F5 NETWORKS INC
Form 10-K
November 21, 2008

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

Form 10-K

ANNUAL REPORT PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2008

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

Commission File Number 000-26041

F5 Networks, Inc.
(Exact name of Registrant as specified in its charter)

WASHINGTON	**91-1714307**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

401 Elliott Ave West
Seattle, Washington 98119
(Address of principal executive offices)

(206) 272-5555
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, no par value

Title of Each Class	**Name of Each Exchange on Which Registered**
Common stock, no par value	NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of March 31, 2008, the aggregate market value of the Registrant s Common Stock held by non-affiliates of the Registrant was $1,466,793,746 based on the closing sales price of the Registrant s Common Stock on the Nasdaq Global Market on that date.

As of November 19, 2008, the number of shares of the Registrant s common stock outstanding was 79,651,844.

DOCUMENTS INCORPORATED BY REFERENCE

Information required in response to Part III of this Form 10-K (Items 10, 11, 12, 13 and 14) is hereby incorporated by reference to the specified portions of the Registrant s Definitive Proxy Statement for the Annual Shareholders Meeting for fiscal year 2008, which Definitive Proxy Statement shall be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the end of the fiscal year to which this Report relates.

F5 NETWORKS, INC.

ANNUAL REPORT ON FORM 10-K
For the Fiscal Year Ended September 30, 2008

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Trademarks and Tradenames

F5, F5 Networks, F5 [DESIGN], F5 Management Pack, F5 WORLD, F5 ACOPIA, BIG-IP, VIPRION, Application Security Manager, ASM, Local Traffic Manager, LTM, Global Traffic Manager, GTM, Link Controller, Enterprise Manager, Traffic Management Operating System, TMOS, WANJet, FirePass, WebAccelerator, TrafficShield, Secure Access Manager, SAM, iControl, TCP Express, Fast Application Proxy, 3-DNS, iRules, iRules on Demand, Packet Velocity, Internet Control Architecture, IP Application Switch, SYN Check, Control Your World, DATAGUARD, ZoneRunner, OneConnect, Ask F5, Intelligent Compression, Transparent Data Reduction, TDR, L7 Rate Shaping, IPv6 Gateway, SSL Acceleration Module, Fast Cache, Intelligent Browser Referencing, Message Security Module, Protocol Security Module, The World Runs Better With F5, IT AGILITY. YOUR WAY., DEVCENTRAL, IQUERY, Real Traffic Policy Builder, STRONGBOX, Edge-FX, See It, GlobalSite, Acopia, Acopia Networks, ARX and FreedomFabric are trademarks or service marks of F5 Networks, Inc., or its subsidiaries in the U.S. and other countries. Any other trademarks, service marks and/or trade names appearing in this document are the property of their respective owners.

Unless the context otherwise requires, in this Annual Report on Form 10-K, the terms F5 Networks, the Company, we, us, and our refer to F5 Networks, Inc. and its subsidiaries. Our fiscal year ends on September 30 and fiscal years are referred to by the calendar year in which they end. For example, fiscal year 2008 and fiscal 2008 refer to the fiscal year ended September 30, 2008.

Forward-Looking Statements

This Annual Report on Form 10-K 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 and adversely 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 below 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.

Item 1. *Business*

General

F5 Networks is a leading provider of technology that optimizes the delivery of network-based applications and the performance and availability of servers, data storage devices and other network resources.

Founded in 1996, F5 pioneered load-balancing technology that distributes internet traffic evenly across multiple web servers, making them look like a single server. Today, our BIG-IP application delivery controllers sit in front of web and application servers, balancing traffic and performing compute-intensive functions such as encrypting and unencrypting transmissions, screening traffic for security threats, maintaining open connections with servers, speeding the flow of traffic and a variety of other functions that improve the performance, availability and security of applications and would otherwise be performed by the servers themselves. By offloading functions from servers, BIG-IP makes servers more efficient and reduces the number of servers needed to run specific applications. BIG-IP also supports software modules that manage the flow of traffic between multiple data centers and across multiple service provider connections, ensuring that this traffic is always routed to the most available resource. In addition, we

offer complementary products that provide secure remote access to corporate networks and optimize the delivery of applications over wide-area networks.

We believe our application delivery controllers and related products are superior to competing technology in both functionality and performance. The core of these products is our full-proxy Traffic Management Operating System (TMOS) that enables them to inspect and modify traffic flows to and from servers at

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network speed and supports a broad array of functions that enhance the speed, performance and availability of applications. iRules, a scripting language based on TCL (Tools Command Language), is a unique feature of TMOS that enables customers and third parties to write customized rules to inspect and modify traffic. TMOS also supports a common software interface called iControl, which enables our products to communicate with one another and with third-party products, including custom and commercial enterprise applications. TMOS is designed to support the addition of new functionality as software modules and to exploit the performance-enhancing features of our purpose-built hardware platforms. Correspondingly, our hardware architecture integrates industry standard components in ways that exploit the unique features and characteristics of TMOS to deliver performance that is demonstrably superior to competing products.

