

I. Market Overview/Key Challenges

In 2005 the SSL VPN market continued to grow fast amid increasing competition that is reflected in both consolidation and pricing. In 2005, AEP/Netilla acquired V-ONE, SonicWall acquired Enkoo, and Citrix acquired NetScaler. Subsequently, BlueCoat acquired Permeo in January of 2006, and Microsoft announced its intention to buy Whale Communications just days before publication of this update. Moreover, prices on both a device and per user basis decreased by an approximate average of 8 percent during 2005, while new competitive features continue to be introduced by vendors of all sizes.

More than any other single force, the emergence of the new, global enterprise is driving the exceptional rate of aggregate growth among the vendors of SSL VPN devices. This new enterprise is characterized in part by regional concentrations of multinational work forces, the growing acceptance of remote employees within their distinct region of the world, and increasingly mobile workers. Enterprises of all sizes continue to refine their business models to leverage access to new consumer and labor markets through the strategic alignment of their personnel around the globe.

These structural changes in the global economy reflect the demand for cheaper workers in both the manufacturing and services sectors where new foreign competition has been the catalyst for greater price competitiveness. Remote workers are growing in number due to the synergistic relationship between new communications technologies, the increased strain on the global economic infrastructure and environment, and the growing realization among corporate decision makers that there are real cost and time efficiency benefits to be had with a remote work force. The rising number of mobile workers is also a result of the new enterprise, as many remote workers communicate with their corporate headquarters from more than one location, and the increased distribution of global work forces often requires a higher frequency of travel for decision makers.

As this new, collective enterprise becomes increasingly multinational due to the realignment of the global work force and consumers, its operations, fixed capital, and networks of partners and suppliers are growing more disparate. These operations and networks are becoming more reliant on real-time access to their enterprise's networks and applications. From this organizational perspective, the functional goal of VPNs is to provide legitimate enterprise network users throughout the world with simultaneous access to the data and applications that they require to perform their individual tasks efficiently, without any unnecessary risk of exposing the enterprise's network, data, or other proprietary information. As the value chain of enterprises' products and services continues to stretch itself further around the globe, and the security environment grows increasingly complex, enterprise networks require more granular security protocols to offset the greater number of chinks in their armor.

Several of this year's respondents have also independently recognized an evolution in SSL deployments that has emerged in sharp definition during 2005. Vendors are increasingly seeing these appliances being displaced from their traditional positions fixed at the network perimeter, to serve the alternative function of providing granular, user-specific access to designated applications within the enterprise network. The significance of this trend is extensive. Firstly, this alternative SSL use represents an unexpected, original extension or modified use of a technology that was conceived with the express purpose of providing secure access for remote users.

This novel product adaptation is shrewdly timed at a juncture in the security industry where there is unprecedented interest in securing networks from within through the coordinated emphasis of user awareness training, endpoint security, and network access control. Recent announcements from vendors such as ISS, iPass, and Mirage Networks are just a few of the latest indicators of this industry direction. Such endpoint security related offerings are, to a significant extent, a function of annual figures published jointly by the Computer Security Institute and the Federal Bureau of Investigation near the close of 2005, which indicated that a surprising proportion of network attacks originated from within the hundreds of enterprises that were included in the sample. These figures also illustrated that, among these same respondents from 14 vertical industries, the types of threats that proved to be by far the most costly could also be mitigated through user awareness and endpoint security protocols.

The ability of SSL boxes to be customized by numbers of users, applications support, and policy enforcement is becoming an ever more crucial differentiator in the marketplace as penetration rates of SMBs increase, prices decrease, and the industries targeted steadily become smaller and more esoteric. As previously mentioned, this is particularly true of small, specialized enterprises that have developed their own in-house applications and solutions that may require remote access, or granular access control from deployments within the perimeter.

Industry revenues grew at the year-over-year rate of 42 percent in 2005, with a much higher unit growth rate of 71 percent. Worldwide revenues grew to 275.1 million dollars with sales of 18,404 units. For the forecasted period of 2005-2012, unit growth rates are expected to exceed revenue growth rates by 6% as a reflection of continued increases in industry competition that are yielding consolidation, price decreases, and increased features and deployment innovation. These collective signals, as well as the qualitative responses that are discussed in greater detail below, all point to a market that has matured faster than many analysts had expected with the decreasing number of vendors scrambling to find new points of differentiation with which to reinforce and refine their market positions.

II. Award Categories & Relevance

The SSL VPN market is currently in a growth phase, and is just starting to show signs that it may be maturing more quickly than expected. While technology has

been the primary focus of growth since 2003, Frost & Sullivan is seeing more development in the management and capabilities of products, indicating that sheer technical innovation may no longer be the only selling point for customers.

Success in this market is determined by a number of factors and is not related only to the company having the best technology. Other factors, such as vertical penetration and channel distribution, are proving to be important factors in determining a vendor's level of end-user satisfaction.

