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., and Cisco offer competing products with overlapping functionality.

Many of our competitors have a longer operating history and greater financial, technical, marketing and other resources than we do. These larger competitors also have a more extensive customer base and broader customer relationships, including relationships with many of our current and potential customers. In addition, many have large, well-established, worldwide customer support and professional services organizations and more extensive direct sales force and sales channels. Because of our relatively smaller size, market presence and resources, our larger competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. These companies may also adopt aggressive pricing policies to gain market share. As a result, our competitors could undermine our ability to win new customers and maintain our existing customer base.

Intellectual Property

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We have obtained 32 patents in the United States and have applications pending for various aspects of our technology. Our future success depends in part on our ability to protect our proprietary rights to the technologies used in our principal products. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use trade secrets or other information that we regard as proprietary. In addition, the laws of some foreign countries do not protect our

proprietary rights as fully as do the laws of the United States. Any issued patent may not preserve our proprietary position, and competitors or others may develop technologies similar to or superior to our technology. Our failure to enforce and protect our intellectual property rights could harm our business, operating results and financial condition.

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In addition to our own proprietary software, we incorporate software licensed from several third-party sources into our products. These licenses generally renew automatically on an annual basis. We believe that alternative technologies for these licenses are available both domestically and internationally.

Employees

As of September 30, 2008, we had 1,694 full-time employees, including 460 in product development, 716 in sales and marketing, 323 in professional services and technical support and 195 in finance, administration and operations. None of our employees is represented by a labor union. We have experienced no work stoppages and believe that our employee relations are good.

Directors and Executive Officers of the Registrant

The following table sets forth certain information with respect to our executive officers and directors as of November 21, 2008:

Name	Age	Position
John McAdam	57	President, Chief Executive Officer and Director
Mark Anderson	46	Senior Vice President of Worldwide Sales
Jeffrey A. Christianson	51	Senior Vice President and General Counsel
Edward J. Eames	50	Senior Vice President of Business Operations
Christopher P. Lynch	45	Senior Vice President of Data Solutions
Dan Matte	42	Senior Vice President of Marketing and Business Development
Andy Reinland	44	Senior Vice President and Chief Finance Officer
John Rodriguez	48	Senior Vice President and Chief Accounting Officer
Karl Triebes	41	Senior Vice President of Product Development and Chief Technical Officer
A. Gary Ames(2)(3)(4)	64	Director
Deborah L. Bevier(1)(2)(4)	57	Director
Karl D. Guelich(1)(3)	66	Director
Alan J. Higginson(2)(3)	61	Chairman of the Board of Directors
Scott Thompson(1)(3)	51	Director

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Governance and Nominating Committee.

(4) Member of the Special Committee.

John McAdam has served as our President, Chief Executive Officer and a director since July 2000. Prior to joining us, Mr. McAdam served as General Manager of the Web server sales business at International Business Machines Corporation from September 1999 to July 2000. From January 1995 until August 1999, Mr. McAdam served as the President and Chief Operating Officer of Sequent Computer Systems, Inc., a manufacturer of high-end open systems,

which was sold to International Business Machines Corporation in September 1999. Mr. McAdam holds a B.S. in Computer Science from the University of Glasgow, Scotland.

Mark Anderson has served as our Senior Vice President of Worldwide Sales since October 2007. He joined F5 Networks in October 2004 as Vice President of North American Sales. Prior to joining F5, Mr. Anderson served as Executive Vice President of North American Sales at Lucent Technologies from 2003 to 2004. From 2002 through 2003, Mr. Anderson was Vice President of Business Development at RadioFrame Networks. From 1997 to 2001, he served as a Sales Director at Cisco Systems, Inc. From 1986 to 1996, he was Vice President of Western U.S. Sales at Comdisco. Mr. Anderson holds a B.A. in Business and Economics from York University in Toronto.

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Jeffrey A. Christianson has served as our Senior Vice President and General Counsel of the Company since December 2006. From February 2000 to July 2006, Mr. Christianson was Sr. Vice President and General Counsel of Western Wireless Corporation, a wireless service. From March 1996 to January 2000, Mr. Christianson served as Sr. Vice President of Business Development, General Counsel and Corporate Secretary at Wizards of the Coast, Inc., a game and software company. From September 1992 to March 1996, he served as General Counsel and Secretary of Heart Technology, Inc., a medical device company. From September 1990 to September 1992, he was Vice-President and General Counsel of Spider Staging Corporation and Vice President of Administration and Corporate Counsel for Flow International Corporation after its acquisition of Spider Staging Corporation. Mr. Christianson holds a B.A. from Whitman College and a J.D. from the University of Washington, and serves on the Board of Directors of the Northwest Children s Fund, a Seattle-based community foundation, Family Services, and the Humane Society for Seattle/King County.

Edward J. Eames has served as our Senior Vice President of Business Operations since January 2001 and as our Vice President of Professional Services from October 2000 to January 2001. From September 1999 to October 2000, Mr. Eames served as Vice President of e-Business Services for International Business Machines Corporation. From June 1992 to September 1999, Mr. Eames served as the European Services Director and the Worldwide Vice President of Customer Service for Sequent Computer Systems, Inc., a manufacturer of high-end open systems. Mr. Eames holds a Higher National Diploma in Business Studies from Bristol Polytechnic and in 1994 completed the Senior Executive Program at the London Business School.