Just as our application delivery controllers make many servers look like one, ARX storage virtualization products sit in front of networked attached storage (NAS), making multiple storage devices from different vendors look like a single device to the individual clients, servers and applications that use them. This frees users and storage administrators from the time-consuming task of mapping individual drives to specific clients and applications. In addition, ARX products simplify the migration of data between storage devices, the addition of new storage devices, and the distribution of data across tiers of storage that reflect the relative importance or immediacy of the data.

In connection with our products, we offer a broad range of services including consulting, training, installation, maintenance and other technical support services.

F5 Networks was incorporated on February 26, 1996 in the State of Washington. Our headquarters is in Seattle, Washington and our mailing address is 401 Elliott Avenue West, Seattle, Washington 98119. The telephone number at our executive offices is (206) 272-5555. We have subsidiaries or branch offices in Australia, Belgium, China, France, Germany, Hong Kong, India, Israel, Italy, Japan, Malaysia, Netherlands, New Zealand, Northern Ireland, Russia, Singapore, South Korea, Spain, Taiwan, Thailand and the United Kingdom. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are available free of charge on our website, www.f5.com, as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission.

Industry Background

Growth of IP Networks

Internet Protocol (IP) is a communications language used to transmit data over the Internet. Since the late 1990s, businesses have responded to the power, flexibility and efficiency of the Internet by deploying new IP-based applications, upgrading their client-server applications to new IP-enabled versions, and enabling existing or legacy applications for use over the Internet. At the same time, organizations have become more geographically dispersed, and increasingly mobile workforces depend on access to corporate applications and data from remote locations and a variety of client devices such as cellular telephones, personal digital assistants and notebook computers.

Over the next several years, we believe these trends will accelerate as more organizations discover the benefits of IP-enabled applications. In addition, we believe the growth of Internet usage will continue to be driven by new applications, such as Web Services and Voice over IP, the growth of broadband Internet access and new usage and infrastructure models such as cloud computing.

In conjunction with the growth of Internet traffic, the proliferation of data and, in particular, unstructured data such as voice, video, images, email, spreadsheets and formatted text files, presents an enormous and increasing challenge to IT organizations. Along with the growing volume of unstructured data that is business-critical and must be retained and readily accessible to individuals and applications, new regulations mandate that company email, web pages and

other files must be retained indefinitely. In response to this challenge, IT organizations spend an increasing amount of their budget on NAS and other types of storage systems.

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Trend Toward Virtualization

From a broad perspective, the goal of IT organizations is to optimize the secure delivery of applications and data to users wherever they are and whenever they need them. To achieve this goal, organizations are embracing virtualization technologies that enable them to group or partition data center resources to meet user demand and reconfigure these virtual resources easily and quickly as demand changes. Server virtualization, which allows organizations to improve utilization of physical servers by partitioning them into multiple virtual servers, is well known and widely deployed. Application delivery controllers free up both physical and virtual server processing power by offloading common functions, such as encryption and compression from multiple physical or virtual servers, and dynamically manage the flow of traffic between users and both virtual and physical servers, making them look like a single resource to the user. Server virtualization puts additional pressure on storage resources by increasing storage capacity and traffic requirements. Sitting in front of storage systems, file virtualization devices perform functions similar to application delivery controllers, presenting the appearance of a single resource to users and applications and dynamically managing the transfer of files between users and applications and multiple storage devices.

Application Delivery Networking

Internet traffic passing between client devices and servers is divided into discrete packets which travel by multiple routes to their destination where they are reassembled. The disassembly, routing, and reassembly of transmissions are relatively straightforward and require little intelligence. By contrast, application delivery networking managing, inspecting, modifying and redirecting application traffic going to and from servers requires intelligent systems capable of performing a broad array of functions.

Basic application delivery networking (ADN) functions include load-balancing (distributing traffic across multiple servers while making them appear to be a single server) and health-checking (monitoring the performance of servers and applications to ensure that they are working properly before routing traffic to them). In addition, ADN encompasses a growing number of functions that have typically been performed by the server or the application itself, or by point solutions running on separate devices. These include:

SSL Acceleration using Secure Socket Layer (SSL) encryption to secure traffic between the server and the browser on an end user s client device;

Rate Shaping prioritizing transmissions according to preset rules that give precedence to different types of traffic;

Compression reducing the volume of data transmitted to take maximum advantage of available bandwidth;

TCP Optimization improving server efficiency by maintaining an open connection with a server during interactive sessions;

IPv6 Translation enabling communication and interoperability between networked devices using IPv6, the newest version of the Internet Protocol, and those using the older version IPv4;

Application Security protecting critical web applications from attacks such as Google hacking, cross-site scripting, and parameter tampering;

Web Acceleration enhancing the performance of web applications over wide area networks by reducing latency, eliminating errors, and resolving other issues that slow delivery;

WAN Optimization improving the performance of applications accessed over wide area network links by reducing the number of round trips required and ensuring maximum use of available bandwidth;

Global Traffic Management ensuring high availability, maximum performance and global management for applications running across multiple, globally-dispersed data centers; and

Link Load Balancing monitoring availability and performance of multiple WAN connections and intelligently managing bi-directional traffic flows to ensure uninterrupted, optimized Internet access.

