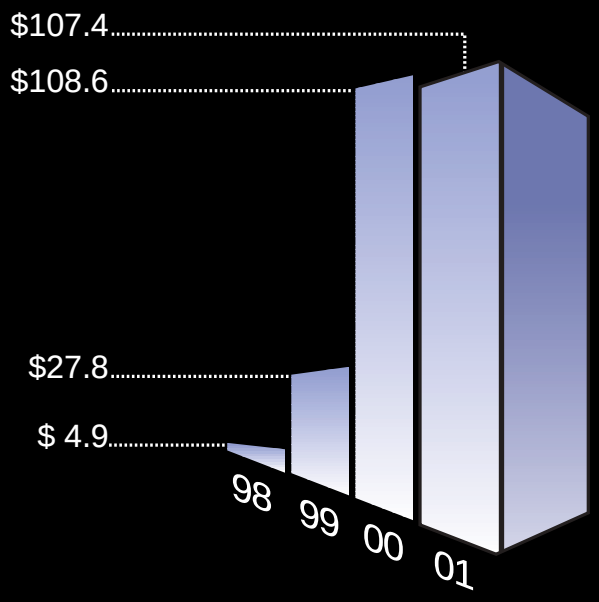
F5 NETWORKS

2001 ANNUAL REPORT

Net Revenue
(in millions)

