



The World Runs Better With F5

Annual
Report

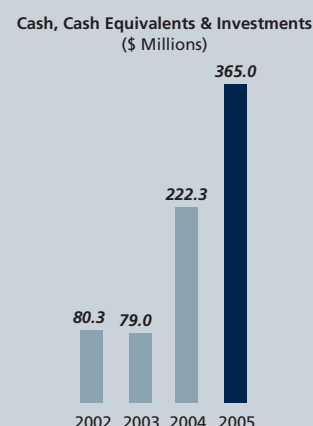
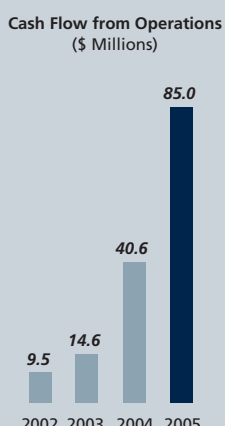
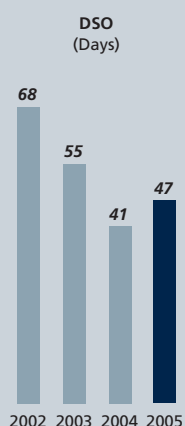
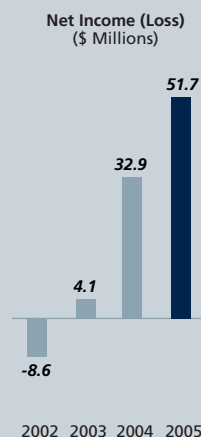
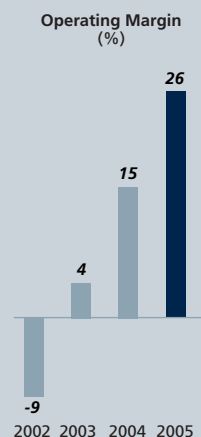
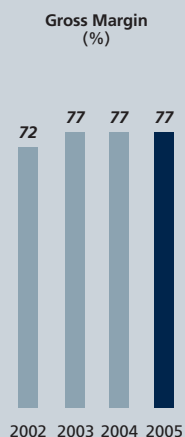
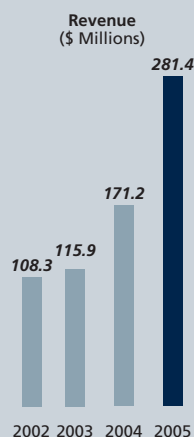
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Selected Financial Data (in thousands)	2002	2003	2004	2005	
Net Revenues	\$ 108,266	\$ 115,895	\$ 171,190	\$ 281,410	
Gross Profit	\$ 77,787	\$ 88,990	\$ 131,811	\$ 216,253	
Operating Expenses	\$ 87,328	\$ 84,801	\$ 105,483	\$ 144,362	
Income (Loss) from Operations	\$ (9,541)	\$ 4,189	\$ 26,328	\$ 71,891	
Net Income (Loss)	\$ (8,610)	\$ 4,087	\$ 32,953	\$ 51,733	
Cash, Cash Equivalents & Investments	\$ 80,333	\$ 79,010	\$ 222,293	\$ 365,015	
Long-Term Debt	\$ 0	\$ 0	\$ 0	\$ 0	

About F5 Networks

F5 Networks is the global leader in Application Delivery Networking. F5 provides solutions that make applications secure, fast and available for everyone, helping organizations get the most out of their investment. By adding intelligence and manageability into the network to offload applications, F5 optimizes applications and allows them to work faster and consume fewer resources. F5's extensible architecture intelligently integrates application optimization, protects the application and the network, and delivers application reliability - all on one universal platform. Over 10,000 organizations and service providers worldwide trust F5 to keep their applications running. The company is headquartered in Seattle, Washington with offices worldwide.



