially approved in October 2010 and expanded in each fiscal year. Acquisitions for the share repurchase programs will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. The programs can be terminated at any time. During fiscal year 2017, the Company repurchased and retired 4,561,213 shares at an average price of $131.56 per share and as of September 30, 2017, the Company had $173.7 million remaining authorized to purchase shares.

Earnings Per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average

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

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

	Years Ended September 30,		
	2017	2016	2015
Numerator			
Net income	$420,761	$365,855	$365,014
Denominator			
Weighted average shares outstanding — basic	64,173	67,433	71,944
Dilutive effect of common shares from stock options and restricted stock units	602	551	603
Weighted average shares outstanding — diluted	64,775	67,984	72,547
Basic net income per share	$6.56	$5.43	$5.07
Diluted net income per share	$6.50	$5.38	$5.03

An immaterial amount of common shares potentially issuable from stock options for the years ended September 30, 2017, 2016 and 2015 are excluded from the calculation of diluted earnings per share because the exercise price was greater than the average market price of common stock for the respective period.

Comprehensive Income

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

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). ASU 2014-09 and the related amendments outline a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. The standard can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is continuing to evaluate the transition methods. In July 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delays the effective date of ASU 2014-09 by one year. The updated standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 with early adoption permitted for annual reporting periods beginning after December 15, 2016.

The Company currently plans to adopt ASU 2014-09 in the first quarter of fiscal 2019. The Company has initiated an assessment of its systems, data and processes related to the implementation of this accounting standard. Under the new standard, the Company expects to defer and amortize incremental costs to obtain a contract, which are primarily commission costs, over the expected product life rather than expensing them as incurred under current practice. Additionally, under the new standard, the Company would be required to recognize a portion of term license revenues upfront, at the time of delivery rather than ratably over the related contract period. The Company is continuing to evaluate the impact that this updated standard and the related amendments will have on its consolidated financial statements and footnote disclosures.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory (ASU 2015-11), which changes the subsequent measurement of inventory from lower of cost or market to lower of cost and net realizable value. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The Company will adopt this standard in the first quarter of fiscal year 2018, and does not expect

the adoption to have a material impact on its consolidated financial statements and footnote disclosures.
In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes (ASU 2015-17), which requires that all deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. The new

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standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted as of the beginning of an interim or annual reporting period. The Company will adopt this standard in the first quarter of fiscal year 2018, and does not expect the adoption to have a material impact on its consolidated financial statements and footnote disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (ASU 2016-02), which requires lessees to recognize on the balance sheet a right-of-use asset, representing its right to use the underlying asset for the lease term, and a corresponding lease liability for all leases with terms greater than twelve months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing and uncertainty of cash flows arising from leases. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, and is required to be applied with a modified retrospective approach. Early adoption is permitted. The Company is currently assessing the impact that this updated standard will have on its consolidated financial statements and footnote disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09), which is intended to simplify several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The Company will adopt this standard in the first quarter of fiscal year 2018. As permitted under the updated standard, the Company will continue to estimate forfeitures at each period and will not elect an accounting policy change to record forfeitures as they occur. Further, the Company does not expect the adoption to have a material impact within the accounting for income taxes, statutory tax withholding requirements, or in classification of the statement of cash flows.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13), which replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company does not anticipate that the adoption of this standard will have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15), which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. The Company is currently assessing the impact that this updated standard will have on its consolidated financial statements and footnote disclosures.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18), which will require a company's cash flow statement to explain the changes during a reporting period of the totals for cash, cash equivalents, restricted cash, and restricted cash equivalents. Additionally, amounts for restricted cash and restricted cash equivalents are to be included with cash and cash equivalents if the cash flow statement includes a reconciliation of the total cash balances for a reporting period. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The Company does not anticipate that the adoption of this standard will have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business (ASU 2017-01), which provides a more robust framework to use in determining when a set of assets and activities is considered a business. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted for certain transactions. The Company is currently assessing the impact that this updated standard will have on its consolidated financial statements and footnote disclosures.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment (ASU 2017-04), which simplifies the goodwill impairment process by eliminating Step 2 from the quantitative goodwill impairment test. Under this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for annual goodwill impairment tests performed after January 1, 2017. The Company does not anticipate that the adoption of this standard will have a material impact on its consolidated financial statements.

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In March 2017, the FASB issued ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities (ASU 2017-08), which shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The Company does not anticipate that the adoption of this standard will have a material impact on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (ASU 2017-09), which provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This ASU does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions or award classification and would not be required if the changes are considered non-substantive. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The Company does not anticipate that the adoption of this standard will have a material impact on its consolidated financial statements.

2. Fair Value Measurements

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

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

The levels of fair value hierarchy are:

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

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

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

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

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

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The Company's financial assets measured at fair value on a recurring basis subject to the disclosure requirements at September 30, 2017, were as follows (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at September 30, 2017
Cash equivalents	$13,967	$ 3,192	$ —	$ 17,159
Short-term investments				
Available-for-sale securities — corporate bonds and notes	—	172,493	—	172,493
Available-for-sale securities — municipal bonds and notes	—	67,409	—	67,409
Available-for-sale securities — U.S. government securities	—	72,930	—	72,930
Available-for-sale securities — U.S. government agency securities	—	30,868	—	30,868
Long-term investments				
Available-for-sale securities — corporate bonds and notes	—	191,782	—	191,782
Available-for-sale securities — municipal bonds and notes	—	26,643	—	26,643
Available-for-sale securities — U.S. government securities	—	29,374	—	29,374
Available-for-sale securities — U.S. government agency securities	—	37,003	—	37,003
Total	$13,967	$ 631,694	$ —	$ 645,661