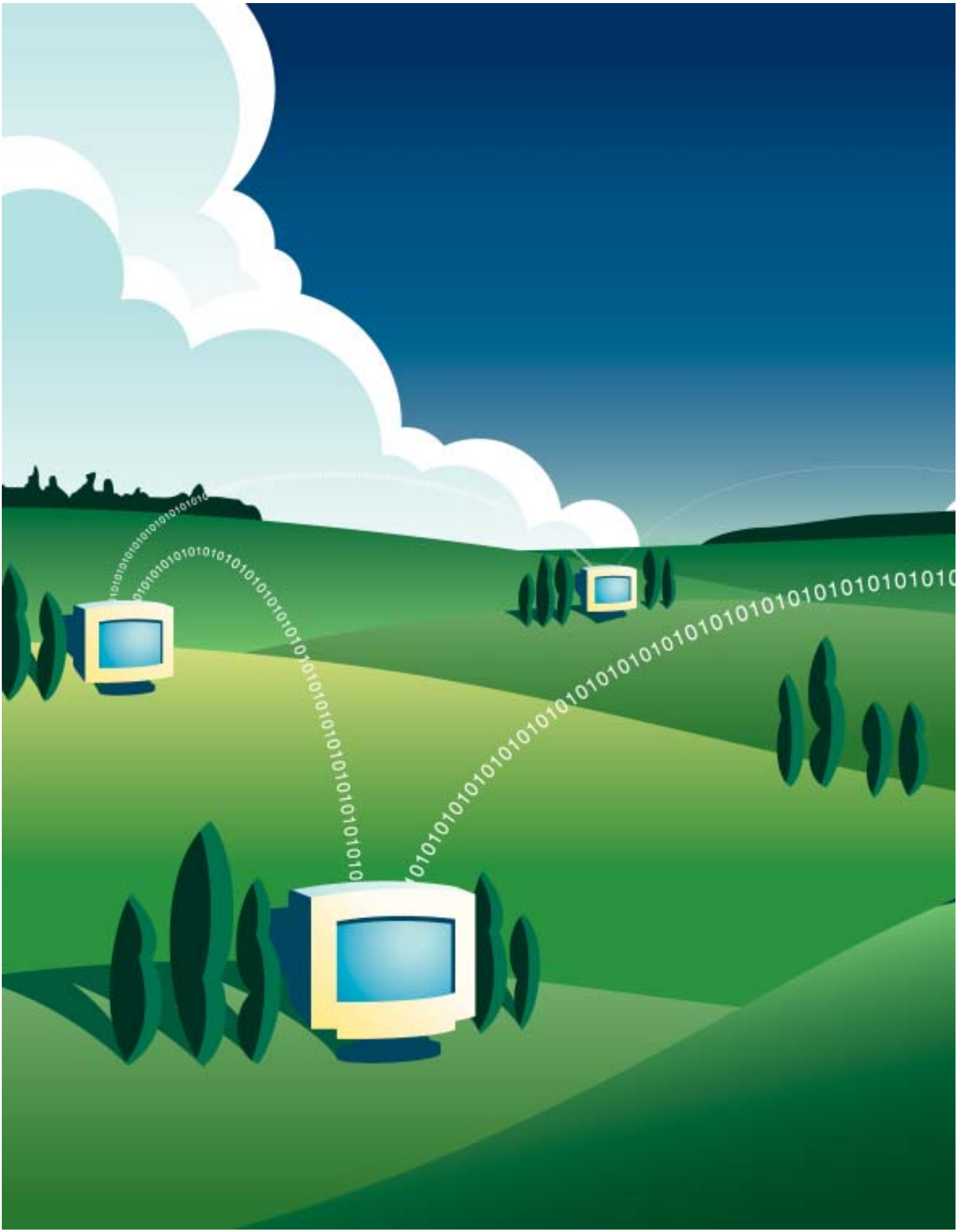


Selected Financial Data	2001	2000
Net Revenues	$107.4	$108.6
Gross Profit	$ 61.9	$ 76.1
Income (loss) from Operations	($28.7)	$ 12.9
Net Income (loss)	($30.8)	$ 13.7
Cash Equivalents & Short-term Investments	$ 69.8	$ 53.2
Long-term Debt	$000.0	$000.0

F5 Networks is the leading provider of integrated Internet Traffic and Content Management (iTCM) solutions that reduce the cost, improve the efficiency, increase the business security and boost the overall performance of enterprise networks. Built with a common software architecture (iControl™), our industry-leading products manage, control and optimize Internet traffic and content delivery, automatically and intelligently improving Internet performance, availability and content distribution for large organizations with internal and external Web-based applications. Those applications include database applications, Web publishing, content delivery, e-commerce, caching, firewalls and more for a wide variety of enterprises ranging from financial institutions and healthcare companies to large government agencies.

F5 has approximately 500 employees in our Seattle, Washington, headquarters and offices throughout North America, Europe and Asia Pacific. Our address on the Web is www.f5.com.

The contents of this report should be read in conjunction with the company's Form 10-K for fiscal 2001.



TO OUR SHAREHOLDERS

By any reckoning, fiscal 2001 was a challenging year, beginning with the dot-com implosion and ending with the terrorist attacks on New York and Washington DC. Throughout the year, as the United States led the rest of the world toward global recession, business conditions became increasingly difficult at home and abroad. In the weeks following September 11, business in the United States fell off dramatically, recovering only modestly in the last week of our fiscal year.

In spite of these difficult circumstances, F5 Networks made progress on a number of fronts during fiscal 2001 and ended the year with revenue that was essentially flat with the prior year's. Needless to say, we're not satisfied with this result. However, I am extremely pleased with the company's performance in light of the difficult odds.

Coming off a year of unprecedented revenue and earnings growth in fiscal 2000, we were confident heading into the first quarter of fiscal 2001 that we could achieve our financial targets for the quarter and the year. Near the end of the quarter, it became apparent that

the wellsprings of "new economy" spending, which had driven our growth since the company was founded, were rapidly drying up. At the time, more than 80 percent of our customers were venture-funded dot-com companies, many of whom were running out of cash and signaling that they would soon have to close their doors. As a result, we missed our revenue target for the first quarter by more than 40 percent and posted a major loss that included restructuring charges.

During the second quarter, we moved quickly to pare costs and reposition the company. In January, we scaled back our workforce to just below 500, where it has remained throughout fiscal 2001. In addition, we took a number of immediate steps to refocus our sales effort on enterprise customers and to improve our operating performance. By the end of the second quarter, our customer mix had shifted to more than 80 percent enterprise. During the second quarter we also began implementing changes in our operating model which have continued throughout the year.