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Since most large enterprises have hundreds if not thousands of servers and applications, it is not practical to replicate these functions on each server or build them into the applications themselves. Even if it were, maintenance costs would be prohibitive and the net result would be a negative impact on the overall performance of servers and applications. Deploying point solutions in the network eliminates those problems but creates a new set of challenges. Using point solutions from multiple vendors can create interoperability issues, and problems that do occur can be difficult to troubleshoot. From a security standpoint, it is also much more difficult to audit traffic passing through multiple devices. As a result, enterprise customers are increasingly demanding products that integrate ADN functions on a single platform.

File Virtualization

Along with other types of IP traffic, the volume of file-based information created and accessed by Internet users and network applications is growing rapidly. According to some estimates, the volume of unstructured files is expected to triple annually over the next several years. The challenge of storing and managing unstructured files is becoming increasingly costly and complex, and reducing the cost and complexity is quickly moving up the list of data center priorities.

In many large organizations whose employees are geographically dispersed, unstructured data is stored on local file servers, which are difficult to manage, costly to maintain and generally underutilized. Information on these devices is easy for local users to access but often inaccessible to others in the organization. To reduce the cost, complexity, and redundancy of dispersed file systems, many IT organizations are consolidating file storage on centralized NAS devices and other types of storage systems. Migrating and consolidating files is difficult and time-consuming, however, and centralized storage systems pose a different set of problems.

Centralized storage of files can slow access for remote users and applications, spurring interest in technology that can speed the transfer of files across wide area networks (WANs). In addition, only users and applications that are physically mapped to a specific drive can store and access data on that drive. As the drive fills up, files must be moved manually to a new drive and affected users and applications must be remapped to that drive. In large organizations, this often constitutes a round-the-clock chore for many highly-skilled employees.

Another major storage problem stems from the fact that all files are not created equal. Many businesses and other organizations have policies or other obligations to retain email and other files, increasing the volume of data to archive and, in some cases, to keep indefinitely. Since it is unlikely that these files will be accessed frequently, if at all, in the course of normal business, it makes little sense to store them on expensive, high-performance systems designed to provide immediate access to business-critical information. As a result, IT organizations are beginning to deploy tiers of storage systems that match cost, capacity, and performance to the type of information being stored, how frequently it is accessed, and its relative importance to the business. Often, the most cost-effective solution is a combination of storage systems from different vendors, an approach that typically entails migrating huge amounts of data between incompatible devices. Once that is completed, organizations face the challenge of automating the tiering process and the management of aging files.

Whether or not they deploy tiered file systems, many organizations are beginning to address the mounting cost in time and resources of backing up data stored on employee desktops, local file servers, and other devices. According to some estimates, approximately 80% of the files organizations back up have not changed since the previous back-up. Worse yet, a large and growing percentage are music and video files, family photographs, and other personal files.

Responding to increasing demand from IT organizations, a number of storage vendors and a handful of other companies offer solutions that address some or all of these issues and can be loosely grouped under the heading of file

virtualization. Collectively, these solutions encompass a variety of technological approaches designed to optimize and simplify the storage of unstructured data.

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F5 Solutions

Application Delivery Networking

F5 is a leading provider of application delivery networking products that ensure the security, optimization and availability of applications for any user, anywhere. We believe our products offer the most intelligent architecture and advanced functionality in the marketplace along with performance, flexibility and usability features that help organizations improve the way they serve their employees, customers, and partners while lowering operational costs.

Software Based Products. From inception, we have been committed to the belief that the complexity of application-level processing requires the flexibility of a software-based solution. We believe our modular software architecture enables us to deliver the broadest range of integrated functionality in the market and facilitates the addition and integration of new functionality. We also believe that integrating our software with commodity hardware components enables us to build products that deliver superior performance, functionality and flexibility at competitive prices.

Full Proxy Architecture. The core of our software technology is the Traffic Management Operating System (TMOS) introduced in September 2004 as part of BIG-IP version 9. We believe this is a major enhancement of our previous technology that enables our products to deliver functionality that is superior on many levels to any other application delivery networking product in the market. With TMOS, our products can inspect, modify and direct both inbound and outbound traffic flows across multiple packets. This ability to manage application traffic to and from servers adds value to applications that pass through our devices in ways that are not possible with other application delivery networking solutions.