The Company's financial assets measured at fair value on a recurring basis subject to the disclosure requirements at September 30, 2016, were as follows (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at September 30, 2016
Cash equivalents	$56,525	$ —	$ —	$ 56,525
Short-term investments				
Available-for-sale securities — corporate bonds and notes	—	223,358	—	223,358
Available-for-sale securities — municipal bonds and notes	—	53,621	—	53,621
Available-for-sale securities — U.S. government securities	—	72,521	—	72,521
Available-for-sale securities — U.S. government agency securities	—	18,324	—	18,324
Long-term investments				
Available-for-sale securities — corporate bonds and notes	—	131,427	—	131,427
Available-for-sale securities — municipal bonds and notes	—	27,050	—	27,050
Available-for-sale securities — U.S. government securities	—	27,023	—	27,023

Available-for-sale securities — U.S. government agency securities	—	90,875	—	90,875
Total	$56,525	$ 644,199	$ —	$ 700,724

The Company uses the fair value hierarchy for financial assets and liabilities. The Company's non-financial assets and liabilities, which include goodwill, intangible assets, and long-lived assets, are not required to be carried at fair value on a recurring basis. These non-financial assets and liabilities are measured at fair value on a non-recurring basis when there is an indicator of impairment, and they are recorded at fair value only when impairment is recognized. The Company reviews goodwill and intangible assets for impairment annually, during the second quarter of each fiscal year, or as circumstances indicate the possibility of impairment. The Company monitors the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate its carrying amount may not be recoverable. During the year ended September 30, 2017, the Company did not recognize any impairment charges related to goodwill, intangible assets, or long-lived assets.

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The carrying amounts of other current financial assets and other current financial liabilities approximate fair value due to their short-term nature.
3. Short-Term and Long-Term Investments
Short-term investments consist of the following (in thousands):

September 30, 2017	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds and notes	$ 172,560	$ 25	$ (92)	$ 172,493
Municipal bonds and notes	67,382	36	(9)	67,409
U.S. government securities	72,991	—	(61)	72,930
U.S. government agency securities	30,954	—	(86)	30,868
	$ 343,887	$ 61	$ (248)	$ 343,700

September 30, 2016	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds and notes	$ 223,448	$ 38	$ (128)	$ 223,358
Municipal bonds and notes	53,657	1	(37)	53,621
U.S. government securities	72,497	31	(7)	72,521
U.S. government agency securities	18,318	6	—	18,324
	$ 367,920	$ 76	$ (172)	$ 367,824

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

September 30, 2017	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds and notes	$ 192,278	$ 25	$ (521)	$ 191,782
Municipal bonds and notes	26,639	46	(42)	26,643
U.S. government securities	29,427	—	(53)	29,374
U.S. government agency securities	37,164	—	(161)	37,003
	$ 285,508	$ 71	$ (777)	$ 284,802

September 30, 2016	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds and notes	$ 131,273	$ 249	$ (95)	$ 131,427
Municipal bonds and notes	27,017	46	(13)	27,050
U.S. government securities	26,989	36	(2)	27,023
U.S. government agency securities	90,877	52	(54)	90,875
	$ 276,156	$ 383	$ (164)	$ 276,375

The amortized cost and fair value of fixed maturities at September 30, 2017, by contractual years-to-maturity, are presented below (in thousands):

September 30, 2017	Cost or Amortized Cost	Fair Value
One year or less	$ 343,887	$ 343,700

Over one year	285,508	284,802
	$ 629,395	$628,502

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The following table summarizes investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for more than 12 months as of September 30, 2017 (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
September 30, 2017	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate bonds and notes	$262,852	$ (528)	$35,401	$ (85)	$298,253	$ (613)
Municipal bonds and notes	30,256	(49)	881	(2)	31,137	(51)
U.S. government securities	94,312	(105)	7,992	(9)	102,304	(114)
U.S. government agency securities	36,121	(83)	31,750	(164)	67,871	(247)
Total	$423,541	$ (765)	$76,024	$ (260)	$499,565	$ (1,025)

The Company invests in securities that are rated investment grade or better. The unrealized losses on investments for fiscal year 2017 were primarily caused by interest rate increases.

The Company reviews the individual securities in its portfolio to determine whether a decline in a security's fair value below the amortized cost basis is other-than-temporary. The Company determined that as of September 30, 2017, there were no investments in its portfolio that were other-than-temporarily impaired.

4. Balance Sheet Details

Goodwill

There was no change in the carrying amount of goodwill during fiscal years 2017 and 2016.

Other Assets

Other assets consist of the following (in thousands):

	September 30,	
	2017	2016
Acquired and developed technology and software development costs	$25,085	$33,924
Intangible assets	17,469	16,577
Restricted cash and deposits	11,221	9,389
	$53,775	$59,890

Amortization expense related to other assets was approximately $12.3 million, $13.9 million, and $13.2 million for the fiscal years ended September 30, 2017, 2016 and 2015, respectively.

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

	2017			2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired and developed technology and software development costs	$69,307	$ (44,222)	$ 25,085	$103,031	$ (69,107)	$ 33,924
Customer relationships	8,242	(3,552)	4,690	10,941	(5,427)	5,514
Patents and trademarks	19,756	(7,159)	12,597	15,433	(4,734)	10,699
Trade names	973	(791)	182	1,173	(809)	364
Non-compete covenants	2,532	(2,532)	—	2,732	(2,732)	—
	$100,810	$ (58,256)	$ 42,554	$133,310	$ (82,809)	$ 50,501

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Estimated amortization expense for intangible assets for the five succeeding fiscal years is as follows (in thousands):

2018	$11,080
2019	6,909
2020	6,415
2021	6,283
2022	5,076
	$35,763

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	September 30,	
	2017	2016
Payroll and benefits	$109,088	$105,716
Sales and marketing	6,654	7,228
Restructuring	7,741	—
Income tax accruals	15,519	21,894
Other tax accruals	13,429	10,095
Other	34,948	33,420
	$187,379	$178,353