John McAdam
President, Chief Executive Officer and Director

To Our Shareholders:

In fiscal 2005, F5 continued to build on the strengths that drove our growth and profitability in fiscal 2004. During the year ended September 30, the company achieved record revenue growth, continued improvement in our operating margin, further expansion of our addressable market and increased share of our existing markets. Our growth and market share gains were driven by several factors:

- Accelerating worldwide demand for application delivery networking solutions that enhance the security, performance and availability of applications that run over the Internet
- Increasing awareness of the F5 brand among enterprise customers and a growing number of service providers
- An expanding portfolio of industry-leading products and the demonstrable superiority of our integrated solutions
- Our strong competitive position, reflected in our growing share of the traditional Layer 4 – 7 application switch market and our steady gains in the SSL VPN market

Our revenue growth, combined with stable gross margins and the increasing efficiency of our channel distribution model, was the principal driver of our improving profitability throughout the year. Year over year, total revenue of \$281.4 million grew 64 percent from \$171.2 million in fiscal 2004, helped by record fourth quarter revenue of \$80.6 million. Security revenue represented approximately 10 percent of total revenue, and FirePass, which we acquired for \$25 million in 2003, accounted for more than \$21 million in product revenue.



With gross margin constant at 77 percent for the third consecutive year, we achieved 31 percent pro forma operating margin in Q4, resulting in a 27 percent pro forma operating margin for the year versus 15 percent in fiscal 2004.

On a pro forma basis, we earned \$1.42 per diluted share in fiscal 2005, compared to \$0.52 per diluted share in the prior year. Pro forma results do not include stock compensation expenses which we began recording in the fourth quarter of fiscal 2005. Including stock compensation expense, our operating margin in the fourth quarter was 25 percent and our fiscal 2005 earnings were \$1.34 per diluted share.

Along with the growth of revenue and earnings, we continued to strengthen our balance sheet in fiscal 2005. During the year we generated approximately \$85 million in cash from operations and ended the year with \$365 million in cash and long term investments. As a result of steady growth in our services business, we also saw deferred revenue increase to \$39.3 million from \$28.1 million at the end of fiscal 2004.

Since F5 was founded nearly ten years ago, innovative technology has been a key driver of our growth. Launched in the last weeks of fiscal 2004, BIG-IP version 9 accelerated the growing demand for our products that began following the introduction of BIG-IP version 4.5 a year and a half earlier. While version 4.5 included many new features and performance enhancements, version 9 introduced new technology that not only made our products faster and functionally richer than competing products but is differentiated from other application delivery networking technologies by our Traffic Management Operating System (TMOS).

Developed over a three-year period, the unique full-proxy architecture of TMOS enables our products to terminate traffic passing to or from applications, inspect content across multiple packets, alter the content as needed, and make decisions about where and how to route the traffic based on pre-set rules or in response to the changing needs of the applications themselves – all at network speed. TMOS allows organizations to move work that had to be done exclusively in the application onto the network, resulting in better control, lower cost and faster time to market than the traditional approach. It also includes integrated SSL encryption and decryption that allows our products to handle encrypted and unencrypted traffic with equal facility. In addition, it's designed to support an open-ended array of Layer 7 functions as separate software modules that can be integrated in custom configurations.

Although the bulk of our development is in software, our products are systems that combine our software with hardware platforms designed to optimize the performance of the software. With the exception of our own Packet



Velocity ASIC for Layer 4 processing, these platforms leverage the speed and low cost of standard, off-the-shelf components to deliver the fastest Layer 4 – 7 performance in the industry.

With the launch of BIG-IP version 9 at the beginning of fiscal 2005, we introduced three new systems: BIG-IP 1500, BIG-IP 3400 and BIG-IP 6400. Last January, we added a new high-end system, BIG-IP 6800. At the time we launched version 9, we also introduced six software modules that add functionality above the basic functions included in TMOS: advanced routing; IPv6 gateway; SSL acceleration; intelligent compression; Layer 7 rate shaping; and advanced client authentication. In April, we added caching in conjunction with the roll-out of Application Accelerator, our first significant step into the WAN optimization market. The superior performance and functionality of these products helped drive both our revenue growth and our market share gains in fiscal 2005.

Based on the latest report by the Dell'Oro Group, our share of the Layer 4 – 7 switch market grew 12 percent during fiscal 2005 to nearly 31 percent. Worldwide, we continued to narrow the gap with market leader Cisco, currently with 36 percent, and in Japan we led the market for the second year in a row, according to recent reports by Dell'Oro and Japan-based Fuji Chimera. The capabilities of the new products and their success in the marketplace also moved F5 farther up and to the right in Gartner's Magic Quadrant for Web-Enabled Application Delivery, widening the gap in both vision and execution between F5 and our competitors.