Christopher P. Lynch has served as our Senior Vice President, of Data Solutions since the acquisition of Acopia in September 2007. Mr. Lynch served as President and Chief Executive Officer of Acopia from July 2002 to September 2007. Prior to joining Acopia, Mr. Lynch served as Vice President of Worldwide Content Delivery Networking Sales at Cisco Systems. From January 1998 to June 2002, he served as Vice President of Worldwide Sales, Marketing, and Support at ArrowPoint Communications, which was acquired by Cisco Systems. From January 1997 to January 1998, Mr. Lynch served as Vice President of North American sales at Prominet Corp., an Ethernet switch manufacturer, which was acquired by Lucent. Mr. Lynch holds a Master s in Business Administration from Bentley College and a Bachelor s in Business Management from Suffolk University.

Dan Matte has served as our Senior Vice President of Marketing since June 2004, and as Vice President of Product Marketing and Management from March 2002 through May 2004. He has served as our Senior Director of Product Marketing and Management from February 2001 through February 2002. From March 1999 to February 2001, Mr. Matte served as our Director of Product Management. He holds a Bachelor of Commerce from Queens s University and an MBA from the University of British Columbia.

Andy Reinland has served as our Senior Vice President and Chief Finance Officer since October 2005. Mr. Reinland joined F5 in 1998, serving as a senior financial analyst and, most recently, Vice President of Finance. Prior to joining F5, Mr. Reinland was Chief Financial Officer for RTIME, Inc., a developer of real-time 3D software for Internet applications, which was acquired by Sony. Mr. Reinland started his career in public accounting. Mr. Reinland holds a B.A. in Business from Washington State University.

John Rodriguez has served as our Senior Vice President and Chief Accounting Officer since October 2005. For SEC reporting purposes, Mr. Rodriguez is the principal financial officer. Rodriguez joined F5 in 2001 as Corporate Controller. His most recent position held was Vice President and Corporate Controller. Prior to F5, Mr. Rodriguez was Vice President and Chief Financial Officer of CyberSafe, a security solutions company, and Senior Director of Finance and Operations at Mosaix, which was acquired by Lucent Technologies. Mr. Rodriguez started his career in public accounting. Mr. Rodriguez holds a B.A. in Business from the University of Washington.

Karl Triebes has served as our Senior Vice President of Product Development and Chief Technical Officer since August 2004. Prior to joining us, Mr. Triebes served as Chief Technology Officer and Vice President of Engineering of Foundry Networks, Inc. from January 2003 to August 2004. From June 2001 to January 2003, he served as Foundry s Vice President of Hardware Engineering. From May 2000 to June 2001, Mr. Triebes was Vice President of Engineering at Alcatel U.S.A., a telecommunications company. From December 1999 to May 2000, he was Assistant Vice President of Newbridge Networks Corp., a networking company

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subsequently acquired by Alcatel. Mr. Triebes holds a B.S. in Electrical Engineering from San Diego State University.

A. Gary Ames has served as one of our directors since July 2004. Mr. Ames served as President and Chief Executive Officer of MediaOne International, a provider of broadband and wireless communications from July 1995 until his retirement in June of 2000. From January 1990 to July 1995, he served as President and Chief Executive Officer of U S West Communications, a regional provider of residential and business telephone services, and operator and carrier services. Mr. Ames also serves as director of SuperValu, Inc. and iPass, Inc.

Deborah L. Bevier has served as one of our directors since July 2006. Ms. Bevier has been the principal of DL Bevier Consulting LLC, an organizational and management consulting firm, since 2004. Prior to that time, from 1996 until 2003, Ms. Bevier served as a director, president and chief executive officer of Laird Norton Financial Group and its predecessor companies, an independent financial advisory services firm. From 1973 to 1996, Ms. Bevier held numerous leadership positions with KeyCorp including chairman and chief executive officer of Key Bank of Washington. Ms. Bevier currently serves on the Board of Directors of Fisher Communications, Inc. and Coinstar, Inc. Ms. Bevier holds a B.S. in Economics from SUNY New Paltz and a graduate degree from the Stonier Graduate School of Banking at Rutgers University.

Karl D. Guelich has served as one of our directors since June 1999 and as board chair from January 2003 through April 2004. Mr. Guelich retired from Ernst & Young LLP in 1993, where he served as the Area Managing Partner for the Pacific Northwest offices headquartered in Seattle from October 1986 to November 1992. Mr. Guelich was in private practice as a certified public accountant until August 2006. Mr. Guelich holds a B.S. in Accounting from Arizona State University.

Alan J. Higginson has served as board chair since April 2004, and as one of our directors since May 1996. Mr. Higginson is Chairman of Hubspan, Inc., an e-business infrastructure provider. He served as President and Chief Executive Officer of Hubspan from August 2001 to September, 2007. From November 1995 to November 1998, Mr. Higginson served as President of Atrieva Corporation, a provider of advanced data backup and retrieval technology. Mr. Higginson holds a B.S. in Commerce and an M.B.A. from the University of Santa Clara.