Modular Functionality. In addition to its full proxy architecture, TMOS is specifically designed to facilitate the development and integration of application delivery networking functions as modules that can be added to BIG-IP s core functionality to keep pace with rapidly evolving customer needs. Add-on modules currently available with BIG-IP include: Intelligent Compression; SSL Acceleration; Rate Shaping; Advanced Client Authentication; IPv6 Gateway; Caching; and others. We also offer Application Security Manager (ASM), Global Traffic Manager (GTM), Link Controller, and WebAccelerator as software modules on BIG-IP.

Application Awareness. The open architecture of TMOS includes an application programming interface (API) called iControl that allows our products to communicate with one another and with third-party software and devices. Through this unique feature, third- party applications and network devices can take an active role in shaping IP network traffic, directing traffic based on exact business requirements defined by our customers and solutions partners and tailored to specific applications. This application awareness capability is one of the most important features of our software-based products and further differentiates our solutions from those of our competitors.

Adaptive Intelligence. The full-proxy capabilities of TMOS enable it to inspect or read the entire contents of a transmission across multiple packets and identify specific elements of that transmission, including items such as names, dates, and any type of number or label. By taking advantage of our unique scripting capability, based on Tool Command Language (TCL), customers can use those elements as variables to create iRules that modify the content and direct the flow of traffic in ways tailored to the dynamic needs of their applications. iRules is a unique feature of TMOS that gives our products flexibility unmatched by competing products.

Integrated Application Layer Solutions. The combination of our full proxy architecture and enhanced iRules enables BIG-IP to intercept, inspect and act on the contents of traffic from virtually every type of IP-enabled application. In addition, the modularity of the TMOS architecture allows us to deliver tightly integrated solutions that secure, optimize and ensure the availability of applications and the networks they run on.

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Data Solutions

F5 s data solutions products address many of the problems associated with managing today s rapidly expanding file storage infrastructure. Our ARX product family of intelligent file virtualization devices represents a unique set of capabilities that optimize the performance and utilization of NAS storage systems.

Non-disruptive Data Migration. ARX automates the movement of files between heterogeneous storage devices without affecting access and without requiring client reconfiguration. Enterprises can perform seamless hardware & software upgrades on file storage platforms, server consolidation, even vendor switches, all during business hours.

Automated Storage Tiering. ARX automates the movement of data between tiers of storage, and the placement of data on appropriate tiers of storage, irrespective of platform or vendor. Organizations can lower the cost of storage and shrink backup and recovery windows by automatically placing data on appropriate storage devices without affecting access to the data.

Dynamic Load Balancing. ARX dynamically distributes files across multiple file storage devices, eliminating hotspots or bottlenecks. Companies can improve application performance and increase productivity using the storage infrastructure that is already in place.

Efficient Data Replication. ARX provides the ability to replicate files between heterogeneous storage platforms for efficient and cost effective disaster recovery and centralized backup applications.

Strategy

Our objective is to lead the industry in delivering the enabling architectures that integrate IP networks with applications and data. Our products provide strategic points of control in the IT infrastructure that allow business policies to be implemented where information is exchanged, allowing organizations to respond quickly to changing business needs, improve costly and time consuming business processes and develop new sources of revenue through highly differentiated offerings. Key components of our strategy include:

Offering a complete, integrated application delivery product suite.

Since the introduction of our TMOS architecture for application delivery networking, we have developed TMOS-based versions of our own legacy products, such as GTM and Link Controller, and acquired technology, including Application Security Manager (ASM), WebAccelerator, and WANJet. ASM and WebAccelerator are currently available as software modules on our BIG-IP family of application delivery controllers. In addition, we are currently developing the next generation of TMOS-based versions of our WAN Optimization and secure remote access products, TMOS-based versions of WANJet and FirePass, which we plan to release in fiscal year 2009. We believe this approach sharply differentiates our products from our competitors offerings and provides customers with an expanding array of integrated application delivery networking solutions that can be customized to meet their specific needs.

Investing in technology to continue to meet customer needs.

We continue to invest in research and development to provide our customers with comprehensive, integrated solutions. In application delivery networking, our product development efforts leverage the unique attributes of our software-based platforms to deliver new features and functions that address the complex and changing needs of our customers. Our acquisition investments in ARX are aimed at providing data solutions to the complex challenge of efficiently storing and managing the huge and growing volume of unstructured files created by network users and

applications. For both our application delivery controllers and file virtualization products, development of high-performance, proprietary hardware is a key component of our investment strategy. In developing these products, we will continue to use commodity hardware in order to ensure performance and cost competitiveness.

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Enhancing channel sales and distribution model.

We continue to invest significant resources in developing and expanding our indirect sales and distribution channels by cultivating our relationships with our existing partners and actively developing new relationships. Our efforts to recruit new partners are aimed primarily at large value-added resellers, systems integrators, and industry-leading systems manufacturers.

Continuing to build and expand relationships with strategic technology partners.