Our focus on enterprise sales enabled us to target and achieve sequential revenue growth in the second and third quarters, and we were on track to hit our revenue target for the fourth quarter when the

events of September 11 occurred. Meanwhile, our focus on fine-tuning our operating model resulted in numerous improvements reflected on our income statement and balance sheet.

On a pro forma basis, gross margin increased from 53% in the first quarter to 66% in the fourth quarter, while operating expenses declined from $23.8 million in the first quarter to $21.2 million* in the fourth quarter. Inventory levels, net of reserves, were reduced by 85% from $16.6 million in the first quarter to $2.6 million in the fourth quarter. Days sales outstanding (DSOs) declined from 104 days to 82 days, representing a 21% improvement for the year. In the second half of the year, we experienced two consecutive quarters of positive cash flow from operations, contrasting with a deficit of $10.9 million in the first quarter. As a result, we ended fiscal 2001 with $69.8 million in cash equivalents and short-term investments, which includes a $35 million investment from Nokia.

As we shifted our focus to enterprise customers, we steadily increased our share of the Layer 4/7 Server Load Balancing Switch and Appliance market. During the June quarter, we surpassed Nortel Networks and moved into the number two position with 16.5% of the worldwide market, according to an independent study by the Dell'Oro Group. In its most recent study of the Japanese market, IDC reported that during the first half of calendar 2001 we overtook Cisco Systems to win the number one position with % market share in Japan. Also during the first half of the year, Infonetics reported that F5's share of the multi-purpose SSL (Secure Sockets Layer) acceleration hardware market grew to 42%, making us the leader in that rapidly expanding market for securing e-business applications. As we move forward into fiscal 2002, increasing market share remains one of our top priorities.

The core of our success in penetrating the enterprise market and gaining market share is superior technology. Individually, our software-based products deliver the best Layer 4/7 performance and the highest levels of functionality and flexibility for complex traffic and content management. In the third quarter of fiscal 2001, we introduced our new

*The pro forma gross margin of 66% in the fiscal fourth quarter reflects a $1.7 million positive adjustment to inventory reserves. Excluding that adjustment, the reported gross margin for the quarter was 72%. Pro forma operating expenses are net of a $1.1 million restructuring charge in the first fiscal quarter and an additional $2.0 million bad-debt expense in the fourth fiscal quarter.

EDGE-FX® cache appliance, which incorporates Inktomi's software engine and is fully integrated with our other traffic and content management products. With the launch of BIG-IP® 5000 in September, we introduced a new generation of traffic management products that integrates our sophisticated Layer 7 technology with commodity switching and SSL capability, effectively combining the capabilities of three separate products in a single platform at half the cost of competing products.

Since its launch, BIG-IP 5000 has been enthusiastically received by customers, industry analysts and the media alike. In a November review of the product, *Network Computing* concluded that "the BIG-IP 5000 is an excellent choice for an edge switch, as well as for handling load-balancing chores. Its flexibility and rich feature set, coupled with a competitive price, offer a well-balanced product able to fit into any network infrastructure and provide significant value for multiple services."

Around the first of the year, we plan to introduce a scaled-down version of BIG-IP 5000 for customers who require fewer ports and less processing power, and this Spring we plan to introduce a version of the product that includes commodity Layer 4 switching capability on an application-specific integrated circuit (ASIC). Meanwhile, we will continue to enhance the performance and functionality of our Layer 7 technology and to invest heavily in development across our product family.

Apart from the strength of our individual products, their ability to communicate with one another and with applications running on a network has strong appeal for enterprise customers and developers of enterprise applications. Designed with a common software architecture called iControl, all of our products have the capability to exchange information and instructions to optimize network performance. During the second quarter of fiscal 2001, we made the iControl™ interface publicly available in a free software development kit (SDK) that allows third-party developers to customize their applications to interact with our products. With this capability, applications can be programmed to initiate and control network functions such as bringing new servers on line, rerouting traffic and updating content across the network, all without human intervention.