Scott Thompson has served as one of our directors since January 2008. Mr. Thompson is President of PayPal, an eBay Company. From February 2005 to January 2008, he served as Senior Vice President and Chief Technology Officer, Payments, Risk and Technology at PayPal. From April 2000 to February 2005, he served as Executive Vice President and Global Chief Information Officer for Inovant/VISA International. From August 1997 to April 2000, he served as Chief Technology Officer and Executive Vice President, Systems Group at VISA USA. Mr. Thompson holds a B.S. in Accounting from Stonehill College.

Keith D. Grinstein served as one of our directors from December 1999 until his death on September 28, 2008. Mr. Grinstein was a member of the Audit Committee and was chair of the Compensation Committee. Subsequent to Mr. Grinstein s death, the Board of Directors decreased the authorized number of directors from seven to six.

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

In addition to the other information in this report, the following risk factors should be carefully considered in evaluating our company and its business.

Our success depends on our timely development of new products and features, market acceptance of new product offerings and proper management of the timing of the life cycle of our products

The application delivery networking and file virtualization markets are characterized by rapid technological change, frequent new product introductions, changes in customer requirements and evolving industry standards. Our continued success depends on our ability to identify and develop new products and new features for our existing products to meet the demands of these changes, and the acceptance of those products

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and features by our existing and target customers. If we are unable to identify, develop and deploy new products and new product features on a timely basis, our business and results of operations may be harmed.

The current life cycle of our products is typically 12 to 24 months. The introduction of new products or product enhancements may shorten the life cycle of our existing products, or replace sales of some of our current products, thereby offsetting the benefit of even a successful product introduction, and may cause customers to defer purchasing our existing products in anticipation of the new products. This could harm our operating results by decreasing sales, increasing our inventory levels of older products and exposing us to greater risk of product obsolescence. We have also experienced, and may in the future experience, delays in developing and releasing new products and product enhancements. This has led to, and may in the future lead to, delayed sales, increased expenses and lower quarterly revenue than anticipated. Also, in the development of our products, we have experienced delays in the prototyping of our products, which in turn has led to delays in product introductions. In addition, complexity and difficulties in managing product transitions at the end-of-life stage of a product can create excess inventory of components associated with the outgoing product that can lead to increased expenses. Any or all of the above problems could materially harm our business and results of operations.

Our success depends on sales and continued innovation of our Application Delivery Networking product lines

For the fiscal year ended September 30, 2008, we derived approximately 92.0% of our net product revenues, or approximately 64.1% of our total net revenues, from sales of our Application Delivery Networking (ADN) product lines. We continue to expect to derive a significant portion of our net revenues from sales of our ADN products in the future. Implementation of our strategy depends upon these products being able to solve critical network availability and performance problems of our customers. If our ADN products are unable to solve these problems for our customers or if we are unable to sustain the high levels of innovation in our ADN product feature set needed to maintain leadership in what will continue to be a competitive market environment, our business and results of operations will be harmed.

We may not be able to compete effectively in the emerging application delivery networking and file virtualization markets

The markets we serve are new, rapidly evolving and highly competitive, and we expect competition to persist and intensify in the future. Our principal competitors in the application delivery networking market include Cisco, Nortel, Citrix, and Radware. In the adjacent WAN Optimization market, we compete with Riverbed, Juniper, Blue Coat Systems, Cisco and Citrix. In the file virtualization market, we compete with EMC, Net-App, Brocade and Cisco. We expect to continue to face additional competition as new participants enter our markets. As we continue to expand globally, we may see new competitors in different geographic regions. In addition, larger companies with significant resources, brand recognition, and sales channels may form alliances with or acquire competing application delivery networking solutions from other companies and emerge as significant competitors. Potential competitors may bundle their products or incorporate an Internet traffic management or security component into existing products in a manner that discourages users from purchasing our products. Any of these circumstances may limit our opportunities for growth and negatively impact our financial performance.

Our quarterly and annual operating results are inherently unpredictable and may cause our stock price to fluctuate

Our quarterly and annual operating results have varied significantly in the past and will vary significantly in the future, which makes it difficult for us to predict our future operating results. In particular, we anticipate that the size of customer orders may increase as we continue to focus on larger business accounts. A delay in the recognition of revenue, even from just one account, may have a significant negative impact on our results of operations for a given period. In the past, a majority of our sales have been realized near the end of a quarter. Accordingly, a delay in an

anticipated sale past the end of a particular quarter may negatively impact our results of operations for that quarter, or in some cases, that fiscal year. Additionally, we have exposure to

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the credit risks of some of our customers and sub-tenants. Although we have programs in place that are designed to monitor and mitigate the associated risk, there can be no assurance that such programs will be effective in reducing our credit risks adequately. We monitor individual payment capability in granting credit arrangements, seek to limit the total credit to amounts we believe our customers can pay and maintain reserves we believe are adequate to cover exposure for potential losses. If there is a deterioration of a sub-tenant s or a major customer s creditworthiness or actual defaults are higher than expected, future losses, if incurred, could harm our business and have a material adverse effect on our operating results.

