

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)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2014

or

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
(State or other jurisdiction of
incorporation or organization)

91-1714307
(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:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
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 No

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 No

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 No

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 No

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.

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 (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of March 31, 2014, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was \$7,990,507,572 based on the closing sales price of the Registrant's Common Stock on the NASDAQ Global Select Market on that date.

As of November 20, 2014, the number of shares of the Registrant's common stock outstanding was 73,783,302.

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 2014, 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, 2014

Table of Contents

	<u>Page</u>
PART I	
Item 1. Business	3
Item 1A. Risk Factors	16
Item 1B. Unresolved Staff Comments	26
Item 2. Properties	26
Item 3. Legal Proceedings	27
Item 4. Mine Safety Disclosures	27
PART II	
Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	28
Item 6. Selected Financial Data	31
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 7A. Quantitative and Qualitative Disclosure About Market Risk	42
Item 8. Financial Statements and Supplementary Data	43
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	73
Item 9A. Controls and Procedures	73
Item 9B. Other Information	73
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	74
Item 11. Executive Compensation	74
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	74
Item 13. Certain Relationships and Related Transactions, and Director Independence	74
Item 14. Principal Accountant Fees and Services	74
PART IV	
Item 15. Exhibits and Financial Statement Schedules	75
SIGNATURES	76

Trademarks and Tradenames

F5, F5 Networks, F5 [DESIGN], F5 Management Pack, BIG-IP, CloudFucious, Data Manager, VIPRION, WA, WAN Optimization Manager, 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 OnDemand, Packet Velocity, ZoneRunner, OneConnect, AskF5, Intelligent Compression, Transparent Data Reduction, TDR, L7 Rate Shaping, LC, IPv6 Gateway, SSL Acceleration, Fast Cache, iHealth, Intelligent Browser Referencing, Message Security Manager, PSM, MSM, NetCelera, Protocol Security Manager, 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, ARX, Cloud Extender, CMP, DSI, DNS Express, DSC, Edge Portal, iApps, iSession, ScaleN, SuperVIP, UNITY, vCMP, Clustered Multiprocessing, COHESION, ELEVATE, ENGAGE, GUARDIAN, Signaling Delivery Controller, SDC, Traffix, Traffix Systems [DESIGN], VAULT, Virtual Clustered Multiprocessing, AAM, Application Acceleration Manager, AFM, Advanced Firewall Manager, BIG-IQ, F5 Certified [DESIGN], iCall, LineRate, LineRate Systems [DESIGN], LROS, LineRate Operating System, PEM, Policy Enforcement Manager, Application Cloud Services, Application Services Controller, BIG-IP EDGE GATEWAY, DDos Frontline, DDos Swat, Defense.Net, F5 Synthesis, F5 Synthesis [DESIGN], MobileSafe, SalesXchange, F5 SalesXchange [DESIGN], SDAS, Software Defined Application Services, Solutions for an application world, TechXchange, F5 TechXchange [DESIGN], TotALL, Versafe, Versafe [DESIGN], and WebSafe 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 2014” and “fiscal 2014” refer to the fiscal year ended September 30, 2014.

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. These statements include, but are not limited to, statements about our plans, objectives, expectations, strategies, intentions or other characterizations of future events or circumstances and are generally identified by the words “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” and similar expressions. These forward-looking statements are based on current information and expectations and are subject to a number of risks and uncertainties. Our actual results could differ materially and adversely from those expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under “Item 1A. Risk Factors” below and in other documents we file from time to time with the Securities and Exchange Commission. We assume no obligation to revise or update any such forward-looking statements.

Item 1. *Business*

General

F5 Networks is the leading developer and provider of software-defined application services. These services deliver our customers with the most secure, fast and reliable applications to any user, anywhere, anytime. Our core technology is a full-proxy, programmable, massively-scalable software platform called TMOS (Traffic Management Operating System).

Introduced in 2004, the TMOS platform supports the industry’s broadest array of features and functions designed to ensure that applications accessible over Internet Protocol (IP) networks are secure, fast and available. Our TMOS-based application services include local and global traffic management, network and application security, access management, web acceleration and a number of other network and application services. These services are available as software modules that can run individually or as part of an integrated solution on our high-performance, scalable, purpose-built BIG-IP appliances and chassis-based VIPRION systems, or as software-only Virtual Editions that run on all major hypervisors. In conjunction with our BIG-IQ management software, the availability of our products as both hardware-based and software-only solutions gives customers the flexibility to create a dynamic control plane infrastructure tailored to the specific demands of private and public clouds as well as traditional data centers.

