F5 NETWORKS INC
Form 10-K
November 23, 2010

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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, 2010

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 Global Select Market

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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	Accelerated filer	Non-accelerated filer	Smaller reporting company
þ	o	o (Do not check if a smaller reporting company)	o

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, 2010, the aggregate market value of the Registrant s Common Stock held by non-affiliates of the Registrant was $4,894,123,041 based on the closing sales price of the Registrant s Common Stock on the NASDAQ Global Select Market on that date.

As of November 18, 2010, the number of shares of the Registrant s common stock outstanding was 80,850,089.

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 2010, 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, 2010

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EX-101 PRESENTATION LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT

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Trademarks and Tradenames

F5, F5 Networks, F5 [DESIGN], F5 Management Pack, F5 WORLD, BIG-IP, CloudFucious, Data Manager, VIPRION, WA, WAN Optimization Module, WOM, APM, Application Security Manager, ASM, Local Traffic Manager, LTM, Global Traffic Manager, GTM, IBR, Link Controller, Enterprise Manager, Traffic Management Operating System, TMOS, WANJet, FirePass, WebAccelerator, TrafficShield, iControl, TCP Express, Fast Application Proxy, 3DNS, iRules, iRules on Demand, Packet Velocity, ZoneRunner, OneConnect, Ask F5, Intelligent Compression, Transparent Data Reduction, TDR, L7 Rate Shaping, LC, IPv6 Gateway, SSL Acceleration, Fast Cache, iHealth, Intelligent Browser Referencing, Message Security Module, PSM, MSM, Netcelera, Protocol Security Module, IT AGILITY. YOUR WAY., DEVCENTRAL, DEVCENTRAL (DESIGN), Edge Client, Edge Gateway, EM, IQUERY, Real Traffic Policy Builder, STRONGBOX, SYN Check, Access Policy Manager, Acopia, Acopia Networks, Advanced Client Authentication, Advanced Routing and ARX 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 2010 and fiscal 2010 refer to the fiscal year ended September 30, 2010.

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, believ 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 security, performance and availability of servers, data storage devices and other network resources. As strategic points of control within a network, our products collectively function as a dynamic control plane that simplifies the management of data center operations and delivery of services across diverse data center resources.

Founded in 1996, F5 Networks pioneered load-balancing technology that distributes internet traffic evenly across multiple servers, making them look like a single device. 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 un-encrypting transmissions, screening traffic for security threats, maintaining open connections with servers, speeding the flow of traffic, managing access to applications and data and a variety of other functions that improve the performance, availability and security of applications. By offloading functions from servers, BIG-IP application delivery controllers make servers more efficient, reduce the number of servers needed to run specific applications and

reduce operating costs by simplifying the management of servers and applications. In virtual environments, this allows customers to increase the density of virtual servers running on physical servers and reduces the added complexity of managing a dynamic environment. BIG-IP application delivery controllers also support software modules that manage the flow of traffic between

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multiple data centers and across multiple service provider connections, ensuring that this traffic is always routed to the most available resource and enabling on-demand access to resources within and outside customer data centers. In addition, we offer complementary products that provide secure remote access to corporate networks and optimize the delivery of applications and data over wide-area networks.

The core of our application delivery controllers and related products is our full-proxy Traffic Management Operating System (TMOS) that enables these products to inspect and modify traffic flows to and from servers at network speed and supports a broad and growing array of functions that enhance the speed, performance and availability of applications. iRules, a scripting language based on TCL (Tool 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 with the unique features and characteristics of TMOS to deliver performance that is, we believe, 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 network 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, Indonesia, Israel, Italy, Japan, Malaysia, Netherlands, New Zealand, Russia, Singapore, South Korea, Spain, Taiwan, Thailand, United Arab Emirates 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 and Evolution of IP-Based Infrastructures

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 replacing older data center architectures with IP-based infrastructures, deploying new IP-based applications and replacing or upgrading legacy applications with new IP-enabled versions. 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 mobile telephones, personal digital assistants and notebook computers.