Further, our operating results may be below the expectations of securities analysts and investors in future quarters or years. Our failure to meet these expectations will likely harm the market price of our common stock. Such a decline could occur, and has occurred in the past, even when we have met our publicly stated revenue and/or earnings guidance.

The average selling price of our products may decrease and our costs may increase, which may negatively impact gross profits

It is possible that the average selling prices of our products will decrease in the future in response to competitive pricing pressures, increased sales discounts, new product introductions by us or our competitors or other factors. Therefore, in order to maintain our gross profits, we must develop and introduce new products and product enhancements on a timely basis and continually reduce our product costs. Our failure to do so will cause our net revenue and gross profits to decline, which will harm our business and results of operations. In addition, we may experience substantial period-to-period fluctuations in future operating results due to the erosion of our average selling prices.

It is difficult to predict our future operating results because we have an unpredictable sales cycle

Our products have a lengthy sales cycle and the timing of our revenue is difficult to predict. Historically, our sales cycle has ranged from approximately two to three months and has tended to lengthen as we have increasingly focused our sales efforts on the enterprise market. Also, as our distribution strategy has evolved into more of a channel model, utilizing value-added resellers, distributors and systems integrators, the level of variability in the length of sales cycle across transactions has increased and made it more difficult to predict the timing of many of our sales transactions. Sales of our products require us to educate potential customers in their use and benefits. Sales of our products are subject to delays from the lengthy internal budgeting, approval and competitive evaluation processes that large corporations and governmental entities may require. For example, customers frequently begin by evaluating our products on a limited basis and devote time and resources to testing our products before they decide whether or not to purchase. Customers may also defer orders as a result of anticipated releases of new products or enhancements by our competitors or us. As a result, our products have an unpredictable sales cycle that contributes to the uncertainty of our future operating results.

Our business may be harmed if our contract manufacturers are not able to provide us with adequate supplies of our products or if a single source of hardware assembly is lost or impaired

We outsource the manufacturing of our hardware platforms to third party contract manufacturers who assemble these hardware platforms to our specifications. We have experienced minor delays in shipments from contract manufacturers in the past. However, if we experience major delays in the future or other problems, such as inferior quality and insufficient quantity of product, any one or a combination of these factors may harm our business and results of operations. The inability of our contract manufacturers to provide us with adequate supplies of our products or the loss of one or more of our contract manufacturers may cause a delay in our ability to fulfill orders while we obtain a replacement manufacturer and may harm our business and results of operations. In particular, we currently

subcontract manufacturing of our application delivery networking products to a single contract manufacturer with whom we do not have a long-term contract. If our arrangement with this single source of hardware assembly was terminated or otherwise impaired, and we were not able to engage another contract manufacturer in a timely manner, our business, financial condition and results of operation could be adversely affected.

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If the demand for our products grows, we will need to increase our raw material and component purchases, contract manufacturing capacity and internal test and quality control functions. Any disruptions in product flow may limit our revenue, may harm our competitive position and may result in additional costs or cancellation of orders by our customers.

Our business could suffer if there are any interruptions or delays in the supply of hardware components from our third-party sources

We currently purchase several hardware components used in the assembly of our products from a number of single or limited sources. Lead times for these components vary significantly. The unavailability of suitable components, any interruption or delay in the supply of any of these hardware components or the inability to procure a similar component from alternate sources at acceptable prices within a reasonable time, may delay assembly and sales of our products and, hence, our revenues, and may harm our business and results of operations.

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

Our products are subject to U.S. export controls and may be exported outside the U.S. only with the required level of export license or through an export license exception because we incorporate encryption technology into our products. In addition, various countries regulate the import of certain encryption technology and have enacted laws that could limit our ability to distribute our products or our customers ability to implement our products in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations or change in the countries, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. For example, we will need to comply with Waste Electrical and Electronic Equipment Directive laws, which are being adopted by certain European Economic Area countries on a country-by-country basis. Failure to comply with these and similar laws on a timely basis, or at all, could have a material adverse effect on our business, operating results and financial condition. Any decreased use of our products or limitation on our ability to export or sell our products would likely adversely affect our business, operating results and financial condition.