5. Income Taxes

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

	Years Ended September 30,		
	2017	2016	2015
United States	$452,869	$465,738	$530,684
International	122,648	84,153	30,660
	$575,517	$549,891	$561,344

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

	Years Ended September 30,		
	2017	2016	2015
Current			
U.S. federal	$113,105	$129,728	$176,074
State	10,381	16,821	16,817
Foreign	34,679	31,015	15,446
Total	158,165	177,564	208,337
Deferred			
U.S. federal	964	9,770	(9,778)
State	99	(1,029)	(326)
Foreign	(4,472)	(2,269)	(1,903)
Total	(3,409)	6,472	(12,007)
	$154,756	$184,036	$196,330

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

	Years Ended September 30,		
	2017	2016	2015
Income tax provision at statutory rate	$201,431	$192,462	$196,470
State taxes, net of federal benefit	9,235	13,434	13,030
Foreign operations	(40,606)	(9,199)	(1,386)
Research and development and other credits	(12,795)	(18,368)	(10,286)
Domestic manufacturing deduction	(15,802)	(14,624)	(18,236)
Stock-based and other compensation	12,688	17,137	15,462
Other	605	3,194	1,276
	$154,756	$184,036	$196,330

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

	Years Ended September 30,	
	2017	2016
Deferred tax assets		
Net operating loss carry-forwards	$ 11,235	$ 9,162
Allowance for doubtful accounts	1,236	624
Accrued compensation and benefits	11,617	10,385
Inventories and related reserves	715	1,062
Stock-based compensation	11,857	11,387
Deferred revenue	43,371	40,763
Other accruals and reserves	17,924	18,492
Tax credit carryforwards	7,873	5,829
Depreciation	628	376
	106,456	98,080
Valuation allowance	(18,189)	(14,249)
	88,267	83,831
Deferred tax liabilities		
Purchased intangibles and other	(17,459)	(19,308)
Depreciation	(16,893)	(14,440)
Other accruals and reserves	(676)	(652)
	(35,028)	(34,400)
Net deferred tax assets	$ 53,239	$ 49,431

At September 30, 2017, the Company had foreign net operating loss carry-forwards of approximately $54.9 million that can be carried forward indefinitely and $4.2 million that will expire in fiscal year 2026. In addition, there are $4.2 million of state tax credit carryforwards that can be carried forward indefinitely and $3.0 million that will expire in fiscal years 2028 to 2032. Management believes that it is more-likely-than-not that the benefit from certain foreign net operating loss carryforwards and state tax carryforwards will not be realized. In recognition of this risk, the Company has provided a valuation allowance on the deferred tax assets relating to these carryforwards. The net change in the total valuation allowance was an increase of $3.9 million and $4.2 million for the years ended September 30, 2017 and 2016, respectively.

During the year ended September 30, 2017, the Company distributed $86.0 million of cash to the U.S. from a foreign subsidiary. The utilization of previously unrecognized U.S. foreign tax credits resulted in a $21.0 million reduction to tax expense. This non-recurring reduction to tax expense is presented as part of foreign operations in the Company's effective tax rate reconciliation.

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As of September 30, 2017, undistributed earnings of the Company's foreign subsidiaries totaled $221.4 million. The Company has not provided U.S. income taxes on certain foreign subsidiaries in which we intend to indefinitely reinvest such earnings outside the U.S. Determination of the unrecognized deferred tax liability that would be incurred if such amounts were repatriated is not practicable.

The Company benefits from a tax incentive arrangement in a foreign jurisdiction, which is effective through March 31, 2021. The tax incentive agreement is conditional upon meeting certain employment and investment thresholds. This arrangement decreased foreign taxes by $6.9 million and increased diluted earnings per common share by $0.11 for the year ended September 30, 2017.

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

The following table provides a reconciliation of the beginning and ending amount of unrecognized tax benefits in fiscal years 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Balance, beginning of period	$13,687	$9,562	$6,394
Gross increases related to prior period tax positions	2,769	1,622	2,704
Gross decreases related to prior period tax positions	—	(7)	(642)
Gross increases related to current period tax positions	8,507	4,441	1,290
Decreases relating to settlements with tax authorities	(240)	(521)	(116)
Reductions due to lapses of statute of limitations	(1,588)	(1,410)	(68)
Balance, end of period	$23,135	$13,687	$9,562

The total amount of gross unrecognized tax benefits was $23.1 million, $13.7 million, and $9.6 million as of September 30, 2017, 2016, and 2015, respectively, of which, $18.3 million, $11.1 million, and $8.0 million, if recognized, would affect the effective tax rate. There is a reasonable possibility that the Company's unrecognized tax benefits will change within twelve months due to audit settlements or the expiration of statute of limitations, but the Company does not expect the change to be material to the consolidated financial statements.

The Company recognizes interest and, if applicable, penalties (not included in the "unrecognized tax benefits" table above) for any uncertain tax positions. Interest and penalties are recorded as a component of income tax expense. In the years ended September 30, 2017, 2016 and 2015, the Company recorded approximately $258,000, $18,000 and $466,000, respectively, of interest and penalty expense related to uncertain tax positions. As of September 30, 2017 and 2016, the Company had a cumulative balance of accrued interest and penalties on unrecognized tax positions of $1,178,000 and $920,000, respectively.

The Company and its subsidiaries are subject to U.S. federal income tax as well as the income tax of multiple state and foreign jurisdictions. The Company has concluded all U.S. federal income tax matters for fiscal years through September 30, 2013. The Company is currently under audit by various states for fiscal years 2013 through 2015. Major jurisdictions where there are wholly owned subsidiaries of F5 Networks, Inc. which require income tax filings include the United Kingdom, Japan, Singapore, and Australia. The earliest periods open for review by local taxing authorities are fiscal years 2016 for the United Kingdom, 2011 for Japan, 2012 for Singapore, and 2013 for Australia. Within the next four fiscal quarters, the statute of limitations will begin to close on the fiscal years 2013 and 2014 state income tax returns.