The core features and functions of TMOS enable our products to inspect and modify the content of IP traffic flows between users and applications and support a broad and growing array of services. iRules, a scripting language based on Tool Command Language (TCL), is a unique feature of TMOS that enables customers and third parties to write customized rules to inspect and modify traffic. TMOS also has an open software interface called iControl, which allows our products to communicate with one another and with third-party products, and a scripting framework called iCall that lets users define data

plane events such as threshold breaches and adjust the behavior of our products accordingly. 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.

Our hardware products include our BIG-IP family of appliances and our line of scalable VIPRION systems. These purpose-built devices integrate industry-standard components, such as general-purpose processors and FPGAs (Field-Programmable Gate Arrays), with components we design ourselves. The architecture of these systems is designed to accelerate and optimize the performance of our software by offloading repetitive, compute-intensive functions such as encryption and compression to specific components, and enabling complex application-layer processing at network speed. Typically deployed in front of web and application servers, our hardware products deliver massive performance and scalability that enable customers to consolidate multiple application services on a single device. This eliminates the need for separate point products, which are often difficult and costly to integrate and manage and reduces the load on servers by offloading functions that might otherwise run on the servers themselves. Offloading functions from servers reduces the number of servers needed to run specific applications, lowers the cost of power and cooling, and drives down operating costs by simplifying the management of servers and applications. In virtual environments, this allows customers to increase the density of virtual servers and reduces the added complexity of managing a dynamic environment.

As information technology infrastructures continue to evolve, there is growing demand for software-only application services that can be deployed in virtual environments next to each instance of an application. For customers who prefer this option, our Virtual Edition (VE) products offer faster throughput than competing products and the broadest array of integrated application services available. We sell individual VE versions of all modules available on our hardware-based solutions which provide the same software services and include all of the features and functions embedded in TMOS.

While VEs have lower performance than our hardware-based solutions, they give customers the flexibility to deploy a mix of integrated application services as needed, spinning them up and down with each instance of an application, and moving them with the application between traditional data centers and private or public clouds. Both VEs and hardware-based services can be and increasingly are deployed in hybrid infrastructures within data centers and private clouds, across multiple data centers, and across data centers and public clouds. Our BIG-IP management platform supports an array of software modules that enable customers to manage all of the services running in these hybrid environments from a single management console.

In addition to our TMOS-based products, we offer other closely-related products that facilitate, enhance, or extend our application services.

Our Traffix family of Diameter signaling and routing products, acquired in February 2012, offers the most advanced, robust and cost-effective solution for Diameter routing, load balancing and gateway connectivity, enabling service providers to meet the multiple challenges associated with the growth of mobile data.

LineRate software-defined application services, acquired in early 2013, address the growing demand for network functions virtualization (NFV) and network service virtualization (NSV) by enabling application developers and network operators (DevOps) to rapidly create and deploy complex networking functions that help scale, manage, and optimize their applications.

More recent acquisitions include technologies that complement and expand our Security offerings. Versafe software products (WebSafe and MobileSafe), acquired in September 2013, provide real-time protection against malware, phishing, and other cyber-threats aimed at mobile devices and web applications. Defense.Net, acquired last May, is a cloud-based service that provides highly scalable protection against distributed denial of service (DDoS) attacks and complements our existing on-premise DDoS protection capabilities.

Another recent addition to our Security offerings, Secure Web Gateway Services is integrated with Websense cloud-based services to protect enterprises against inbound and outbound malware. In addition, F5 provides a threat intelligence feed, called IP Intelligence (IPI), by leveraging Webroot's BrightCloud honeypots, sensors and endpoints all across the Internet which aggregate millions of malicious addresses into a reputation database. WebSafe, MobileSafe, Defense.Net, Secure Web Gateway Services and IP Intelligence are all sold on a subscription basis.