For a company to be considered Market Penetration leader means more than having significant revenues or creating brand awareness. A company that receives the Market Penetration Leadership award has had a significant number of customer wins, has acquired a number of new customers, and has managed reseller relationships in a way to get their product out in the field.

Many companies find that they struggle with increasing growth, and managing strong growth is often times as great if not a greater challenge than selling more products.

Frost & Sullivan has seen continued consolidation in this market. Many vendors have unique approaches and strong technology but do not have the resources necessary to penetrate the market. Only companies that can react quickly to changing market conditions will survive.

III. 2006 Frost & Sullivan Award for Market Penetration Leadership

2006 Frost & Sullivan Award for Market Penetration Leadership Award Recipient: F5

Award Description

The Frost & Sullivan Award for Market Penetration Leadership Award is presented each year to the company that has demonstrated excellence in capturing market share within their industry. The recipient has demonstrated strategic excellence in product innovation, marketing, and sales strategies that have resulted in the largest gain in market share over the past year.

Research Methodology

To choose the recipient of this Award, the analyst team tracks market share gain, increase in sales, and brand awareness efforts within the industry. This is accomplished through interviews with market participants, end-user studies, and extensive secondary research.

Measurement Criteria

In addition to the methodology described above, there are specific criteria used to determine final competitor rankings within the industry. The recipient of this Award has excelled based on one or more of the following criteria:

- Competitive pricing strategies—perceived customer value versus price
- Strong sales force strategy—number of sales people (direct and indirect), sales force specialization, efficiency in distribution, ability to train and educate, and strong customer service
- Ability to establish brand awareness through promotional activities and advertising
- Strategic alliances that expand customer base (increase distribution, marketing and sales resources, and global expansion)
- Product innovation—satisfying unmet needs, creating new needs, and developing new technologies

F5's market share has grown faster than that of its competitors in 2005, and much of this extraordinary growth can be attributed to the features of FirePass itself. FirePass 6.0 includes a powerful Visual Policy Editor and Access Policy Templates, simplified end-user connection experience, and a cost-effective architecture for unified access control. Furthermore, FirePass 6.0 has categorically improved features such as ease of management, usability, integrated endpoint security, and breadth of application support. Visual Policy Editor offers an intuitive easy to use interface to define, manage and audit endpoint security policies, thereby reducing the time, complexity, and cost of deploying an SSL VPN appliance solution. The EasyConnect feature also allows users to choose their own interface for establishing a session, while FirePass has added integrated endpoint security support for checking more than 100 editions of desktop antivirus and firewall offerings.

The collective features of the FirePass appliance have earned F5 a strong presence across the spectrum of vertical industries, as well as geographical segments. Among these segments, F5 has distinguished itself through drawing on the quickly growing APAC market to contribute to the market share growth rate that has landed F5 in the number two ranking for 2005. This growth has been recognized by Frost & Sullivan, as well as several leading publications including IT Week and Business 2.0 magazine that placed F5 in the number 18 spot of its Top 100 Fastest Growing Tech Companies for 2005. For achieving outstanding rates of market penetration during 2005, F5 is the recipient of the Frost & Sullivan Market Penetration Leadership Award.

IV. Summary of Best Practices

Two key initiatives that remain critical to F5's continued growth and success are research and development, and breadth of product offerings. In 2005, F5 dedicated well over \$31 million to research and development, or more than 11 percent of net revenue. These investments have proven to be critical to the competitive product line that F5 has established, and particularly the impressive increment of SSL market penetration that Frost & Sullivan has recognized over the past year. In addition to the highly successful FirePass appliance that is discussed in greater detail above, F5 continues to attract new big wins with a portfolio of products that is focused on the security, optimization, and availability of its clients' networks. These appliances include BIG-IP Local Traffic Manager, BIG-IP Global Traffic Manager, BIG-IP Link Controller, Traffic Shield Application Firewall, WANJet, WebAccelerator, in addition to a number of important service and solution offerings. These collective offerings position F5 as a clear world leader in application delivery networking with a client base of more than 10,000 different organizations that are well represented across the spectrum of geographical and vertical segments.

F5's overall performance was also formally recognized in 2005 by Frost & Sullivan in the field of competitive strategy leadership, which represented the ongoing level of market originality demonstrated through initiatives such as the recent launch of DevCentral. The DevCentral online technical community presents a variety of resources and tools that increase innovation and productivity among both the partners and clients that rely on F5's products. With a growing pool of 9,000 registered users, DevCentral promises to be a hit with features such as an online forum, wikis, sample code, and a network editor for iRules that will bring application architects with both networking and security professionals.

About Best Practices

Frost & Sullivan Best Practices Awards recognize companies in a variety of regional and global markets for demonstrating outstanding achievement and superior performance in areas such as leadership, technological innovation, customer service, and strategic product development. Industry analysts compare market participants

and measure performance through in-depth interviews, analysis, and extensive secondary research in order to identify best practices in the industry.

About Frost & Sullivan

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