6. Stock-based Compensation

The majority of awards consist of restricted stock units and to a lesser degree, stock options. Employees vest in restricted stock units and stock options ratably over the corresponding service term, generally one to four years. The Company's stock options expire ten years from the date of grant. Restricted stock units are payable in shares of the Company's common stock as the periodic vesting requirements are satisfied. The value of a restricted stock unit is based upon the fair market value of the Company's common stock on the date of grant. The value of restricted stock units is determined using the intrinsic value method and is based on the number of shares granted and the quoted price of the Company's common stock on the date of grant. Alternatively, the Company used the Black-Scholes option pricing model to determine the fair value of its stock options. Compensation expense related to restricted stock units and stock options is recognized over the vesting period. The Company has adopted a number of stock-based compensation plans as discussed below.

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2011 Employee Stock Purchase Plan. In April 2012, the Board of Directors amended and restated the Company's 1999 Employee Stock Purchase Plan, or the Employee Stock Purchase Plan. A total of 8,000,000 shares of common stock have been reserved for issuance under the Employee Stock Purchase Plan. The Employee Stock Purchase Plan permits eligible employees to acquire shares of the Company's common stock through periodic payroll deductions of up to 15% of base compensation. No employee may purchase more than 10,000 shares during an offering period. In addition, no employee may purchase more than $25,000 worth of stock, determined by the fair market value of the shares at the time such option is granted, in one calendar year. The Employee Stock Purchase Plan has been implemented in a series of offering periods, each 6 months in duration. The price at which the common stock may be purchased is 85% of the lesser of the fair market value of the Company's common stock on the first day of the applicable offering period or on the last day of the respective purchase period. As of September 30, 2017 there were 1,127,476 shares available for awards under the Employee Stock Purchase Plan.

Acquisition Related Incentive Plans. In connection with the Company's acquisition of Traffix Systems in the second quarter of fiscal year 2012, the Company assumed the Traffix 2007 Israeli Employee Share Option Plan, or the Traffix Plan. Unvested options to acquire Traffix's common stock were converted into options to acquire the Company's common stock in connection with the acquisition. A total of 106,829 shares of common stock were reserved for issuance under the Traffix Plan. The plan provided for grants of stock options to persons who were employees, officers, directors, consultants or advisors to Traffix on or prior to February 21, 2012. During the fiscal year 2017, the Company issued no stock options or restricted stock units under the Traffix Plan. As of September 30, 2017, there were options to purchase 520 shares outstanding and no shares available for additional awards under the Traffix Plan. The Company terminated the Traffix Plan effective January 3, 2014 and no additional shares may be issued from the Traffix Plan.

In September 2013, the Company adopted the Versafe Acquisition Equity Incentive Plan, or the Versafe Acquisition Plan. The Versafe Acquisition Plan provided for discretionary grants of non-statutory stock options and stock units for employees, directors and consultants of Versafe Ltd. to whom the Company offered employment in connection with the Company's acquisition of Versafe. A total of 60,000 shares of common stock were reserved for issuance under the Versafe Acquisition Plan. Upon certain changes in control of the Company, the surviving entity will either assume or substitute all outstanding stock awards under the Versafe Acquisition Plan or the vesting of 50% of the stock awards shall be accelerated. During the fiscal year 2017, the Company issued no stock options or restricted stock units under the Versafe Acquisition Plan. As of September 30, 2017, there were no options outstanding, 217 restricted stock units outstanding and no shares available for awards under the Versafe Acquisition Plan. The Company terminated the Versafe Acquisition Plan effective January 3, 2014 and no additional shares may be issued from the Versafe Acquisition Plan.

In May 2014, the Company adopted the Defense.Net Acquisition Equity Incentive Plan, or the Defense.Net Acquisition Plan. The Defense.Net Acquisition Plan provided for discretionary grants of non-statutory stock options and stock units for employees, directors and consultants of Defense.Net, Inc. to whom the Company offered employment in connection with the Company's acquisition of Defense.Net. A total of 30,000 shares of common stock were reserved for issuance under the Defense.Net Acquisition Plan. Upon certain changes in control of the Company, the surviving entity will either assume or substitute all outstanding stock awards under the Defense.Net Acquisition Plan or the vesting of 50% of the stock awards shall be accelerated. During the fiscal year 2017, the Company issued no stock options or restricted stock units under the Defense.Net Acquisition Plan. As of September 30, 2017, there were no options outstanding, 4,050 restricted stock units outstanding and no shares available for awards under the Defense.Net Acquisition Plan. The Company terminated the Defense.Net Acquisition Plan effective January 5, 2015 and no additional shares may be issued from the Defense.Net Acquisition Plan.

In connection with the Company's acquisition of Defense.Net, Inc. in the third quarter of fiscal year 2014, the Company assumed the Defense.Net, Inc. 2012 Stock Option and Grant Plan, or the Defense.Net Plan. Unvested options to acquire Defense.Net's common stock were converted into options to acquire the Company's common stock in connection with the acquisition. A total of 84,375 shares of common stock were reserved for issuance under the Defense.Net Plan. The plan provided for grants of stock options to persons who were employees, officers, directors, consultants or advisors to Defense.Net, Inc. on or prior to May 22, 2014. During the fiscal year 2017, the Company issued no stock options or restricted stock units under the Defense.Net Plan. As of September 30, 2017, there were options to purchase 456 shares outstanding and no shares available for additional awards under the Defense.Net Plan. The Company terminated the Defense.Net Plan effective January 5, 2015 and no additional shares may be issued from the Defense.Net Plan.