We may not be able to adequately protect our intellectual property and our products may infringe on the intellectual property rights of third parties

We rely on a combination of patent, copyright, trademark and trade secret laws, and restrictions on disclosure of confidential and proprietary information to protect our intellectual property rights. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Monitoring unauthorized use of our products is difficult, and we cannot be certain that the steps we have taken will prevent misappropriation of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. In the ordinary course of our business, we are involved in disputes and licensing discussions with others regarding their claimed proprietary rights and cannot assure you that we will always successfully defend ourselves against such claims. If we are found to infringe the proprietary rights of others, or if we otherwise settle such claims, we could be compelled to pay damages or royalties and either obtain a

license to those intellectual property rights or alter our products so that they no longer infringe upon such proprietary rights. Any license could be very expensive to obtain or may not be available at all. Similarly, changing our products or processes to avoid infringing upon the rights of others may be costly or impractical. In addition, we have initiated, and may in the future initiate, claims or

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litigation against third parties for infringement of our proprietary rights, or to determine the scope and validity of our proprietary rights or those of our competitors. Any of these claims, whether claims that we are infringing the proprietary rights of others, or vice versa, with or without merit, may be time-consuming, result in costly litigation and diversion of technical and management personnel or require us to cease using infringing technology, develop non-infringing technology or enter into royalty or licensing agreements. Further, our license agreements typically require us to indemnify our customers, distributors and resellers for infringement actions related to our technology, which could cause us to become involved in infringement claims made against our customers, distributors or resellers. Any of the above-described circumstances relating to intellectual property rights disputes could result in our business and results of operations being harmed.

Many of our products include intellectual property licensed from third parties. In the future, it may be necessary to renew licenses for third party intellectual property or obtain new licenses for other technology. These third party licenses may not be available to us on acceptable terms, if at all. The inability to obtain certain licenses, or litigation regarding the interpretation or enforcement of license rights and related intellectual property issues, could have a material adverse effect on our business, operating results and financial condition. Furthermore, we license some third party intellectual property on a non-exclusive basis and this may limit our ability to protect our intellectual property rights in our products.

We may not be able to sustain or develop new distribution relationships and a reduction or delay in sales to significant distribution partners could hurt our business

We sell our products and services through multiple distribution channels in the United States and internationally, including leading industry distributors, value-added resellers, systems integrators, and other indirect channel partners. We have a limited number of agreements with companies in these channels, and we may not be able to increase our number of distribution relationships or maintain our existing relationships. Recruiting and retaining qualified channel partners and training them in our technologies requires significant time and resources. If we are unable to establish or maintain our indirect sales channels, our business and results of operations will be harmed. In addition, two domestic distributors of our products together accounted for 24.5% and 24.8% of our total net revenue for the fiscal years 2008 and 2007, respectively. A substantial reduction or delay in sales of our products to these distribution partners, if not replaced by sales to other indirect channel partners and distributors, could harm our business, operating results and financial condition.

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

Our products may contain undetected errors or defects when first introduced or as new versions are released. We have experienced these errors or defects in the past in connection with new products and product upgrades. We expect that these errors or defects will be found from time to time in new or enhanced products after commencement of commercial shipments. These problems may cause us to incur significant warranty and repair costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations problems. We may also be subject to liability claims for damages related to product errors or defects. While we carry insurance policies covering this type of liability, these policies may not provide sufficient protection should a claim be asserted. A material product liability claim may harm our business and results of operations.

Our products must successfully operate with products from other vendors. As a result, when problems occur in a network, it may be difficult to identify the source of the problem. The occurrence of software or hardware problems, whether caused by our products or another vendor s products, may result in the delay or loss of market acceptance of our products. The occurrence of any of these problems may harm our business and results of operations.

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

A substantial portion of our business depends on the demand for information technology by large enterprise customers and service providers, the overall economic health of our current and prospective

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customers and the continued growth and evolution of the Internet. National, regional and local economic conditions, such as recessionary economic cycles, protracted economic slowdown or further deterioration of the economy could adversely impact demand for our products. The purchase of our products is often discretionary and may involve a significant commitment of capital and other resources. Continued weak economic conditions or a reduction in information technology spending even if economic conditions improve would likely result in longer sales cycles and reduced product sales, each of which would adversely impact our business, results of operations and financial condition.

Our investments in auction rate securities are subject to risks that may cause losses and affect the liquidity of these investments

At September 30, 2008, the fair value of our AAA rated municipal auction rate securities, (ARS) that were valued at reported market prices was approximately $47.5 million. Beginning in February 2008, auctions failed for approximately $53.4 million in par value of municipal ARS we held because sell orders exceeded buy orders. We may not be able to liquidate these investments and realize their full carrying value unless the issuer calls the security, a successful auction occurs, a buyer is found outside of the auction process, or the security matures. While we do not believe the decline in the carrying values of these municipal ARS is permanent, if the issuers of these securities are unable to successfully close future auctions and their credit ratings are lowered, we may be required to record future impairment charges related to these investments, which would harm our results of operations. We believe these investments may remain illiquid for longer than twelve months and as a result, we have classified these investments as long-term as of September 30, 2008.

Our operating results are exposed to risks associated with international commerce

As our international sales increase, our operating results become more exposed to international operating risks. These risks include risks related to recessionary economic cycles or protracted slowdowns in economies outside the United States, foreign currency exchange rates, managing foreign sales offices, regulatory, political or economic conditions in specific countries, military conflict or terrorist activities, changes in laws and tariffs, inadequate protection of intellectual property rights in foreign countries, foreign regulatory requirements and natural disasters. All of these factors could have a material adverse effect on our business. We intend to continue expanding into international markets. International sales represented 42.5% and 41.6% of our net revenues for the fiscal years ended September 30, 2008 and 2007, respectively. In particular, in fiscal year 2008, we derived 9.0% of our total revenue from the Japanese market. This revenue is dependent on a number of factors outside our control, including the viability and success of our resellers and the strength of the Japanese economy.