To compete successfully against Cisco and other large competitors who have an established presence in our target accounts, we have developed strategic technology partnerships with enterprise software vendors, such as Microsoft, Oracle and SAP, who also have an established presence in those accounts. By taking advantage of our open application programming interface, called iControl, these vendors can enable their applications to control our products in the network, enhancing overall application performance. In addition, we have worked closely with several of these vendors to develop configurations of our products, called application ready networks that are specifically tuned to simplify deployment and optimize the performance of their applications. In return, these vendors provide us significant leverage in the selling process by recommending our products to their customers. We plan to continue building on our existing relationships and to extend our competitive edge by developing new relationships with other strategic partners.

Leveraging DevCentral, our online community of network architects and developers.

Customization of our products using iRules enhances their stickiness by allowing customers to solve problems in both their applications and their networks that would be difficult if not impossible to solve by other means. To promote the use of iRules, we host an online community where network architects and developers can discuss and share the ways in which they use iRules to solve problems and enhance the security, performance and availability of applications. A corollary benefit is that many of the iRules solutions posted by DevCentral participants have become standard features in new releases of TMOS.

Enhancing our brand.

We plan to continue building awareness of F5 as a leading provider of application delivery networking products that enable agility, improve efficiency and optimize the security, performance and availability of network applications, servers and storage systems. Our goal is to make the F5 brand synonymous with superior technology, high quality customer service, trusted advice and definitive business value.

Products

Our core technology is hardware and software for application delivery networking, including application security, secure remote access, WAN optimization and file virtualization.

All of our products are systems that integrate our software with purpose-built hardware that incorporates commodity components. Our BIG-IP product family, which represents the bulk of our sales, supports a growing number of features and functions as software modules including GTM (Global Traffic Manager), Link Controller, ASM (Application Security Manager) and WebAccelerator. We also sell FirePass, WANJet and WebAccelerator as separate, stand-alone appliances.

BIG-IP

Products in our family of BIG-IP application delivery controllers all run TMOS and differ primarily in the hardware configurations that make up each system. Our current BIG-IP systems include five hardware platforms. In fiscal year 2008 we introduced new entry- level products (BIG-IP 1600 and 3600), which replaced BIG-IP 1500 and 3400, delivering more functionality and twice the performance at approximately the same price. During fiscal year 2009, we also plan to introduce new products to replace our mid-range (BIG-IP 6400 and 6800) and high-end (BIG-IP 8400 and 8800) platforms. In addition to local area traffic management, which is standard on every system, BIG-IP supports a growing number of add-on software products and

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features. Software products currently available on all BIG-IP platforms except BIG-IP 1600 include GTM, Link Controller, ASM, and WebAccelerator. Standard features on all platforms include Advanced Client Authentication, Advanced Routing, Fast Cache, Intelligent Compression, IPv6 Gateway, L7 Rate Shaping, Message Security Module, Protocol Security Module and SSL Acceleration.

VIPRION

Introduced in January 2007, VIPRION is our chassis-based application delivery controller that scales from one to four blades, each equipped with two dual-core processors and equivalent in performance to a BIG-IP 8800. Using clustered multiprocessing, custom disaggregation ASICs and advanced software, VIPRION allows customers to add or remove blades without disrupting traffic and distributes traffic across all available processors, effectively creating a single virtual processor. VIPRION helps customers simplify their networks by offloading servers and consolidating devices, saving management costs as well as power, space, and cooling in the datacenter and by reducing the number of application delivery controllers they need to deliver even the most demanding applications. By offloading computationally intense processes, VIPRION can also significantly reduce the number of application servers needed.

FirePass

FirePass appliances provide SSL VPN access for remote users of IP networks and any applications connected to those networks from any standard Web browser on any device. The components of FirePass include a dynamic policy engine, which manages user authentication and authorization privileges, and special components that enable corporations to give remote users controlled access to the full array of applications and resources within the network. FirePass also supports Application Ready Access, providing full reverse-proxy services for market-leading application portals including those of SAP, Oracle, Microsoft, and others.

Currently, we sell three FirePass products: The FirePass 1200 appliance is designed for small to medium enterprises and branch offices and supports from 10 to 100 concurrent users. The FirePass 4100 controller is designed for medium size enterprises and, from a price/performance standpoint, is recommended for up to 500 concurrent users. The FirePass 4300 appliance is designed for medium to large enterprises and service providers and supports up to 2,000 concurrent users.

Application Security Manager (ASM)

Application Security Manager is a Web application firewall that provides comprehensive, proactive, application-layer protection against both generalized and targeted attacks. Available as a software module on BIG-IP LTM, ASM employs a positive security model (deny all unless allowed) combined with signature-based detection. As a result, ASM can prevent day-zero attacks in addition to known security threats. ASM is available as a stand-alone hardware platform.