2014 Incentive Plan. In March 2014, the Company adopted the 2014 Incentive Plan, or the 2014 Plan, which amended and restated the 2005 Equity Incentive Plan. The 2014 Plan provides for discretionary grants of non-statutory stock options and stock units for employees, including officers, and other service providers. A total of 18,730,000 shares of common stock have been reserved for issuance under the 2014 Plan. Upon certain changes in control of the Company, all outstanding and unvested options or stock awards under the 2014 Plan will vest at the rate of 50%, unless assumed or substituted by the acquiring entity. During the fiscal year 2017, the Company issued no stock options, 51,988 performance stock units and 1,373,799 restricted

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stock units under the 2014 Plan. As of September 30, 2017, there were no options outstanding, 13,871 performance stock units outstanding, 1,347,431 restricted stock units outstanding and 3,081,285 shares available for new awards under the 2014 Plan.

A majority of the restricted stock units the Company grants to its employees vest quarterly over a two-year period. The performance stock units and restricted stock units under all plans were granted during fiscal years 2017, 2016 and 2015 with a per-share weighted average fair value of $134.35, $109.65 and $124.16, respectively. The fair value of performance stock units and restricted stock units vested during fiscal years 2017, 2016 and 2015 was $176.8 million, $137.7 million and $151.4 million, respectively.

A summary of restricted stock unit activity under the 2014 Plan is as follows:

	Performance Stock Units		Restricted Stock Units	
	Outstanding Performance Stock Units	Weighted Average Grant Date Fair Value	Outstanding Restricted Stock Units	Weighted Average Grant Date Fair Value
Balance, September 30, 2016	49,528	$ 110.50	1,442,170	$ 111.45
Units granted	51,988	100.95	1,373,799	135.61
Units vested	(48,423)	128.99	(1,296,435)	129.20
Units cancelled	(39,222)	112.25	(172,103)	122.65
Balance, September 30, 2017	13,871	$ 121.44	1,347,431	$ 127.89

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

	Options Outstanding	
	Number of Shares	Weighted Average Exercise Price per Share
Balance, September 30, 2016	12,574	$ 21.84
Options granted	—	—
Options exercised	(9,281)	21.66
Options cancelled	(2,317)	30.42
Balance, September 30, 2017	976	$ 3.18

No stock options were granted in fiscal years 2017, 2016 and 2015.

The total intrinsic value of options exercised during fiscal 2017, 2016 and 2015 was $1.0 million, $1.9 million and $4.4 million, respectively.

	Number of Shares	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price per Share	Aggregate Intrinsic Value(1)
				(In thousands)
Stock options outstanding	976	4.03	$ 3.18	$ 115
Exercisable	834	3.62	$ 3.10	$ 98
Vested and expected to vest	974	4.02	$ 3.18	$ 114

(1) Aggregate intrinsic value represents the difference between the fair value of the Company’s common stock underlying these options at September 30, 2017 and the related exercise prices.

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As of September 30, 2017, equity based awards (including stock options and restricted stock units) are available for future issuance as follows:

	Awards Available for Grant
Balance, September 30, 2016	3,195,747
Granted	(1,425,787)
Canceled	216,055
Additional shares reserved (terminated), net	1,095,270
Balance, September 30, 2017	3,081,285

7. Commitments and Contingencies

Operating Leases

The majority of the Company's operating lease payments relate to the Company's four building corporate headquarters in Seattle, Washington. The leases for all four buildings will expire in 2022. The Company also leases additional office space for product development and sales and support personnel in the United States and internationally.

In October 2006, the Company entered into an agreement to lease a total of approximately 137,000 square feet of office space in a building known as 333 Elliott West, which is adjacent to the four buildings that serve as the Company's corporate headquarters. The lease expires in 2018. The Company is currently subleasing all floors of this building.

On May 3, 2017, the Company entered into an agreement to lease approximately 515,000 square feet of office space in Seattle, Washington that will serve as its new corporate headquarters. The initial term of the lease is 14.5 years and is expected to commence on the latter of (i) April 1, 2019 or (ii) 10 months after the substantial completion date of the construction of the Premises. This lease will expire in 2033 with an option for renewal.

Future minimum operating lease payments, net of sublease income, are as follows (in thousands):

	Gross Lease Payments	Sublease Income	Net Lease Payments
2018	27,713	2,828	24,885
2019	24,864	—	24,864
2020	40,892	—	40,892
2021	38,764	—	38,764
2022	37,250	—	37,250
Thereafter	298,605	—	298,605
	$ 468,088	$ 2,828	$ 465,260

Rent expense under non-cancelable operating leases amounted to approximately $30.2 million, $30.1 million, and $28.3 million for the fiscal years ended September 30, 2017, 2016, and 2015, respectively.

Purchase Obligations

Purchase obligations are comprised of purchase commitments with the Company's contract manufacturers. The agreement with the Company's primary contract manufacturer allows them to procure component inventory on the Company's behalf based on the Company's production forecast. The Company is obligated to purchase component inventory that the contract manufacturer procures in accordance with the forecast, unless cancellation is given within applicable lead times. As of September 30, 2017, the Company's purchase obligations were $20.3 million.