Changes in governmental regulations could negatively affect our revenues

Our products are subject to various regulations promulgated by the United States and various foreign governments including, but not limited to, environmental regulations and regulations implementing export license requirements and restrictions on the import or export of some technologies, especially encryption technology. Changes in governmental regulation and our inability or failure to obtain required approvals, permits or registrations could harm our international and domestic sales and adversely affect our revenues, business and operations.

Acquisitions present many risks and we may not realize the financial and strategic goals that are contemplated at the time of the transaction

With respect to our past acquisitions, as well as any other future acquisitions we may undertake, we may find that the acquired businesses, products or technologies do not further our business strategy as expected, that we paid more than what the assets are later worth or that economic conditions change, all of which may generate future impairment

charges. Our acquisitions may be viewed negatively by customers, financial markets or investors. There may be difficulty integrating the operations and personnel of the acquired business, and we may have difficulty retaining the key personnel of the acquired business. We may have difficulty in integrating the acquired technologies or products with our existing product lines. Our ongoing business and

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management s attention may be disrupted or diverted by transition or integration issues and the complexity of managing geographically and culturally diverse locations. We may have difficulty maintaining uniform standards, controls, procedures and policies across locations. We may experience significant problems or liabilities associated with product quality, technology and other matters.

Our inability to successfully operate and integrate newly-acquired businesses appropriately, effectively and in a timely manner, or to retain key personnel of any acquired business, could have a material adverse effect on our ability to take advantage of further growth in demand for integrated traffic management and security solutions and other advances in technology, as well as on our revenues, gross margins and expenses.

Our success depends on our key personnel and our ability to attract and retain qualified sales and marketing, operations, product development and professional services personnel

Our success depends to a significant degree upon the continued contributions of our key management, product development, sales, marketing and finance personnel, many of whom may be difficult to replace. The complexity of our application delivery networking products and their integration into existing networks and ongoing support, as well as the sophistication of our sales and marketing effort, requires us to retain highly trained professional services, customer support and sales personnel. Competition for qualified professional services, customer support and sales personnel in our industry is intense because of the limited number of people available with the necessary technical skills and understanding of our products. Our ability to retain and hire these personnel may be adversely affected by volatility or reductions in the price of our common stock, since these employees are generally granted restricted stock units or stock options. The loss of services of any of our key personnel, the inability to retain and attract qualified personnel in the future or delays in hiring qualified personnel, may harm our business and results of operations.

We face litigation risks

We are a party to lawsuits in the normal course of our business. Litigation in general, and intellectual property and securities litigation in particular, can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. Responding to lawsuits has been, and will likely continue to be, expensive and time-consuming for us. An unfavorable resolution of these lawsuits could adversely affect our business, results of operations or financial condition.

Our historical stock option practices and the restatement of our prior financial statements have exposed us to greater risks associated with litigation. Beginning in May 2006 several derivative actions were filed against certain current and former directors and officers (as discussed further in Part II, Item 8, Note 7, Commitments and Contingencies Litigation) based on allegations relating to our historical stock option practices. We cannot assure you that this current litigation will result in the same conclusions reached by the special committee of outside directors formed by our Board of Directors to conduct a review of our stock option practices (the Special Committee).

We may in the future be subject to additional litigation arising in relation to our historical stock option practices and the restatement of our prior financial statements. Litigation may be time consuming, expensive and distracting for management from the conduct of our business. The adverse resolution of any lawsuit could have a material adverse effect on our business, financial condition and results of operations. We cannot assure you that any future litigation relating to our historical stock option practices will result in the same conclusions reached by the Special Committee. Furthermore, if we are subject to adverse findings in any of these matters, we could be required to pay damages or penalties or have other remedies imposed upon us which could adversely affect our business, results of operations or financial condition.

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The matters relating to the Special Committee s review of our historical stock option practices and the restatement of our consolidated financial statements has resulted in regulatory proceedings against us and may result in future regulatory proceedings, which could have a material adverse impact on our financial condition

On November 8, 2006, we announced that the Special Committee had completed its review of our historical stock option practices. Upon completion of its review, the Special Committee found that the recorded grant dates for certain stock options granted during fiscal years 1999 to 2004 should be adjusted as the measurement date for accounting purposes and the accounting treatment used for the vesting of certain stock options was incorrect. Based on the Special Committee s review, to correct the accounting treatment, we amended our Annual Report on Form 10-K/A (as amended) for the year ended September 30, 2005 and our Quarterly Reports on Form 10-Q for the three months ended December 31, 2005 and March 31, 2006 to restate the consolidated financial statements contained in those reports.