WebAccelerator

WebAccelerator speeds web transactions by optimizing individual network object requests, connections, and end-to-end transactions from the browser through to databases. WebAccelerator enhances web application performance from any location, speeding up interactive performance, improving download times, utilizing bandwidth more efficiently, and dramatically reducing the cost and response time of delivering Web-enabled applications to distributed users where it is not possible to deploy an end point device. WebAccelerator devices can also be placed at key remote locations to provide acceleration to end-users above and beyond TCP optimizations and HTTP compression.

WebAccelerator is available as a software module on BIG-IP LTM or as a stand-alone appliance.

WANJet

WANJet combines WAN optimization and traffic-shaping in a single device to accelerate file transfers, email, data replication, and other applications over IP networks. It provides LAN-like performance on any

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WAN, ensuring predictable application performance for all users, and encrypts and secures all transfers without performance penalties. WANJet is deployed as a dual-sided (symmetric) solution that optimizes application traffic to and from data centers and branch offices.

For data centers, the WANJet 500 features pass-through fault tolerance and scalability for up to 20,000 optimized connections. For branch offices, the WANJet 300 combines pass-through fault tolerant features, silent operation, and performance for up to 1,000 optimized connections. WANJet solutions work seamlessly across all wide-area networks including dedicated links, IP VPNs, frame relay, and even satellite connections.

Enterprise Manager

Enterprise Manager takes advantage of our iControl interface to provide a single, centralized management console for our ADN products. Enterprise Manager allows customers with dozens or hundreds of our products to discover and view those products in a single window, and to upgrade or modify the software on those products simultaneously. This lowers the cost and simplifies the task of deploying, managing and maintaining our products and reduces the likelihood of error when blanket changes are implemented.

Enterprise Manager 500 and Enterprise Manager 3000 are appliance-based devices on dedicated, enterprise-grade platforms. Enterprise Manager 500 provides control for up to 50 F5 devices, and Enterprise Manager 3000 provides control for up to 300 F5 devices.

ARX

The ARX product family is a series of high performance, enterprise-class intelligent file virtualization devices that dramatically simplify the management of file storage environments and lower total storage costs by automating data management tasks and eliminating the disruption associated with storage management operations. The ARX series is powered by the FreedomFabric network operating system, which automates many storage management tasks that are performed manually today, and eliminates the disruption associated with those tasks. FreedomFabric s unique suite of storage management policies includes data migration, automated storage tiering, data replication, and dynamic load balancing.

Currently, the ARX series includes four products. The ARX 500, the low end of the series, is a stand-alone device that can manage more than 120 million files. The ARX 1000 is a stand-alone device and can manage more than 380 million files. In October 2008, we introduced the ARX 4000, a fixed form-factor device supporting 10 gigabit Ethernet and capable of managing more than 2 billion files. The high-end ARX 6000 is a chassis-based device with multiple blades that can manage more than 2 billion files.

Additionally in October 2008, we introduced F5 Data Manager, a software product that interfaces directly with most file storage devices, including ARX file virtualization platforms. Data Manager gathers valuable file storage statistics and provides graphical reporting and trending functions to give users visibility into their constantly changing data storage environments, helping them respond to business needs and better plan for future growth.

Enabling Technologies

iControl is an application programming interface that allows customers and independent software vendors to modify their programs to communicate with our products, eliminating the need for human involvement, lowering the cost of performing basic network functions and reducing the likelihood of error. Although we do not derive revenue from iControl itself, the sale of iControl-enabled applications by independent software vendors such as Microsoft and Oracle helps promote and often leads directly to the sale of our other products.

iRules is a built-in feature of our TMOS architecture that allows customers to manipulate and manage any IP application traffic that passes through our TMOS-based products. iRules has an easy-to-learn scripting syntax and enables users to customize how they intercept, inspect, transform, and direct inbound or outbound application traffic.

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Product Development

We believe our future success depends on our ability to maintain technology leadership by continuing to improve our products and by developing new products to meet the changing needs of our customers. Our product development group employs a standard process for the development, documentation and quality control of software and systems that is designed to meet these goals. This process includes working with management, product management, customers and partners to identify new or improved solutions that meet the evolving needs of our addressable markets.

Our principal software engineering group is located in our headquarters in Seattle, Washington. Our core product development teams for FirePass, WANJet and WebAccelerator are located in San Jose, California. We also have a smaller development facility for WANJet and WebAccelerator in Belfast, Northern Ireland. Our core Application Security Manager (ASM) product development team is located in Tel Aviv, Israel. Our ARX product development team is located in Lowell, Massachusetts. Our hardware engineering group is located in Spokane, Washington. In addition, we maintain a dedicated facility for product testing and quality control in Tomsk, Russia. Members of all these teams collaborate closely with one another to ensure the interoperability and performance of our hardware and software systems.

During the fiscal years ended September 30, 2008, 2007 and 2006, we had research and product development expenses of $103.4 million, $69.0 million, and $49.2 million, respectively.