Since the iControl SDK was made available in February 2001, companies that have signed up as iControl partners and incorporated the software in their applications include BEA, Fujitsu-Siemens, Microsoft, Oracle, Quest Software and Tivoli. While there is no revenue directly associated with these partnerships, they represent a potentially large source of future revenue as applications that include the iControl interface pull our products into the marketplace. Over time, our goal is to build partnerships with all major application developers and create sufficient market pull to make iControl an industry standard.

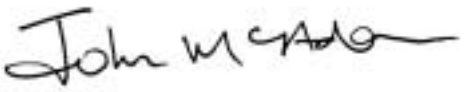
In addition to creating pull for our products, we made major progress during fiscal 2001 in developing new channels to drive our products into enterprise markets. Beginning in the first quarter, we saw a steady ramp in sales through our OEM partner Dell, which resells our software on its PowerApp BIG-IP Appliance Server and accounted for roughly five percent of total revenue for the year. In late June, we entered a similar OEM relationship with Nokia, which we anticipate will begin generating significant revenue in fiscal 2002. As part of our agreement, Nokia purchased a 9.9 percent stake in the company and has options to purchase an additional 10 percent at market prices. We are also engaged in a joint development program with Nokia to develop technology for mobile infrastructure and mobile content delivery applications. In October, we signed a third OEM agreement with Enterasys, which plans to incorporate our software into its switch-routing products around the middle of fiscal 2002. Since all of our OEM revenue represents software sales, it carries a significantly higher profit margin than revenue from our other channels. Exiting fiscal 2002, we anticipate that OEM sales could account for up to 15 percent of total revenue.

Given the current economic climate and dim outlook for the first half of calendar 2002, we do not expect general business conditions to improve significantly in the near term. Nevertheless, we are confident that the operational improvements and technology milestones we achieved in fiscal 2001, along with the strategic partnerships we put in place during the year, have

positioned the company for solid growth in fiscal 2002 and a return to profitability in the second half of the year.

Throughout fiscal 2002, we will continue to roll out new products, develop new strategic relationships, keep a tight rein on expenses and leverage our technology and channels to gain market share. As enterprise spending resumes, we see enormous opportunity for our integrated traffic and content management solutions to fill the communications void that exists between Internet servers, applications and the network. Through our technology partnership with Nokia, we also see an opportunity to establish F5 as a leading provider of solutions for wireless networks.

We appreciate your confidence and continued support as we pursue these and other more immediate opportunities in the coming year.



John McAdam

President and

Chief Executive Officer

November 15, 2001

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Over the next several years, the growing complexity of Web services delivery will be driven by an increasing number of Internet users, increased broadband usage, a higher number of Web sites deploying sophisticated business applications, and the richness of Internet/Web content itself.

Intelligent and automated control of time sensitive content and traffic flowing through the network is critical for ensuring the high level of service that customers demand and employees need to be productive. F5 Networks simplifies and optimizes this complex networked environment for business, helping organizations to control, access and use the Internet to their full advantage.

F5 Networks provides integrated products and services designed to manage, control and optimize Internet traffic and content delivery. Our solutions deliver improved Internet performance, availability and content distribution to help our customers and partners to maximize the use of the Internet in their business.

Founded in 1996, F5 has grown to approximately 500 employees and has an impressive customer list of more than 4,000 of the top corporations including USA Today, Eli Lilly, Prudential, Alaska Airlines and Microsoft.

"F5's BIG-IP 5000 with integrated SSL acceleration will provide enterprise customers with a strong solution to manage their IP-based applications. F5's leading developments to date position the company to continue its leadership role in the content networking market which IDC expects to reach $9.5 billion by 2005."

Cindy Borovick
Program Manager, Data Center Networks
IDC Research

"Our application server working in concert with F5's Internet traffic management and high availability product can add significant and tangible value to an enterprise's entire Web infrastructure."

Rene Bonvanie
Vice President of Oracle9i Marketing
Oracle Corporation

Integrated Internet Traffic and Content Management

Enterprises, e-Businesses and Service Providers are increasingly challenged to develop and implement strategies that deliver complete technology infrastructures while exceeding corporate goals for Return On Investment (ROI) and Total Cost of Ownership (TCO).