As in previous product transitions, sales of our earlier generation products tapered off and sales of BIG-IP version 9 products ramped steadily throughout the year, accounting for approximately 72 percent of BIG-IP revenue in the fourth quarter. Based on maintenance contracts in force at year end, we estimate that the new products are currently installed in 20 to 25 percent of our customer base, and roughly a third of those represent new accounts. Within the next few months we plan to introduce BIG-IP 8400, which will deliver higher performance than the 6800 and enable customers to run multiple software modules simultaneously.

Just prior to the close of the fiscal year, we achieved a major milestone with the shipment of TrafficShield, our application firewall, as a software module running on TMOS. During fiscal 2005, TrafficShield, acquired in June 2004, was available as a standalone product. Demand for the product was modest, however, and a survey of our customer base indicated strong interest in the product as a software module integrated with BIG-IP. Porting and integration were completed in the second half of the year, and we began shipping TrafficShield on BIG-IP in early September.



While TMOS has a number of built-in security features that can be customized with an embedded scripting language we call iRules, our acquisitions of FirePass and TrafficShield added new security functions to our core traffic management solutions and expanded our addressable market. Similarly, our introduction of Application Accelerator last Spring leveraged built-in features of TMOS to speed up the performance of network applications and gave us a footprint in the growing WAN optimization market. Our subsequent acquisition of Swan Labs, which closed in early October, enlarged that footprint with important new features and functions that we plan to integrate with TMOS and BIG-IP during calendar 2006. Combined with our existing products, Swan Labs' WANJet and WebAccelerator products will give us the most comprehensive, fully-integrated application delivery networking solution in the market.

Looking out into fiscal 2006, we believe our product portfolio, our technology roadmap, our market position, and the strength and discipline of our organization will enable us to grow profitably in our core market and in the adjacent markets into which we are expanding. On behalf of the Board and our employees, thanks for your continuing support in our drive to become the unqualified leader in delivering products and solutions that optimize the security, performance and availability of network applications.

John McAdam

President, Chief Executive Officer and Director

November 15, 2005

Shareholders' Information

Board of Directors

Gary Ames	Retired President and Chief Executive Officer of MediaOne International
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Keith Grinstein	Partner, Second Avenue Partners
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Karl Guelich	Certified Public Accountant
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Alan Higginson	Board Chair, President and CEO, Hubspan, Inc.
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Rich Malone	General Principal and Chief Information Officer Edward Jones
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John McAdam	President and Chief Executive Officer
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Corporate Officers

John McAdam	President and Chief Executive Officer
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Andy Reinland	Senior Vice President and Chief Finance Officer
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John Rodriguez	Senior Vice President and Chief Accounting Officer
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Tom Hull	Senior Vice President of Worldwide Sales
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Jeff Pancottine	Senior Vice President and General Manager, Security Business Unit
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Julian Eames	Senior Vice President of Business Operations and Global Services
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Dan Matte	Senior Vice President of Marketing
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Karl Triebs	Senior Vice President of Product Development and Chief Technical Officer
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Joann Reiter	Senior Vice President and General Counsel
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Notice of Annual Meeting

Our annual shareholders meeting will be held:
F5 Networks Corporate Headquarters
March 2, 2006
10:00 AM

Corporate Headquarters
401 Elliott Avenue West
Seattle, WA 98119
206.272.5555
www.f5.com

NASDAQ Listing

NASDAQ Symbol – FFIV

Investor Relations

206.272.6677 • info@f5.com

Independent Accountants

PricewaterhouseCoopers LLP • Seattle, WA

Transfer Agent

American Stock Transfer • 212.936.5100

The statements contained in this report that are not purely historical are forward-looking statements. These statements include, but are not limited to, statements about integration of new features and functions with TMOS and BIG-IP, having the most comprehensive, fully-integrated application delivery networking solution in the market, our growth and profitability in our core market and the adjacent markets into which we are expanding, and our plans, objectives, expectations, strategies and intentions. These statements are generally identified by the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "target," and similar expressions. Because these forward-looking statements are subject to a number of risks and uncertainties, our actual results could differ materially from those expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under the heading "Risk Factors" in the company's Form 10K for fiscal 2005 and in other documents we file from time to time with the Securities and Exchange Commission. All forward-looking statements included in this report are based on information available to us on the date hereof. We assume no obligation to update any such forward-looking statements.

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