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 Argentina, Australia, Brazil, the British Virgin Islands, Canada, Chile, China, Colombia, France, Germany, Hong Kong, India, Israel, Italy, Japan, Kingdom of Saudi Arabia,

Mexico, Netherlands, New Zealand, Russia, Singapore, South Korea, Spain, Taiwan, the 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. For more than two decades, large business and government organizations have been gradually 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 including smartphones, tablets and laptops.

In recent years, the information technology landscape has changed dramatically as organizations have responded to the slowdown in the global economy by using technologies such as virtualization, software defined networking and the growing availability and sophistication of cloud computing to reduce capital and operating costs and enhance the flexibility and efficiency of their information infrastructures. These efforts are reflected in the ongoing trend toward data center consolidation that includes a reduction in the number and size of data centers, as well as the number and variety of hardware devices. In addition, a growing number of organizations are turning to social networking and other online vehicles to help target customers and compete more effectively in an environment of reduced consumer spending.

Emergence of the Dynamic Data Center

From a broad perspective, the goal of IT organizations is to optimize the secure delivery of applications to users wherever they are and whenever they need them. To achieve these goals, IT 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. The recent surge of interest in Software Defined Networks highlights the latest move to reduce costs, increase the flexibility, and simplify the deployment and management of IT infrastructure through virtualization. Many organizations are also taking advantage of the growing availability of external cloud resources as a flexible, secure and reliable alternative to owning and managing everything themselves. As a result, IT infrastructure has become increasingly dynamic, complex and reliant on IP-based networks for the delivery of applications and data. At the same time, these changes have created new challenges to the security of IP networks and the applications and data accessible over the Internet. With increasing frequency, sophisticated denial of service attacks have exposed a major vulnerability in the security perimeter of corporate networks by overwhelming firewalls and effectively shutting down the networks. In addition, many network-level security threats are directly related to the improper use of the same protocols applications depend on to transmit data over the wire. Intrusion detection and prevention devices, which rely on signature databases of known threats, afford some protection against these types of attack. However, they offer no protection against many of the most common threats, including information leakage, content spoofing, cross-site request forgery or “day zero” attacks designed to exploit a variety of application vulnerabilities.

In addition to preventing the threat of attacks designed to disrupt, destroy or block access to network applications, organizations are faced with the equally daunting challenge of controlling access to applications and data. The proliferation of mobile devices has given users with smart phones, tablets, and laptops the ability to access corporate private and public data centers from virtually anywhere. This, in turn, has increased the difficulty of ensuring that mobile users are able to access applications and data for which they are authorized, and that applications and data are protected from access by unauthorized users.

Need to Optimize the Secure Delivery of Applications and Data

With the ongoing evolution and increasing complexity of IT infrastructures, there is a growing need to optimize the secure delivery of applications and data over IP networks. IP-based traffic passing between end-user devices and servers is divided into discrete packets that 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, managing, inspecting, modifying, redirecting and securing application traffic going to and from servers requires intelligent systems capable of performing a broad array of functions. Broadly speaking, all of those functions are aspects of application delivery.

Application Delivery Controllers, or ADCs, dynamically manage the flow of traffic between users and servers (physical or virtual), making multiple servers look like a single resource to the user. In addition they free up resources by offloading

common network functions, such as encryption, IPv4/IPv6 translation, compression, authentication, rate-shaping, and a variety of specialized functions, including network and application security services, policy management, and WAN optimization, that would otherwise run on the servers or be coded into applications. 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 within each virtual instance of an application. Doing so would take up valuable network resources and reduce the number of applications that could run on each server. Maintenance costs would be prohibitive and the net result would be a negative impact on the overall performance of servers and applications. Offloading specific functions onto point solutions can eliminate those problems but introduces 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. Providing a comprehensive set of integrated application delivery services on a single, high-performance device simplifies management of the device and the servers it sits in front of and reduces overall capital and operating costs. In virtual and cloud environments where flexibility is a priority, software-only ADCs provide the same services and many of the benefits associated with hardware-based ADCs.