F5 Networks addresses these challenges by providing the industry's leading set of integrated products and services to manage, control and optimize Internet traffic and content delivery. Our solutions automatically and intelligently deliver measurable improvements in Internet performance, availability and content distribution.

In contrast to competing product families - many of them cobbled together through acquisitions - F5's solutions were designed from the ground up to work together. Local traffic management, wide-area traffic management, caching and content management - all are linked together through a common application programming interface (API), creating a complete ecosystem that builds on the intelligence of individual components, instead of just another point solution that only increases management complexities and costs.

Our combined solutions address many elements required for a successful Internet/Intranet business, including high availability, superior performance, intelligent load balancing, fault tolerance, security, streamlined manageability, and global data management/content control.

Products

Anyone who has ever been stuck in a holding pattern waiting to land understands the needs that drive demand for F5's products. Just as air traffic controllers manage air traffic, F5 products manage IP traffic and content flow.

F5 has five core products: the BIG-IP®, 3-DNS®, and GLOBAL-SITE™ Controllers, the EDGE-FX® Cache, and the SEE-IT™ Network Manager. All five help manage traffic and content to servers and devices in a way that maximizes availability and throughput.

F5 also offers the iControl™ Architecture, providing an open interface between 3rd party solutions and F5's suite of Internet Traffic and Content Management products for total integration and control of the Internet infrastructure.

Local Area Traffic Management

F5's line of BIG-IP® products optimize server availability and performance. BIG-IP sits between the network and server array. It continuously monitors each server for service and application availability/performance, and routes incoming queries to the most available server. BIG-IP allows network managers to use a variety of sophisticated load-balancing algorithms to fine-tune performance and availability.

BIG-IP helps prevent system failure by quickly detecting server and application failures while directing traffic to functioning servers and applications. It helps

"With its new BIG-IP 5000, F5 Networks has designed a product that combines the leading feature set with integrated SSL and high port density. This design improves the manageability and reduces costs of the network infrastructure. F5 Networks perfectly addresses the future requirements in the Internet Traffic and Content market with this product."

Andreas Gehring
Director IP Network Solutions
T-Systems Nova GmbH
(a wholly-owned subsidiary of Deutsche Telekom)

"F5's performance and reliability surpassed the others' and also released the pressure off our switches caused by Cisco's Local Director. The results of our evaluation, together with F5's good reputation and recommendations from others, all contributed in making our decision to go with F5."

Duran Holycross,
Manager of IT Operations
McAfee ASAP
(A Network Associates Company)

"Today's enterprises need to build and maintain robust, secure and competitive e-business infrastructures that reduce costs and improve customer satisfaction. F5's iTCM products, combined with Tivoli's leading e-business infrastructure software, can help customers to increase revenue, profitability and customer loyalty."

Graeme Beardsell
Director, Telecommunications Solutions
Tivoli Asia Pacific

"As we see access to network based content increasing in both the mobile and wired workforce, the need to ensure that access is secure, authenticated and directed to the most appropriate resource is paramount in order to maintain the best user experience. Traffic and Content Management are key components of Nokia's vision of enabling secure, trusted communications and we are pleased to be working with such an exciting and innovative company as F5."

John Robinson
Senior Vice President and General Manager
Nokia Internet Communications

make sure sites are always available to customers by verifying that all network components are working properly.

The company's newest line of BIG-IP products also incorporates Layer 2/3 switching and Secure Socket Layer (SSL) as standard features.

Wide Area Traffic Management

What happens when a major airport is closed due to weather? Airlines cannot afford to wait until their aircraft reaches that airport before finding out the airport is closed. That's why every major airline staffs a central operations center that looks at all airports and reroutes planes when airports go down.

F5's 3-DNS® does the same job for enterprises with multiple sites. It communicates with each site around the world on a regular basis - keeping track of key performance attributes. Then, when a request comes in, 3-DNS routes the request to the most available site.