More recently, companies and other large enterprises have responded to the global economic downturn by using technologies such as virtualization and the growing availability and sophistication of cloud computing to overhaul their computing infrastructures and make them more flexible and efficient. In the wake of reduced headcounts, many companies are also adding more intelligence in their networks to enable them to compete more effectively in an environment of reduced consumer spending. These efforts are reflected in the

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widespread trend toward data center consolidation that includes both a reduction in the number and size of data centers.

Meanwhile, the evolution and proliferation of mobile devices and applications, coupled with the global embrace of social media sites such as Facebook and Twitter, have challenged the abilities of content and service providers to keep up with growing demand.

Over the near term, we believe data center consolidation will continue to drive demand for intelligent technologies that enable companies and other organizations to be more efficient and competitive. Longer term, we believe that the growth of Internet usage, driven by new applications, the proliferation of social media sites, the growth of mobile data traffic and the adoption of on-demand usage and infrastructure models such as cloud computing, will continue to drive demand for more intelligent and dynamic IP networks.

In conjunction with the growth of Internet traffic, the proliferation of data, particularly 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 for extended periods of time. In response to this challenge, IT organizations spend an increasing amount of their budget on NAS and other types of storage systems.

Trend Towards 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 the demand for storage capacity and the complexity of storing and retrieving files. 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, 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, redirecting and securing 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;

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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;

Message Security filtering out spam and other unwanted email messages;

Remote Access providing remote users with secure, context-aware, policy controlled access to applications;

Access Policy Management managing access to web-based applications through a central, policy-based point of control;

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.

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

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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, 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.

F5 Solutions

Application Delivery Networking

F5 Networks 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 and flexibility that enable organizations to simplify management of their data center operations and integrate disparate resources to reduce operating costs and improve service to employees, customers and partners.

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 hardware components enables us to build products that deliver superior performance, functionality and flexibility at competitive prices. We have introduced virtual (software only) versions of BIG-IP LTM and FirePass to provide our customers with versions that complement our hardware based platforms.

Full Proxy Architecture. The core of our software technology is TMOS introduced in September 2004. We believe TMOS 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. In April 2009, we introduced a major upgrade (Version 10.0) of TMOS that includes more than 130 new features, more than 90 application-ready solution templates,

and a number of performance enhancements, all designed to leverage the advanced features and performance of our recently upgraded family of BIG-IP hardware platforms. Since then, we have introduced TMOS versions 10.1 and 10.2, which include support for clustered multiprocessing and many new features and functions specifically designed to optimize virtual data centers and enable on-demand access to internal and external resources.

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Modular Functionality. In addition to its full proxy architecture, TMOS is 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. Feature modules that are available as add ons to TMOS Version 10.0 include: Advanced Client Authentication, Advanced Routing, Fast Cache, Intelligent Compression, IPv6 Gateway, L7 Rate Shaping, Message Security Module, Protocol Security Module and SSL Acceleration. Product modules include: Local Traffic Manager, Application Security Manager (ASM), Global Traffic Manager (GTM), Link Controller, WebAccelerator, Edge Gateway, WAN Optimization Module and Access Policy Manager.

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 a key feature of our software-based products and further differentiates our solutions from those of our competitors.

Application-Specific Configurations. Developed and tested in collaboration with our solutions partners, Application Ready Solutions are configurations designed to optimize BIG-IP deployments for specific applications such as those provided by Oracle, Microsoft, Siebel, and SAP, as well as generic applications delivered via HTTP. With TMOS Version 10.0, we introduced templates that reduce the time and effort necessary to configure BIG-IP for a specific application. The configuration created is optimal for BIG-IP devices and the specific application for which the template was created and can be further customized for the specific conditions of an organization s unique infrastructure and environment. Like other configuration details of BIG-IP devices, these templates can easily be shared across multiple BIG-IP deployments.

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 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 we believe is 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.

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 solutions represents a unique set of capabilities that optimize the performance and utilization of NAS systems.