Litigation

On May 1, 2013, Radware, Ltd. and Radware, Inc. (Radware), filed a complaint for patent infringement against the Company in the United States District Court for the Northern District of California seeking an unspecified amount of monetary damages, as well as interest, costs, and injunctive relief, based upon allegations that the Company infringed three Radware patents related to ISP link load balancing. The Company answered the Complaint, denied the substantive allegations, and sought a declaratory judgment that the asserted claims were invalid. The Company also counter-claimed alleging that Radware had infringed certain Company patents relating to cookie persistence. The Company was granted summary judgment of non-infringement of one of Radware's three patents, and was also granted summary judgment of non-infringement with respect to the other two patents in connection with design-arounds. The Company also took an offer of judgment as to Radware's infringement of its patents. Radware's damages claims and the Company's invalidity claims proceeded to trial and on March 15, 2016, the jury returned a verdict finding that the Company had not proven that the asserted patents were invalid, that the Company willfully infringed one of the two patents and that Radware was due $6.4 million in damages. On August 22, 2016, the Court, in response to various post-trial motions, granted the Company judgment as a matter of law on Radware's claim of willful infringement (and thus denied Radware's motion for treble damages and attorneys' fees), awarded prejudgment interest, and issued an injunction. On September 7, 2016, the Court entered judgment in favor of Radware on its claims, and entered a judgment in favor of the Company on its counterclaim (pursuant to the offer and acceptance of judgment). On October 5, 2016, the Company moved for a new trial on invalidity. That motion was denied. The Company appealed the denial of the motion and Radware appealed the summary judgments of non-infringement, the district court's exclusion of certain evidence, and the grant of judgment as a matter of law on the willfulness claim. Separately, Radware requested an award for costs. The Company has objected to the request and it remains pending. The Company has posted security to stay execution of the judgment pending appeal. On September 18, 2017, the Federal Circuit affirmed the judgment of the lower court pursuant to Rule 36. Neither party has yet sought rehearing, rehearing en banc, or appealed to the Supreme Court. On October 26, 2017, Radware moved to recover the judgment amounts (e.g., damages and prejudgment interest), except costs, which is still pending.

In addition, on April 4, 2016, the Company sued Radware, Inc. in the United States District Court for the Western District of Washington accusing Radware of infringing three other Company patents. The Company's complaint seeks a jury trial and an unspecified amount of monetary damages, as well as interest, costs, and injunctive relief. Radware moved to dismiss the allegations of one patent but the motion was denied. Radware has also filed a counterclaim separately asserting that the Company is infringing U.S. patent no. 9,231,853, another ISP link load balancing patent related to the same patents involved in the California litigation. The Company has denied infringement. The parties have also filed petitions for inter partes reviews on all four patents in the litigation. On May 25, 2017, the parties stipulated to transfer in the wake of the Supreme Court's TC Heartland decision, and the court transferred the case to the Northern District of California on June 5, 2017. Radware's IPR2017-00654 and IPR2017-00653 as to the Company '413 patent were denied on July 31, 2017. Radware's IPR2017-1185 and IPR2017-1187 as to the Company '955 patent were denied on October 11, 2017. Radware's IPR2017-01249 as to the Company '278 patent was denied on October 23, 2017. The Company's IPR2017-00124 as to the '853 patent was instituted in part (claims 1, 2, 4-15, 17-24) and denied in part (claims 3 and 16) on April 27, 2017. The Company has moved to stay Radware's '853 counterclaims pending the outcome of the Company's IPR. Radware has opposed the motion to stay and argued, in the alternative, that both the Company's claims and Radware's counterclaims should be stayed.

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

The Company records an accrual for loss contingencies for legal proceedings when it believes that an unfavorable outcome is both (a) probable and (b) the amount or range of any possible loss is reasonably estimable. In fiscal 2016, the Company recorded an accrual related to the Radware litigation mentioned above of $7.0 million for the verdict. The accrual was adjusted by immaterial amounts in the second and third quarters of fiscal 2017 to better reflect the Company's total expected litigation expense. The Company has not recorded any other accruals for loss contingencies

associated with other legal proceedings.
8. Restructuring Charges
In September 2017, the Company initiated a restructuring plan to reduce its operating expenses and better align its workforce and costs with market opportunities, product development and business strategies. As a result of these initiatives, the Company recorded a restructuring charge of $12.7 million in the fourth quarter of fiscal 2017. The Company does not expect to record any significant future charges related to the restructuring plan.

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During the year ended September 30, 2017, the following activity was recorded (in thousands):

	Employee Severance, Benefits and Related Costs
Accrued expenses, October 1, 2016	$ —
Restructuring charges	12,718
Cash payments	(4,977)
Non-cash items	—
Accrued expenses, September 30, 2017	$ 7,741

9. Employee Benefit Plans

The Company has a 401(k) savings plan whereby eligible employees may voluntarily contribute a percentage of their compensation. The Company may, at its discretion, match a portion of the employees' eligible contributions. Contributions by the Company to the plan during the years ended September 30, 2017, 2016, and 2015 were approximately $10.5 million, $9.5 million and $8.9 million, respectively. Contributions made by the Company vest over four years.

10. Geographic Sales and Significant Customers

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Management has determined that the Company is organized as, and operates in, one reportable operating segment: the development, marketing and sale of application delivery networking products that optimize the security, performance and availability of network applications, servers and storage systems.

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

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

	Years Ended September 30,		
	2017	2016	2015
Americas:			
United States	$1,075,222	$1,019,054	$1,004,601
Other	110,298	106,228	94,906
Total Americas	1,185,520	1,125,282	1,099,507
EMEA	506,571	487,966	464,078
Japan	95,055	94,767	88,297
Asia Pacific	302,895	287,019	267,941
	$2,090,041	$1,995,034	$1,919,823

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

	Years Ended September 30,		
	2017	2016	2015
Westcon Group, Inc. [2]	17.7%	18.7%	17.6%
Ingram Micro, Inc.	16.1%	14.9%	16.1%
Tech Data [1]	12.4%	13.3%	13.8%
Arrow ECS	10.4%	10.1%	10.4%

(1) On February 27, 2017, Tech Data completed the acquisition of Avnet Technology Solutions. Revenues for the year ended September 30, 2017 represent combined revenues for Tech Data and Avnet while revenues for years ended September 30, 2016 and 2015 represent revenues from Avnet only.

(2) On September 1, 2017, Synnex Corporation completed the acquisition of Westcon Americas.

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

	September 30,	
	2017	2016
United States	$103,486	$105,480
EMEA	15,054	13,789
Other countries	3,880	3,979
	$122,420	$123,248

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11. Quarterly Results of Operations (Unaudited)

The following presents the Company's unaudited quarterly results of operations for the eight quarters ended September 30, 2017. The information should be read in conjunction with the Company's financial statements and related notes included elsewhere in this report. This unaudited information has been prepared on the same basis as the audited financial statements and includes all adjustments, consisting only of normal recurring adjustments that were considered necessary for a fair statement of the Company's operating results for the quarters presented.