Although application delivery services are broadly applicable within enterprise and service provider IT infrastructures, the latter face unique challenges as they attempt to modernize and scale their networks to deal with the flood of data generated by smart phones, tablets, wearables and other mobile devices. To cope with these challenges, service providers are migrating legacy 2G/3G infrastructures to 4G/LTE networks and Evolved Packet Core (EPC) data centers that require an array of network and application services. Today, most of those services are deployed on separate appliances from different vendors. Apart from the associated capital costs, integrating and managing multiple devices entail significant operating expense, and service providers are actively seeking solutions that will enable them to lower costs and improve reliability and performance by consolidating services and reducing the number of devices. To cope with the dramatic increase in signaling traffic associated with 4G/LTE networks and the multi-vendor technology interoperability challenges, service providers have also adopted the Diameter signaling protocol as the de facto standard for communication within their evolving data center infrastructure. Diameter signaling solutions offer unprecedented scalability, reliability, and performance on a single, carrier-grade, purpose-built platform.

F5's Strategy

Our goal is to lead the industry in providing application and network services that ensure the safe, fast and reliable delivery of applications to any user, anywhere, anytime. Those services include availability, security, performance, mobility, and identity. They also include managing and orchestrating resources, as well as coordinating services across multiple data centers and networks. Our products are designed to be 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 TMOS, we have developed TMOS-based versions of our own legacy products, such as Local Traffic Manager (LTM), Global Traffic Manager (GTM) and Link Controller; new products, such as Advanced Firewall Manager (AFM), Carrier Grade Network Address Translation (CGNAT) and Policy Enforcement Manager (PEM), that leverage the unique performance characteristics of our hardware and software architecture; and products that incorporate acquired technology, including Application Security Manager (ASM), Application Acceleration Manager (AAM), Access Policy Manager (APM) and two of our newest security offerings, WebSafe and MobileSafe. All of these products are currently available as integrated software modules on our BIG-IP and VIPRION hardware and as Virtual Editions that run on any standard server or hypervisor. We believe this approach sharply differentiates our products from our competitors' offerings and provides customers with an expanding array of integrated application delivery 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 application delivery services. Our product development efforts leverage the unique attributes of our TMOS platform to deliver new features and functions that address the complex, changing needs of our customers. Although the bulk of our investment is software development, concurrent development of tightly integrated, high-performance hardware is a key part of our investment strategy. We also look for opportunities to acquire technologies that will enable us to broaden the scope of our offerings and expand into adjacent markets.

Expanding our addressable market.

Since the introduction of TMOS, we have continually expanded our addressable market and the definition of application delivery through the acquisition and development of new technology. In 2003, for example, we entered the market for secure remote access through the acquisition of uRoam, Inc. and its FirePass SSL VPN technology that has become the core of our current Access Policy Manager (APM) offering. The following year we entered the web application firewall market with the acquisition of Magnifire Websystems, Inc. and its TrafficShield security appliance, which became the foundation of our Application Security Manager (ASM). By leveraging the programmability, full proxy capabilities, and built-in security features of TMOS, customers were also able to exploit the performance and scalability of our products and deploy them as ICSA-certified network firewalls. In March 2013, we introduced Advanced Firewall Manager (AFM), a new software module that simplifies the deployment and management of our products as network firewalls, and BIG-IQ Security, a management framework that lets customers administer policies and manage AFM across all of their F5 platforms. In September 2013, we continued to expand our security solution with the acquisition of Versafe, a provider of web anti-fraud, anti-phishing, and anti-malware solutions, and in May 2014 we acquired Defense.Net, which provides cloud-based DDoS protection that complements our on-premise DDoS solution. While each of these products addresses a different segment of the broader security market, they are all integral components of our comprehensive Security offering and tightly integrated with LTM and the other features and functions available on our products. As a result of this strategy and our development and acquisition of technology in other related markets such as WAN optimization, Java Script programming, and Diameter signaling and routing, we believe our current addressable market is significantly larger than the ADC market as industry analysts have traditionally defined it.

Continuing to build and expand relationships with strategic technology partners.

To enhance our competitiveness in large accounts, we have developed strategic technology partnerships with enterprise software vendors, such as Microsoft, Oracle, VMware and others, who have an established presence in those accounts. By taking advantage of iControl, our open application programming interface, and iCall, a scripting framework that provides the ability to define data plane events such as threshold breaches and adjust the behavior of our products accordingly, these vendors can equip their applications to control our products in the network, enhancing overall application performance. In return, they 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 iApps, that are specifically designed 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.