Customers

Our customers include a wide variety of enterprise customers and service providers among Fortune 1000 and Business Week Global 1000 companies, including those in technology, telecommunications, financial services, transportation, and manufacturing industries, along with government customers. In fiscal year 2008, international sales represented 42.5% of our net revenues. Refer to Note 10 of our consolidated financial statements included in this Annual Report on Form 10-K for additional information regarding our revenues by geographic area.

Sales and Marketing

Sales

We sell our products and services to large enterprise customers and service providers through a variety of channels, including distributors, value-added resellers (VARs) and systems integrators. A substantial amount of our revenue for fiscal year 2008 was derived from these channel sales. Our sales teams work closely with our channel partners and sell our products and services directly to a limited number of major accounts.

F5 sales teams. Our inside sales team generates and qualifies leads for regional sales managers and helps manage accounts by serving as a liaison between the field and internal corporate resources. Our field sales personnel are located in major cities in four sales regions: the Americas; Europe, the Middle East, and Africa (EMEA); Japan; and the Asia Pacific region (APAC). Field sales personnel work closely with our channel partners to assist them, as necessary, in the sale of our products and services to their customers. We also sell our products and services directly to a limited group of customers, primarily large enterprises, whose accounts are managed by our major account services team. Field systems engineers support our regional sales managers and channel partners by participating in joint sales calls and providing pre-sale technical resources as needed.

Distributors and VARs. Consistent with our goal of building a strong channel sales model, we have established relationships with a number of large national and international distributors, local and specialized distributors and VARs. We derive a majority of our product sales from these distributors and VARs.

Our agreements with these channel partners are not exclusive and do not prevent them from selling competitive products. These agreements typically have terms of one year with no obligation to renew, and typically do not provide for exclusive sales territories or minimum purchase requirements.

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For fiscal year 2008, sales to two of our distributors, Ingram Micro, Inc., and Avnet Technologies, represented 10.5% and 14.0% of our total revenues, respectively. Our agreements with these distributors are standard, non-exclusive distribution agreements that renew automatically on an annual basis and can be terminated by either party with 30 days prior written notice. The agreements grant Ingram Micro and Avnet Technologies the right to distribute our products to resellers in North America and certain other territories internationally, with no minimum purchase requirements.

Systems integrators. We also market our products through strategic relationships with systems integrators, who include our products as core components of application or network-based solutions they deploy for their customers. In most cases, systems integrators do not directly purchase our products for resale to their customers. Instead they typically recommend our products as part of broader solutions, such as enterprise resource planning (ERP) or customer relationship management (CRM) solutions, that incorporate our products for high availability and enhanced performance.

Marketing

Our marketing strategy is driven by the belief that our continued success depends on our ability to understand and anticipate the dynamic needs of our addressable markets and to develop valuable solutions that meet those needs. In line with this belief, our marketing organization works directly with customers, partners and our product development teams to identify and create innovative solutions to further enhance our leadership position. In addition, our business development team, which is a component of our marketing organization, closely monitors technology companies in adjacent and complementary markets for opportunities to acquire or partner with those whose solutions are complementary to ours and could enable us to expand our addressable market.

Another key component of our marketing strategy is to develop and expand our iControl partnerships. Working closely with our partners, we have developed solution sets called Application Ready Networks (ARNs) that help ensure the successful deployment and delivery of their applications over the network. The result of methodical testing and research, ARNs provide architecture-based, best-practice documentation on how to deploy F5 products with applications from major software vendors such as Microsoft, Oracle and SAP, helping joint customers unlock the full potential of those applications.

To support the growing number of developers using our products, including network and application architects, we continue to promote and expand DevCentral, our on-line community website that provides technical resources to customers, prospects and partners wanting to extend and optimize F5 solutions using iRules. A key aspect of DevCentral is an on-line forum where developers as well as application and network architects discuss and share solutions they have written with iRules. At the end of fiscal 2008, DevCentral had more than 32,600 registered members.

We also engage in a number of marketing programs and initiatives aimed at promoting our brand and creating market awareness of our technology and products. These include actively participating in industry trade shows and joint marketing events with channel and technology partners, and briefing industry analysts and members of the trade press on our latest products, business relationships and technology partnerships. In addition, we market our products to chief information officers and other information technology professionals through targeted advertising, direct mail and high-profile Web events.

Backlog

At the end of fiscal years 2008 and 2007, we had product backlog of approximately $10.9 million and $9.9 million, respectively. Backlog represents orders confirmed with a purchase order for products to be shipped generally within

90 days to customers with approved credit status. Orders are subject to cancellation, rescheduling by customers or product specification changes by customers. Although we believe that the backlog orders are firm, purchase orders may be cancelled by the customer prior to shipment without significant penalty. For this reason, we believe that our product backlog at any given date is not a reliable indicator of future revenues.