Content Storage and Delivery

Airports are strategically located around the country in order to keep airline service in close proximity to travelers. EDGE-FX® Cache is an Internet cache that stores frequently-requested

data at strategic points on the network, making Web objects quickly available to Internet users, improving user response times, and increasing overall network efficiency by reducing the physical distance that information must travel to reach Internet users.

Content Distribution

What if an airline wants to change a particular airfare? It's imperative that all sites have access to this data immediately. F5's GLOBAL-SITE™ automatically and securely pushes new content to globally distributed servers - helping to ensure that they, and the sites, have the most current information.

Network Monitoring and Management

Airport control towers engage sophisticated tools to avoid traffic jams, predict when and where congestion will occur, and take proactive action. SEE-IT® is a network manager that centralizes network operations into a single-glance location for complete traffic control, while allowing administrators to take proactive steps to guarantee the consistent performance of their sites.

"Enterasys Networks is singularly focused on providing global business communication solutions to enterprise customers, where scalability and manageability are at the core of our award-winning networking infrastructure solutions. That's why F5's view of the application-aware network is so appealing to us."

John Roese
Chief Technology Officer
Enterasys Networks

"In a world that increasingly relies on coordination and control of disparately architected, globally distributed systems, F5 Networks' Internet Control Architecture stands out. . . . CDN peering, orderly site maintenance, intelligent load balancing across a global network, all based on XML, SOAP, and CORBA access to Microsoft Application Server 2000, BEA WebLogic, and other leading platforms make iControl a leading-edge winner."

Citation for iControl
"Best of Show" (Infrastructure)
Internet World Spring 2001

"F5's Internet Control Architecture will help to dismantle the barrier that currently exists between the network and enterprise applications. . . . F5's open and extensible framework is the right approach to overcoming the interoperability and management complexities that come with a multi-vendor environment."

Shakil Kidwai
Vice President of Global Information Assurance Services
EDS

"The combination of Application Center 2000 and F5's BIG-IP presents a unified solution, allowing users to scale out their applications while driving down costs, and represents a giant leap forward in the creation of a complete application-aware network."

Garth Fort
Group Product Manager
Microsoft

Application Integration

iControl™ provides an interface between 3rd party solutions and F5's entire suite of Internet Traffic and Content Management (iTCM) products. This interface, based on open industry standards, creates the opportunity for application developers, independent software vendors, hardware manufacturers, service providers, and others to add value to their solutions by allowing them to communicate directly with our iTCM suite.

By allowing this communication, it becomes possible to eliminate manual intervention between the application or hardware, and the traffic management components. Instead of wasting the technical staff's valuable time on day-to-day tasks like server maintenance, organizations can automate activities that until now required human intervention.

Services

F5's Professional Services team is dedicated to the success of our customers. The team offers full service solutions for technical support, basic to advanced training, maintenance plans (including software updates), installation, and consulting services.

Shareholders' Information

Corporate Officers

John McAdam
President and Chief Executive Officer

Steve Coburn
Senior Vice President of Finance and Chief Financial Officer

Steve Goldman
Senior Vice President of Sales and Services

Brett Helsel
Senior Vice President of Product Development and Chief Technology Officer

Jeff Pancottine
Senior Vice President of Marketing and Business Development

Julian Eames
Senior Vice President of Business Operations and Vice President of Global Services

Joann Reiter
Vice President and General Counsel

Notice of Annual Meeting

Our annual shareholders meeting will be held:

F5 Networks Corporate Headquarters

March 7, 2002

10:00 am

Corporate Headquarters

401 Elliott Avenue West

Seattle, WA 98119

206.272.5555

www.f5.com

Board of Directors

Jeffrey Hussey
Chairman of the Board

John McAdam
President and Chief Executive Officer

Alan Higginson
Consultant

Karl Guelich
Certified Public Accountant

Keith Grinstein
Vice Chairman, Nextel International, Inc.