Non-disruptive Data Migration. ARX products automate 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 products automate 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 products dynamically distribute 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.

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

Centralized Data Management. Introduced in October 2008, Data Manager simplifies file virtualization deployments and helps organizations monitor multiple file storage resources through a centralized and extensible storage management platform. Data Manager can quickly identify areas within an organization s file storage resources that could be improved by file virtualization and gives customers the tools to create a more efficient and cost-effective storage infrastructure.

Strategy

Our objective is to lead the industry in delivering network architectures that integrate IP networks with applications and data, enabling the delivery of dynamic services in the data center. Those services can include orchestration of data center operations and resources, security, and optimization, as well as coordination of services spanning multiple data centers. Our products provide strategic points of control in the IT infrastructure that allow business policies to be implemented where information is exchanged. This enables 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 ASM, WebAccelerator, WAN Optimization Module (WOM), Edge Gateway and Application Policy Manager (APM). All of these products are currently available as software modules on our BIG-IP family of application delivery controllers. 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 meet evolving 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, changing needs of our customers. Our ongoing investments in ARX are aimed at providing data solutions for the complex challenge of efficiently storing and managing the huge and growing volume of unstructured files created by network users and applications. Although the bulk of our investment in application delivery and file virtualization technologies is software development, concurrent development of tightly integrated, high-performance hardware is a key part of our investment strategy. To ensure performance and cost competitiveness, we incorporate commodity components in all of our hardware products.

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 Systems, Inc. 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 often have an established presence in those accounts. By taking advantage of our open application programming interface, called iControl, these vendors can equip their applications to control our products in the network, enhancing overall application performance. In return, they

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provide us significant leverage in the selling process by recommending our products to their customers. We have also worked closely with several of these vendors to develop configurations of our products, called Application Ready Solutions, that are specifically tuned to simplify deployment and optimize the performance of their applications. These solutions are available as templates which allow quick and easy configuration of our products for specific applications. 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 believe F5 has achieved industry-wide recognition as the leading provider of application delivery networking products that optimize the security, performance and availability of network applications, servers and storage systems. We plan to continue investing in programs to promote the F5 brand and make it 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, policy management, WAN optimization and file virtualization.

Our principal products are systems that integrate our software with purpose-built hardware that incorporates commodity components. In addition, we recently introduced a virtual (software only) version of BIG-IP called BIG-IP LTM (VE) that is designed to run on servers and work in conjunction with our systems to provide more granular management of virtual servers and applications. Our BIG-IP product family, which represents the bulk of our sales, supports a growing number of features and functions available as software modules, standalone appliances, or both. GTM, Link Controller, ASM and WebAccelerator are available as both software modules and appliances. WOM and APM are available only as software modules, and Edge Gateway is sold only as a separate, stand-alone appliance.

BIG-IP Application Delivery Controllers

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 family of hardware platforms, designed to exploit the advanced features, functionality and performance of TMOS Version 10, includes BIG-IP 1600, BIG-IP 3600, BIG-IP 3900, BIG-IP 6900, BIG-IP 8900, BIG-IP 8950, BIG-IP 11050 and VIPRION, our chassis-based application delivery controller. 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 features. Software products currently available for BIG-IP platforms include GTM, Link Controller, ASM, WebAccelerator, WOM and APM. Software features available on TMOS 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 2008, VIPRION is our chassis-based application delivery controller that scales from one to four blades, each equipped with two dual-core processors. In January 2010 we introduced the PB 200 blade, equivalent in performance to a BIG-IP 8950 and double the performance of the previous blade.

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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. In addition, we recently introduced FirePass Virtual Edition, which runs in a VMware ESXi 4.0 virtual environment and is designed for medium to large enterprises and service providers. It supports up to 2,000 concurrent users and offers a comprehensive virtual solution for secure, web-based remote access to corporate applications and desktops.

Application Security Manager (ASM)

ASM 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 also available as a module or 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.