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Customer Service and Technical Support

We believe that our ability to provide consistent, high-quality customer service and technical support is a key factor in attracting and retaining large enterprise customers. Accordingly, we offer a broad range of support services that include installation, phone support, hardware repair and replacement, software updates, consulting and training services. We deliver these services directly to end users and also utilize a multi-tiered support model, leveraging the capabilities of our channel partners when applicable. Our technical support staff is strategically located in regional service centers to support our global customer base.

Prior to the installation of our products, our services personnel work with customers to analyze their network needs and determine the best way to deploy our products and configure product features and functions to meet those needs. Our services personnel also provide on-site installation and training services to help customers make optimal use of product features and functions.

Our customers typically purchase a one-year maintenance contract which entitles them to an array of services provided by our technical support team. Maintenance services provided under the contract include online updates, software error correction releases, hardware repair and replacement, and remote support through a 24 hours a day, 7 days a week help desk, although not all service contracts entitle a customer to round-the-clock call center support. Updates to our software are only available to customers with a current maintenance contract. Our technical support team also offers seminars and training classes for customers on the configuration and use of products, including local and wide area network system administration and management. In addition, we have a professional services team able to provide a full range of fee-based consulting services, including comprehensive network management, documentation and performance analysis, and capacity planning to assist in predicting future network requirements.

We also offer, as part of our maintenance service, an online, automated, self-help customer support function called Ask F5 that allows customers to answer many commonly asked questions without having to call our support desk. This allows the customer to rapidly address issues and questions, while significantly reducing the number of calls to our support desk. This enables us to provide comprehensive customer support while keeping our support-related expenses at a manageable, consistent level.

Manufacturing

We outsource the manufacturing of our pre-configured hardware platforms to third party contract manufacturers for assembly according to our specifications.

Flextronics was our primary third party manufacturer in 2008. Flextronics also installs our software onto the hardware platforms and conducts functionality testing, quality assurance and documentation control prior to shipping our products. Our agreement with Flextronics allows it to procure component inventory on our behalf based upon a rolling production forecast. Subcontractors supply Flextronics with standard parts and components for our products based on our production forecast. We are contractually obligated to purchase component inventory that our contract manufacturer procures in accordance with the forecast, unless we give notice of order cancellation in advance of applicable lead times. As protection against component shortages and to provide replacement parts for our service teams, we also stock limited supplies of certain key components for our products.

Hardware platforms for our products consist primarily of commodity parts and certain custom components designed and approved by our hardware engineering group. Most of our components are purchased from sources which we believe are readily available from other suppliers. However, several components used in the assembly of our products are purchased from single or limited sources such as our proprietary Packet Velocity ASIC for Layer 4 processing that is manufactured for us by a third-party contract semiconductor foundry.

Competition

The increasing breadth of our product offerings has enabled us to address a growing array of opportunities, many of which are outside the bounds of the traditional Layer 4-7 market. Within what Gartner Group calls the Application Acceleration market, we compete in the Application Delivery Controller (ADC) market,

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which encompasses the traditional Layer 4-7 market, and the WAN Optimization Controller market. Over the next several years, we believe these two market segments will merge as WAN optimization effectively becomes a feature of Application Delivery. With the availability of ASM and WebAccelerator as software modules on BIG-IP, these products have already become features of our overall ADN solution, and our strategic roadmap includes plans to integrate FirePass with BIG-IP over the next 12 to 18 months. For the immediate future, however, the WAN optimization and secure remote access application security market segments will continue to be viewed as discrete markets.

In 2008, approximately 88% of our products and services were sold into the ADC market where our primary competitor is Cisco Systems, Inc. Other competitors in this market include Citrix Systems, Inc., and to a lesser degree Nortel Networks Corporation and Radware Ltd.

In the adjacent WAN Optimization market, WANJet competes mainly with products from BlueCoat Systems, Cisco, Citrix, Juniper Networks, Inc. and Riverbed Technology, Inc. None of our competitors offers an integrated product with advanced features comparable to WebAccelerator.

In the SSL VPN remote access market, we compete with Juniper, Citrix, Nokia Corporation, Nortel, SonicWall, Inc., Symantec Corporation and a number of smaller players. Because SSL VPNs are a potential replacement for IPSec VPNs, the most widely deployed solution for secure remote access today, we also compete with Check Point Software Technologies, Ltd. which, along with Juniper, is a market leader in IPSec VPNs. Citrix offers a web firewall acquired from Teros, Inc. as a module on its Netscaler products.

Application firewalls represent an emerging market that is populated mainly by private, early-development-stage companies. Other companies that have acquired products similar to ASM include Citrix Systems. None of our competitors offers a high-performance product similar to our Application Security Module, which is tightly integrated with our application delivery products.

File virtualization remains an early-stage market, the growth of which has been slowed by the recent global economic downturn. We believe our ARX file virtualization products are unique in terms of technology and functionality and are well positioned within this emerging market. However, large storage vendors such as EMC Corporation, NetApp Inc., Brocade Communications Systems, Inc