	Three Months Ended							
	Sept. 30, 2017	June 30, 2017	March 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	March 31, 2016	Dec. 31, 2015
	(unaudited and in thousands, except per share data)							
Net revenues								
Products	$248,990	$235,109	$241,080	$239,483	$252,984	$231,366	$225,441	$234,678
Services	289,008	282,728	277,168	276,475	272,365	265,156	258,236	254,808
Total	537,998	517,837	518,248	515,958	525,349	496,522	483,677	489,486
Cost of net revenues								
Products	46,641	43,787	43,928	41,676	43,591	40,474	39,908	42,651
Services	43,900	45,983	43,984	43,586	41,358	43,869	42,322	43,032
Total	90,541	89,770	87,912	85,262	84,949	84,343	82,230	85,683
Gross profit	447,457	428,067	430,336	430,696	440,400	412,179	401,447	403,803
Operating expenses								
Sales and marketing	162,068	160,952	164,705	164,514	158,198	156,620	156,469	157,456
Research and development	85,479	88,602	89,234	87,050	83,746	83,042	86,294	81,145
General and administrative	37,832	39,368	38,009	41,678	35,193	34,182	34,803	34,253
Litigation expense	525	1	(135)	—	630	(527)	8,948	—
Restructuring charges	12,718	—	—	—	—	—	—	—
Total operating expenses	298,622	288,923	291,813	293,242	277,767	273,317	286,514	272,854
Income from operations	148,835	139,144	138,523	137,454	162,633	138,862	114,933	130,949
Other income, net	5,027	2,589	1,302	2,643	268	978	133	1,135
Income before income taxes	153,862	141,733	139,825	140,097	162,901	139,840	115,066	132,084
Provision for income taxes	18,119	44,071	46,687	45,879	53,966	48,051	39,651	42,368
Net income	$135,743	$97,662	$93,138	$94,218	$108,935	$91,789	$75,415	$89,716
Net income per share — basic	$2.15	$1.53	$1.44	$1.45	$1.66	$1.37	$1.12	$1.29
Weighted average shares — basic	63,088	63,935	64,479	65,195	65,772	66,851	67,549	69,554
Net income per share — diluted	$2.14	$1.52	$1.43	$1.44	$1.64	$1.37	$1.11	$1.28
Weighted average shares — diluted	63,446	64,361	65,028	65,645	66,262	67,235	67,804	69,878

12. Subsequent Events

On October 25, 2017, the Company announced that its Board of Directors authorized an additional $1.0 billion for its common stock share repurchase program. This new authorization is incremental to the $173.7 million currently unused in the existing program, which was initially approved in October 2010.

Acquisitions for the share repurchase program will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. The timing and amounts of any purchases will be based on market conditions and other factors including but not limited to price, regulatory requirements and capital availability. The program does not require the purchase of any minimum number of shares and the program may be modified, suspended or discontinued at any time.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2017 and, based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2017.

Management’s Report on Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management conducted an assessment of the effectiveness of our internal control over financial reporting as of September 30, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework (2013). Based on the results of this assessment and on those criteria, management concluded that our internal control over financial reporting was effective as of September 30, 2017.

The effectiveness of the Company’s internal control over financial reporting as of September 30, 2017, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control over Financial Reporting

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

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Certain information required by this item regarding the Company's directors and executive officers is incorporated herein by reference to the sections entitled "Board of Directors — Nominees and Continuing Directors," "Corporate Governance — Committees of the Board — Audit Committee" and "— Code of Ethics for Senior Financial Officers" and "— Director Nomination," and "Security Ownership of Certain Beneficial Owners and Management — Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement that will be furnished to the SEC no later than January 28, 2018 (the "Proxy Statement"). Additional information regarding the Company's directors and executive officers is set forth in Item 1 of Part I of this Annual Report on Form 10-K under the caption "Directors and Executive Officers of the Registrant."

Item 11. Executive Compensation

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

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

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

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

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

Item 14. Principal Accountant Fees and Services

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

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PART IV

Item 15. Exhibits and Financial Statement Schedules
(a) Documents filed as part of this report are as follows:
1. Consolidated Financial Statements:
Our Consolidated Financial Statements are listed in the Index to Consolidated Financial Statements.
2. Financial Statement Schedule:
Financial statement schedules have been omitted because the information required to be set forth therein is not applicable, material, or is shown in the Consolidated Financial Statements or the notes hereto.
3. Exhibits:
The required exhibits are included at the end of this Annual Report on Form 10-K and are described in the Exhibit Index immediately preceding the first exhibit.

Item 16. Form 10-K Summary
Not applicable.

SIGNATURES
Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

F5 NETWORKS, INC.

By: /s/ FRANÇOIS LOCOH-DONOU
François Locoh-Donou
Chief Executive Officer and President
Dated: November 3, 2017
Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

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Signature		Title	Date
By:	/s/ FRANÇOIS LOCOH-DONOU François Locoh-Donou	Chief Executive Officer, President, and Director (principal executive officer)	November 3, 2017
By:	/S/ ANDY REINLAND Andy Reinland	Executive Vice President, Chief Financial Officer (principal financial officer and principal accounting officer)	November 3, 2017
By:	/S/ ALAN J. HIGGINSON Alan J. Higginson	Director	November 3, 2017
By:	/S/ A. GARY AMES A. Gary Ames	Director	November 3, 2017
By:	/S/ SANDRA BERGERON Sandra Bergeron	Director	November 3, 2017
By:	/S/ DEBORAH L. BEVIER Deborah L. Bevier	Director	November 3, 2017
By:	/S/ JONATHAN CHADWICK Jonathan Chadwick	Director	November 3, 2017
By:	/S/ MICHAEL L. DREYER Michael L. Dreyer	Director	November 3, 2017
By:	/S/ PETER KLEIN Peter Klein	Director	November 3, 2017
By:	/S/ STEPHEN SMITH Stephen Smith	Director	November 3, 2017
By:	/S/ JOHN MCADAM John McAdam	Director	November 3, 2017