In May 2006, we received notice from both the Securities and Exchange Commission (SEC) and the United States Attorney s Office for the Eastern District of New York (the Department of Justice) that they were conducting informal inquiries into our historical stock option practices. We have fully cooperated with both agencies. Considerable legal and accounting expenses related to our historical stock option practices have been incurred and we may in the future be subject to additional regulatory proceedings or actions arising in relation to our historical stock option practices and the restatement of our prior period financial statements. Any potential regulatory proceeding or action may be time consuming, expensive and distracting for management from the conduct of our business. The adverse resolution of any potential regulatory proceeding or action could adversely affect our business, results of operations or financial condition. We cannot assure you that the SEC and Department of Justice inquiries, or any future regulatory action relating to our historical stock option practices, will result in the same conclusions reached by the Special Committee. Furthermore, if we are subject to adverse findings in any of these matters, we could be required to pay damages or penalties or have other remedies imposed upon us, including criminal penalties, which could adversely affect our business, results of operations or financial condition.

Anti-takeover provisions could make it more difficult for a third party to acquire us

Our Board of Directors has the authority to issue up to 10,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the shareholders. The rights of the holders of common stock may be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change of control of our company without further action by our shareholders and may adversely affect the voting and other rights of the holders of common stock. Further, certain provisions of our bylaws, including a provision limiting the ability of stockholders to raise matters at a meeting of shareholders without giving advance notice, may have the effect of delaying or preventing changes in control or management of our company, which could have an adverse effect on the market price of our common stock. In addition, our articles of incorporation provide for a staggered board, which may make it more difficult for a third party to gain control of our Board of Directors. Similarly, state anti-takeover laws in the State of Washington related to corporate takeovers may prevent or delay a change of control of our company.

Item 1B. *Unresolved Staff Comments*

Not applicable.

Item 2. *Properties*

Our principal administrative, sales, marketing, research and development facilities are located in Seattle, Washington and consist of approximately 190,000 square feet. In April 2000, we amended and restated the lease agreement on two

of the three buildings for our corporate headquarters. The lease commenced in July 2000 on the first building; and the lease on the second building commenced in September 2000. The lease for

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both buildings expires in 2012 with an option for renewal. The lease for the second building has been partially subleased through 2012. We believe that our existing properties are in good condition and suitable for the conduct of our business. We also lease office space for our product development personnel in Spokane, Washington, San Jose, California, Lowell, Massachusetts, Israel, Northern Ireland, and Russia and for our sales and support personnel in Illinois, Washington D.C., New York, New Jersey, Hong Kong, Singapore, China, Taiwan, Thailand, India, Malaysia, South Korea, Japan, Australia, New Zealand, Germany, France, Belgium, Spain, Italy, Netherlands and the United Kingdom. We believe that our future growth can be accommodated by our current facilities or by leasing additional space if necessary.

In October 2006, we entered into an office lease 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 three buildings that serve as our corporate headquarters. The lease expires in 2018. Construction on this project was substantially completed in the third quarter of fiscal year 2008. During 2008, as part of an office consolidation we entered into two separate sublease agreements to sublease approximately 112,500 square feet of building 333 Elliott West. These sublease terms expire in 2011 and 2013, respectively.

Item 3. ***Legal Proceedings***

Regulatory proceedings

Derivative Suits. Beginning on or about May 24, 2006, several derivative actions were filed against certain of our current and former directors and officers. These derivative lawsuits were filed in: (1) the Superior Court of King County, Washington, as In re F5 Networks, Inc. State Court Derivative Litigation (Case No. 06-2-17195-1 SEA), which consolidates Adams v. Amdahl, et al. (Case No. 06-2-17195-1 SEA), Wright v. Amdahl, et al. (Case No. 06-2-19159-5 SEA), and Sommer v. McAdam, et al. (Case No. 06-2-26248-4 SEA) (the State Court Derivative Litigation); and (2) in the U.S. District Court for the Western District of Washington, as In re F5 Networks, Inc. Derivative Litigation, Master File No. C06-0794RSL, which consolidates Hutton v. McAdam, et al. (Case No. 06-794RSL), Locals 302 and 612 of the International Union of Operating Engineers-Employers Construction Industry Retirement Trust v. McAdam et al. (Case No. C06-1057RSL), and Easton v. McAdam et al. (Case No. C06-1145RSL) (the Federal Court Derivative Litigation). On August 2, 2007, another derivative lawsuit, Barone v. McAdam et al. (Case No. C07-1200P) was filed in the U.S. District Court for the Western District of Washington. The Barone lawsuit was designated a related case to the Federal Court Derivative Litigation on September 4, 2007. The complaints generally allege that certain of our current and former directors and officers, including, in general, each of our current outside directors (other than Deborah L. Bevier and Scott Thompson who joined our Board of Directors in July 2006 and January 2008, respectively) breached their fiduciary duties to the Company by engaging in alleged wrongful conduct concerning the manipulation of certain stock option grant dates. We are named solely as a nominal defendant against whom the plaintiffs seek no recovery. Our combined motion to consolidate and stay the State Court Derivative Litigation was granted in a court order dated April 3, 2007. Our motion to dismiss the consolidated federal derivative actions based on plaintiffs failure to make demand on our Board of Directors prior to filing suit was granted in a court order dated August 6, 2007 with leave to amend the allegations in plaintiffs complaint. Plaintiffs filed an amended consolidated federal derivative action complaint on September 14, 2007. We filed a motion to dismiss the amended complaint based on plaintiff s failure to make demand on our Board of Directors prior to filing suit. On July 3, 2008, before ruling on our pending dismissal motion, the federal court entered an order certifying certain issues of Washington state law to the Washington Supreme Court for resolution. Briefing the Washington Supreme Court on the certified issues began on September 15, 2008 and the hearing is currently set for March 24, 2009. The federal derivative actions are stayed pending resolution of the certification proceeding. We intend to continue to vigorously pursue dismissal of the derivative actions.