WAN Optimization Module (WOM)

BIG-IP s WAN Optimization Module integrates application delivery with WAN optimization technologies, enabling traditional acceleration functionality, such as SSL offloading, compression, caching, and traffic prioritization to

combine with optimization technologies like symmetric adaptive compression and application quality of service. As the foundation for site-to-site communication, iSessions, a basic feature of TMOS, allows any two BIG-IP devices to be deployed symmetrically, creating a secure site-to-site connection, improving transfer rates and bandwidth usage, and offloading applications for more efficient data center to data center WAN communication.

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WOM is available only as a software module on BIG-IP LTM.

Access Policy Manager (APM)

BIG-IP APM provides secure, granular, context-aware control of access to web applications while simplifying authentication, authorization, and accounting (AAA) management. An optional endpoint security service validates devices to protect organizations from viruses or malware infections, accidental data loss, and rogue device access.

With AAA control directly on the BIG-IP system, users can apply repeatable access policies across many applications and servers while gaining centralized visibility of your authorization infrastructure. APM s Visual Policy Editor makes it easy to create individual and group access policies for many different identities, locations, and web authentication environments. APM also provides dynamic access control by creating L4 and L7 access control lists based on user identity, IP address, and attributes such as group membership pulled from the standard directory services.

Edge Gateway

BIG-IP Edge Gateway is an advanced remote access product that provides context-aware, policy controlled, secure remote access to applications at LAN speed. Edge Gateway integrates SSL VPN remote access with application acceleration and optimization services at the edge of the network, combining remote access, access control, site-to-site security, and application acceleration all on one efficient, scalable, and cost-effective platform. An optional endpoint security service validates devices with policy to protect organizations from viruses or malware infections, accidental data loss, and rogue device access.

Edge Gateway is available only as a standalone solution on the BIG-IP 1600, 3600, 3900, 6900 and 8900 platforms.

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 4000 is an appliance-based device, shipped on a dedicated, enterprise-grade platform.

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. ARX can:

- reduce storage costs by matching the business value of data to the cost of storage;
- optimize backups by minimizing the backup of redundant data to reduce backup and recovery times, media consumption, and costs;
- maximize value of existing storage by improve utilization, reclaiming stranded capacity, and deferring additional storage purchases;

simplify management by performing storage provisioning and decommissioning without disrupting users;
improve flexibility and choice by moving data easily to any storage device or location.

Currently, the ARX series includes three products. ARX 500 and ARX 2000 are stand-alone devices that can support up to 600 and 6,000 users, respectively. ARX 4000 is a fixed form-factor device supporting 10 gigabit Ethernet, capable of managing more than 2 billion files, and able to support up to 12,000 users.

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Data Manager

Data Manager is 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. With Data Manager users can quickly identify areas within their file storage resources that could be improved by file virtualization and monitor multiple resources with a centralized, extensible storage management platform.

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 sales of our other products.

iRules is a programming language embedded in our TMOS architecture that allows customers to customize the way BIG-IP application delivery controllers manipulate and manage any IP application traffic. iRules has an easy-to-learn scripting syntax that enables users to program BIG-IP application delivery controllers to intercept, inspect, transform, and direct inbound or outbound application traffic according to their specific needs.

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 our business development and marketing teams, product managers, 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, WOM and WebAccelerator are located in San Jose, California. Our core 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, 2010, 2009 and 2008, we had research and product development expenses of $118.3 million, $103.7 million, and $103.4 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, education, manufacturing and healthcare, along with government customers. In fiscal year 2010, international sales represented 41.4% of our net revenues. Refer to Note 12 of our consolidated financial statements included in this Annual Report on Form 10-K for additional information regarding our revenues by geographic area.

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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 2010 was derived from these channel sales. Our sales teams work closely with our channel partners and also 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 (primarily the United States); 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.

For fiscal year 2010, sales to two of our distributors, Avnet Technology Solutions and Tech Data, represented 14.5% and 10.2% 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 Avnet Technology Solutions and Tech Data 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, including Dell Services, HP Enterprise Services and IBM Global Services, 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, clos