Kenny Frerichs
Vice President, Business Development, Nokia Internet Communications

NASDAQ Listing

NASDAQ Symbol – FFIV

Investor Relations

206.272.6677

info@f5.com

Independent Accountants

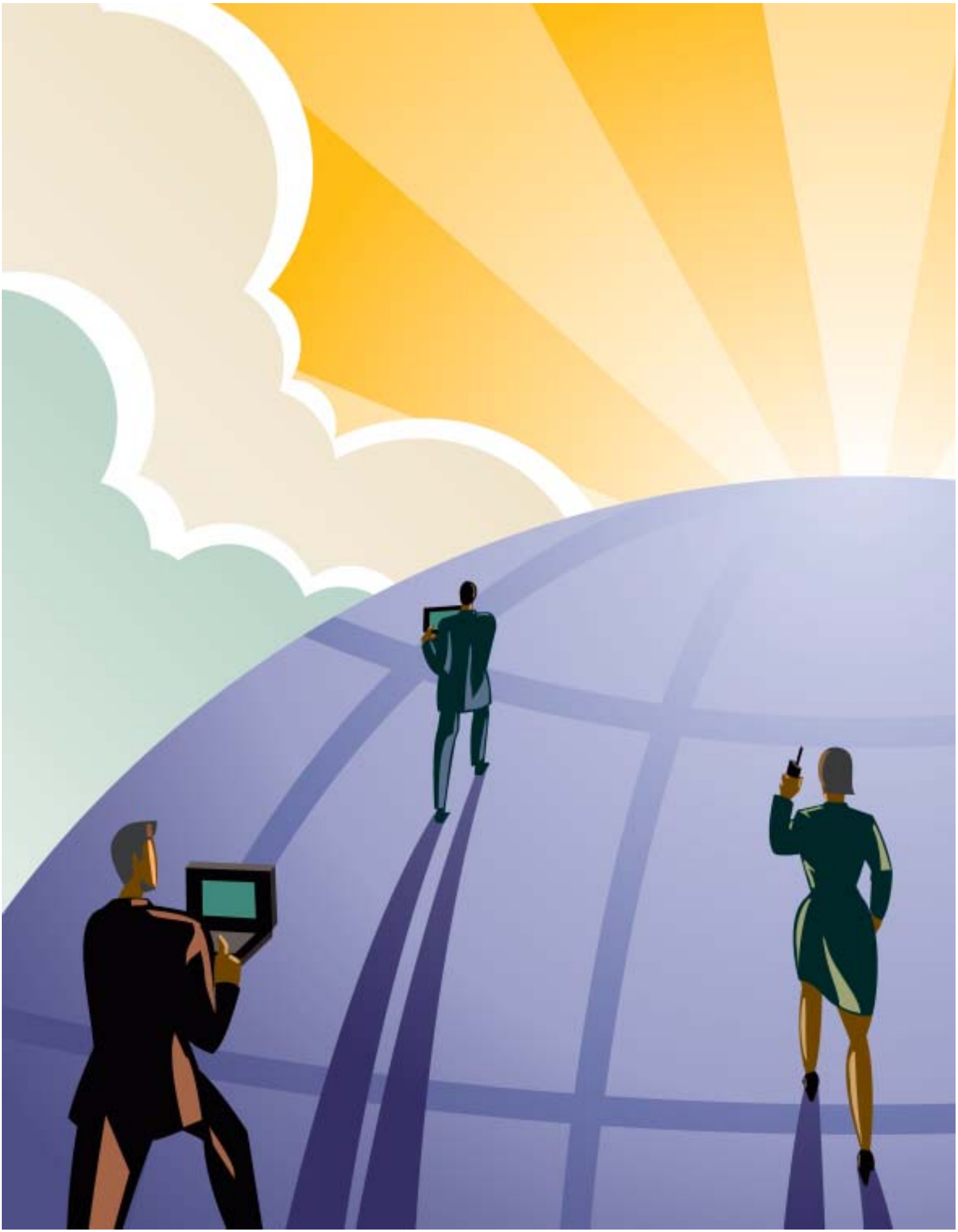
PricewaterhouseCoopers LLP

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 our plans, objectives, expectations, strategies and intentions and are generally identified by the words “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” 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 10-K for fiscal 2001 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.

The customer names and trademarks used within this Annual Report are registered names, trade names and trademarks of the respective companies

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