During the past year we have entered into partnerships with Cisco, HP, Microsoft and VMware to provide integrated application services for their Software Defined Networking (SDN) offerings. In addition, we have established partnerships with Microsoft Azure, VMware vCloud Air, Amazon Web Services and many others to provide cloud-based application services and solutions. We plan to continue building on our existing relationships and to extend our competitive edge by developing new strategic partnerships with other technology leaders.

Leveraging DevCentral, our online community of network architects and developers.

Customization of our TMOS-based products using iRules and our LineRate technology with node.js 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 and node.js, we host an online community, DevCentral, where network architects and developers can discuss and share the ways in which they use iRules and node.js 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. DevCentral also provides a valuable window into our customers’ constantly evolving needs.

F5 Solutions

Our integrated family of TMOS-based network and application services is comprised of software products that run on purpose-built hardware and are also available as virtual (software-only) editions or VEs. These products function as strategic points of control in IP networks, inspecting, modifying and directing traffic to optimize the security, availability and delivery of applications and data to any user, anywhere, anytime. Our LineRate technology supports similar functionality in software-only solutions designed to meet the specialized needs of software-defined data centers. Our Traffic Diameter signaling and routing devices address the complex needs of service providers by enabling fast, reliable communications among the elements of their legacy infrastructures and their evolving packet-based 4G/LTE networks and data centers. We believe our products offer the most intelligent services and advanced functionality in the marketplace along with performance and flexibility that enable organizations to simplify management of their IP networks and data center operations by integrating disparate resources to reduce operating costs, enhance productivity and improve service to employees, customers and partners.

Application Delivery

Since 2004 we have expanded the breadth of features and functionality we offer well beyond the scope of application delivery networking as it has been traditionally defined. Today, we also offer solutions that include application security, secure remote access, firewall protection, WAN optimization, access policy management, carrier grade network address translation, Diameter signaling policy enforcement, and fraud detection opening up large opportunities in several adjacent markets. Many of the features and functions that differentiate our products are built into TMOS, our full-proxy operating system. Others are available as software modules that run on TMOS or as Virtual Editions, and some of our newer security services are available by subscription.

Software

The core of our application delivery technology is TMOS, our Traffic Management Operating System, introduced in September 2004. The full-proxy characteristics of the TMOS architecture enable our products 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.

Traffic Management Operating System (TMOS)

Since TMOS was launched, we have added hundreds of new features designed to interpret and act on specific content in the traffic passing between users and applications. TMOS includes several features and functions that are unique to our products:

- iApps is a set of portable, customizable, reusable templates that enable the rapid and predictable deployment of our products in front of dozens of applications from vendors including Microsoft, Oracle, VMware, Citrix, BEA, and SAP. iApps also allows customers and partners to create templates that simplify the deployment and provisioning of their own applications.
- iCall is a control plane scripting framework that provides the ability to define data plane events such as threshold breaches and adjust the behavior of our products accordingly. iCall enables administrators to react to specified data plane events by executing services on the management plane. It can also be used periodically to manage backups or repopulate DNS, or to provide regularly scheduled services such as configuration audits.
- Scale^N is a set of three unique capabilities that enhance the flexibility of our products:
 - Clustered Multiprocessing (CMP) allows customers to cluster and aggregate processors (cores) within BIG-IP appliances or VIPRION chassis products.
 - Virtual Clustered Multiprocessing (vCMP) enables the creation of separate virtual ADCs within an appliance or chassis, each running a separate instance of TMOS with a different configuration and assigned to a different application.
 - Device Service Clustering (DSC) gives customers the ability to group devices and services across an array of ADCs (BIG-IP appliances, VIPRION chassis, or Virtual Editions). Devices can be added to or removed from a DSC without disrupting application services, and application services can be independently managed within the cluster.

TMOS also includes a number of new security features that enhance the ability of our products to protect and hide networks and applications from denial of service attacks and other types of security threats. Other enhancements include gateway support for software defined networks (SDN) -- both VXLAN and NVGRE -- symmetrical and asymmetrical application acceleration, subscriber and application aware enforcement for service providers, management and orchestration of multiple devices, and improved visibility that allows customers to monitor and record the performance of applications and users.