SEC and Department of Justice Inquiries. In May 2006, we received notice from both the SEC and the Department of Justice that they were conducting informal inquiries into our historical stock option practices, and have fully cooperated with both agencies. Considerable legal and accounting expenses related to our historical stock option practices have been incurred to date. We may in the future be subject to additional regulatory proceedings or actions arising in relation to our historical stock option practices and the restatement

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of our prior period financial statements. Although regulatory proceedings are subject to inherent uncertainties, we do not believe the results of any pending actions will, individually or in the aggregate, have a material adverse impact on our consolidated financial position or results of operations.

We are not aware of any other pending legal proceedings than those mentioned above that, individually or in the aggregate, would have a material adverse effect on our business, operating results, or financial condition. We may in the future be party to litigation arising in the ordinary course of business, including claims that we allegedly infringe upon third-party trademarks or other intellectual property rights. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

Item 4. ***Submission of Matters to a Vote of Securities Holders***

No matters were submitted to a vote of the shareholders during the fourth quarter of fiscal 2008.

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PART II

Item 5. *Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Prices of Common Stock

Our common stock is traded on the Nasdaq Global Market under the symbol FFIV. The following table sets forth the high and low sales prices of our common stock as reported on the Nasdaq Global Market, as adjusted to reflect our two-for-one stock split effective in August 2007.

	Fiscal Year 2008		Fiscal Year 2007	
	High	Low	High	Low
First Quarter	$ 44.55	$ 25.91	$ 39.27	$ 26.15
Second Quarter	$ 28.21	$ 18.11	$ 40.42	$ 33.27
Third Quarter	$ 32.60	$ 17.70	$ 43.24	$ 32.21
Fourth Quarter	$ 35.85	$ 21.00	$ 46.93	$ 34.32

The last reported sales price of our common stock on the Nasdaq Global Market on November 19, 2008 was $21.37.

As of November 19, 2008, there were 85 holders of record of our common stock. As many of our shares of common stock are held by brokers and other institutions on behalf of shareholders, we are unable to estimate the total number of beneficial holders of our common stock represented by these record holders.

Dividend Policy

Our policy has been to retain cash to fund future growth. Accordingly, we have not paid dividends and do not anticipate declaring dividends on our common stock in the foreseeable future.

Unregistered Securities Sold in 2008

We did not sell any unregistered shares of our common stock during the fiscal year 2008.

Issuer Purchases of Equity Securities

On January 23, 2008, we announced that our Board of Directors approved a new program to repurchase up to $200 million of our outstanding common stock. As of September 30, 2008 we had repurchased and retired approximately 7.7 million shares at an average price of $25.90 per share.

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Shares repurchased during the second, third and fourth quarters of fiscal 2008 are as follows (in thousands, except shares and per share data):

	Total Number of Shares Purchased	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
January 1, 2008 January 31, 2008		$		$ 200,000
February 1, 2008 February 29, 2008	4,381,353	$ 22.77	4,381,353	$ 100,000
March 1, 2008 March 31, 2008		$		$ 100,000
April 1, 2008 April 30, 2008		$		$ 100,000
May 1, 2008 May 31, 2008	1,768,517	$ 28.22	1,768,517	$ 50,000
June 1, 2008 June 30, 2008		$		$ 50,000
July 1, 2008 July 31, 2008		$		$ 50,000
August 1, 2008 August 31, 2008	1,556,335	$ 32.08	1,556,335	$
September 1, 2008 September 30, 2008		$		$

On October 22, 2008, we announced that our Board of Directors approved a new program to repurchase up to an additional $200 million of our outstanding common stock. 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 program may be discontinued at any time. As of November 19, 2008, we had repurchased and retired approximately 373,200 shares, not including the shares described in the table above at an average price of $22.76 per share.

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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, 2003, and ending September 30, 2008.

Comparison of Cumulative Total Return
On Investment Since September 30, 2003*

The Company s closing stock price on September 30, 2008, the last trading day of the Company s 2008 fiscal year, was $23.38 per share.

* Assumes that $100 was invested September 30, 2003 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, 2008 and 2007 and the consolidated statement of operations data for the years ended September 30, 2008, 2007 and 2006 are derived from our audited financial statements and related notes that are included elsewhere in this report. The consolidated balance sheet data as of September 30, 2006, 2005 and 2004 and the consolidated statement of operations for the years ended September 30, 2005 and 2004 are derived from our audited 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,				
	2008	2007	2006	2005	2004
	(In thousands, except per share data)				
Consolidated Statement of Operations Data(5)					
Net revenues					