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EXHIBIT INDEX

Exhibit Number	Exhibit Description
2.1	Agreement and Plan of Merger dated as of May 31, 2004, by and among the Registrant, Fire5, Inc., a wholly owned subsidiary of the Registrant, MagniFire Websystems, Inc., and Lucent Venture Partners III LLC(1)
3.1	Third Amended and Restated Articles of Incorporation of the Registrant(2)
3.2	Fifth Amended and Restated Bylaws of F5 Networks, Inc.(3)
4.1	Specimen Common Stock Certificate(4)
10.1	Second Amended and Restated Office Lease Agreement dated April 5, 2010, between the Registrant and CLP--Elliott West, L.P.(5)
10.2	Sublease Agreement dated March 30, 2001 between the Registrant and Cell Therapeutics, Inc.(6)
10.3	First Amendment to Sublease Agreement dated April 13, 2001 between the Registrant and Cell Therapeutics, Inc.(7)
10.4	Second Amendment to Sublease Agreement dated March 6, 2002 between the Registrant and Cell Therapeutics, Inc.(7)
10.5	Third Amendment to Sublease Agreement dated as of December 22, 2005 between the Registrant and Cell Therapeutics, Inc.(7)
10.6	Office Lease Agreement with Selig Real Estate Holdings IIX, L.L.C. dated October 31, 2006(8)
10.7	Office Lease Agreement between F5 Networks, Inc. and Fifth & Columbia Investors, LLC dated May 3, 2017(9)
10.8	Form of Indemnification Agreement between the Registrant and each of its directors and certain of its officers(4) §
10.9	2011 Employee Stock Purchase Plan(10) §
10.10	Form of Change of Control Agreement between F5 Networks, Inc. and the executive officers(11) §
10.11	Traffix Communication Systems Ltd. 2007 Israeli Employee Share Option Plan(12) §
10.12	Traffix Communication Systems Ltd. Acquisition Equity Incentive Plan(12) §
10.13	Versafe Ltd. Acquisition Equity Incentive Plan(13) §
10.14	F5 Networks, Inc. 2014 Incentive Plan (Amended and Restated effective March 9, 2017) (14) §
10.15	Defense.Net, Inc. 2012 Stock Option and Grant Plan(15) §
10.16	Defense.Net Acquisition Equity Incentive Plan(15) §
10.17	Form of 2014 Incentive Plan Award Agreement (Accelerated Vesting) as revised November 2014(16) §
10.18 *	Form of 2014 Incentive Plan Award Agreement (Accelerated Vesting) as revised October 2017 §
10.19	Retirement Agreement between John McAdam and F5 Networks, Inc.(17) §
10.20	Waiver and Non-Competition Agreement and General Release of all Claims(18) §
10.21	Separation and Consulting Agreement and General Release of all Claims(19) §
10.22	Offer Letter from F5 Networks, Inc. to François Locoh-Donou (20) §
21.1 *	Subsidiaries of the Registrant
23.1 *	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
31.1 *	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2 *	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 *	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS *	XBRL Instance Document
101.SCH *	XBRL Taxonomy Extension Schema Document
101.CAL *	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF *	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB *	XBRL Taxonomy Extension Label Linkbase Document
101.PRE *	XBRL Taxonomy Extension Presentation Linkbase Document

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* Filed herewith.
§ Indicates a management contract or compensatory plan or arrangement.
(1) Incorporated by reference from Current Report on Form 8-K dated May 31, 2004 and filed with the SEC on June 2, 2004.
(2) Incorporated by reference from Current Report on Form 8-K dated March 19, 2013 and filed with the SEC on March 19, 2013.
(3) Incorporated by reference from Current Report on Form 8-K dated April 22, 2015 and filed with the SEC on April 22, 2015.
(4) Incorporated by reference from Registration Statement on Form S-1, File No. 333-75817.
(5) Incorporated by reference from Current Report on Form 8-K dated April 5, 2010 and filed with the SEC on April 8, 2010.
(6) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
(7) Incorporated by reference from Annual Report on Form 10-K for the year ended September 30, 2006.
(8) Incorporated by reference from Current Report on Form 8-K dated October 31, 2006 and filed with the SEC on November 3, 2006.
(9) Incorporated by reference from Current Report on Form 8-K dated May 3, 2017 and filed with the SEC on May 3, 2017.
(10) Incorporated by reference from Appendix B of Proxy Statement for 2015 Annual Meeting of Stockholders and filed with the SEC on January 16, 2015.
(11) Incorporated by reference from Current Report on Form 8-K dated April 29, 2009 and filed with the SEC on May 4, 2009.
(12) Incorporated by reference from Registration Statement on Form S-8 File No. 333-179794.
(13) Incorporated by reference from Registration Statement on Form S-8 File No. 333-191773.
(14) Incorporated by reference from Registration Statement on Form S-8 File No. 333-217436.
(15) Incorporated by reference from Registration Statement on Form S-8 File No. 333-196405.
(16) Incorporated by reference from Annual Report on Form 10-K for the year ended September 30, 2014.
(17) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended March 31, 2015.
(18) Incorporated by reference from Current Report on Form 8-K dated December 13, 2015 and filed with the SEC on January 6, 2016.
(19) Incorporated by reference from Current Report on Form 8-K dated September 26, 2016 and filed with the SEC on September 30, 2016.
(20) Incorporated by reference from Current Report on Form 8-K dated January 27, 2017 and filed with the SEC on January 30, 2017.