Product Modules

In addition to the features and functions embedded in TMOS, we offer a family of integrated software solutions that cover a broad range of application-aware network functions from load-balancing to security. Depending on a number of factors, including the hardware platform they have purchased, the application they are running, and their performance and security requirements, customers may purchase one or more of these modules in addition to Local Traffic Manager (LTM), which is included with every product. The following software modules are currently available on all BIG-IP and VIPRION products except BIG-IP 2000:

- **Local Traffic Manager (LTM):** LTM, which provides intelligent load-balancing and traffic management, is standard on all BIG-IP appliances, VIPRION chassis-based systems and Virtual Editions. As a strategic point of control between applications and users, LTM manages the flow and distribution of all traffic passing through our products, ensuring that applications are secure, fast and available.
- **Global Traffic Manager (GTM):** GTM automatically directs users to the closest or best-performing data center based on business policy, geolocation, and volume spikes, regardless of their cause. When users try to access a data center that is overloaded or unreachable, GTM automatically and seamlessly directs them to a secondary data center. It also automates the process of tracking and managing interdependencies among individual services in distributed applications. In addition, GTM enhances DNS security by automatically scaling to absorb a rapid increase in queries resulting from a denial of service attack.
- **Link Controller:** For organizations with more than one Internet Service Provider (ISP), Link Controller monitors the health and availability of each connection. In the event of a failure, traffic is dynamically directed across other available links so users and external customers stay connected. Link Controller includes an optional compression feature that reduces WAN link bandwidth for lower ISP costs and cuts down on bandwidth bottlenecks for faster application delivery.
- **Advanced Firewall Manager (AFM):** AFM is a high-performance, stateful, full-proxy network firewall designed to guard data centers against incoming threats that enter the network on the most widely deployed protocols-including HTTP/S, SMTP, DNS, and FTP. By aligning firewall policies with the applications they protect, AFM streamlines application deployment, security, and monitoring.
- **Application Security Manager (ASM):** ASM is an application firewall that provides comprehensive, proactive, application-layer protection against both generalized and targeted attacks. Combining a positive security model (“deny all unless allowed”) with signature-based detection, ASM can prevent “day-zero” attacks in addition to known security threats.
- **Access Policy Manager (APM):** APM provides secure, granular, context-aware access to networks and applications while simplifying authentication, authorization, and accounting (AAA) management. Our endpoint security service validates client devices, including personal devices used by employees to access corporate applications and data, to protect organizations from viruses or malware infections, accidental data loss, and rogue device access. This allows users to apply repeatable access policies across many devices, networks, applications and servers with centralized visibility of their authorization infrastructure.
- **Application Acceleration Manager (AAM):** AAM combines the application delivery features previously available in WAN Optimization Manager (WOM) and WebAccelerator. AAM overcomes network, protocol, and application issues to help meet application performance, data replication, and disaster recovery requirements presented by cloud, mobile applications, and video distribution, decreasing the need for additional bandwidth and hardware and giving users fast access to applications.
- **Carrier-Grade Network Address Translation (CGNAT):** CGNAT offers a broad set of tools that enables service providers to successfully migrate to IPv6 while continuing to support and interoperate with existing IPv4 devices and content. BIG-IP CGNAT offers service providers tunneling solutions with Dual-Stack Lite capabilities as well as native network address translation solutions such as NAT44 and NAT64. It provides carrier-grade scalability by offering a very high number of IP address translations, very fast NAT translation setup rates, high throughput, and high-speed logging.
- **Policy Enforcement Manager (PEM):** PEM offers service providers a comprehensive set of traffic classification capabilities to accurately identify the specific applications and services subscribers are using and how they’re using them. This information allows them to steer application and subscriber traffic to the most appropriate value-added services (such as web caching, video optimization, or parental control) and reduce the burden on other services. PEM also provides deep reporting, enabling service providers to build tailored services and packages based on subscribers’ application usage and traffic classification.

Virtual ADCs

All of our product modules are also available as software-only Virtual Editions (VEs), designed to run on all major hypervisors. Production VEs are deployed in public and private clouds and supplement our hardware products in hybrid environments. Trial versions give our customers a cost-effective way to test and configure our products and help determine which systems and modules will best meet their specific needs in production environments.

NFV and NSV Products

Our LineRate products address the growing demand for network functions virtualization (NFV) and network service virtualization (NSV) by providing application developers and network operators with tools to leverage a vast library of open-

source services that run on standard hypervisors and commodity servers. Using the power and flexibility of node.js, a server-side version of JavaScript, LineRate products enable developers and operations personnel (DevOps) to rapidly create and deploy a broad range of complex networking functions that help scale, manage, and optimize their applications.

Software as a Service

Among our newest security offerings, WebSafe and MobileSafe are software modules that inject code into traffic between servers and end-user devices which is then downloaded transparently to the device and provides real-time protection against malware, phishing, and other cyberthreats, including fraud without any impact to the user experience. As their names imply, WebSafe protects against all web-based threat types, and MobileSafe protects against advanced threats targeting the mobile user. Defense.Net, our most recent acquisition and our newest Security offering, is a cloud-based service that provides highly scalable protection against DDoS attacks. Deployed in conjunction with our massively-scalable on-premise DDoS protection, Defense.Net provides a first line of defense against attacks before they reach a customer's data center. Another recent addition to our Security offerings, Secure Web Gateway Services protects enterprises against both inbound and outbound malware. Integrated with cloud-based threat intelligence provided by Websense, Secure Web Gateway enables enterprises to manage user access to websites, as well as to hundreds of web-based applications, protocols, and videos, ensuring adherence to corporate acceptable use policies, and compliance regulations. All three services are sold to customers on a subscription basis.

Hardware

All of our purpose-built hardware products are designed to enhance the performance of our software. Currently we offer two types of hardware configurations: BIG-IP appliances; and our chassis-based VIPRION products. Both BIG-IP and VIPRION run TMOS and support all of our product software modules. We also sell specialty appliances that integrate specific software services and are only available as standalone products.

Data sheets for all of our hardware platforms are available in the products section of our website.

BIG-IP Appliances

Products in our family of BIG-IP Application Delivery Controllers differ primarily in their performance characteristics resulting from the hardware components and configurations that make up each system. During fiscal year 2013, we revamped our entire family of BIG-IP appliances. The new line is comprised of the BIG-IP 2000 series, BIG-IP 4000 series, BIG-IP 5000 series, BIG-IP 7000 series and BIG-IP 10000 series.

VIPRION Chassis-Based Systems

Currently we offer four chassis-based systems: VIPRION 4800, VIPRION 4480, VIPRION 2400 and VIPRION 2200. VIPRION's unique architecture distributes traffic across all available processors and allows customers to add or remove blades without disrupting traffic. It also helps customers simplify their networks by consolidating ADCs, saving management costs as well as power, space, and cooling in the datacenter.

- VIPRION 4800: With slots for up to 8 blades and the capability to host up to 48 vCMP instances, VIPRION 4800 is designed to meet the needs of the largest service providers, enterprises, and web-based businesses, delivering massive performance and scalability and enabling the consolidation of multiple application delivery services on a single footprint.
- VIPRION 4480: NEBS certified and designed with carrier-grade reliability in mind, the 4-slot VIPRION 4480 is equipped with the same high-performance blades as VIPRION 4800 and can support up to 24 vCMP instances.
- VIPRION 2400: Designed for midsize to large enterprises, VIPRION 2400 combines affordability and scalability in a 4-slot chassis that gives customers the flexibility to add performance on demand while managing cost. A fully-loaded VIPRION 2400 chassis can deliver 320 Gbps throughput and support up to 80 vCMP instances.
- VIPRION 2200: Our newest VIPRION product is a 2-slot chassis in an appliance footprint (2U) that combines the capabilities of F5's ScaleN™ and Clustered Multiprocessing™ to deliver on-demand scalability for customers with rack space constraints or related concerns such as power/cooling requirements. Equipped with 2 VIPRION 2250 blades, VIPRION 2200 can deliver up to 160 Gbps of throughput and 40 vCMP instances

VIPRION products support all the features, functions and capabilities of TMOS, including clustered multiprocessing (CMP), virtual clustered multiprocessing (vCMP), and device service clustering (DSC).

Specialty Appliances

- Access Policy Manager (APM), which is available as a software module on our BIG-IP and VIPRION platforms, is also available as a standalone appliance. BIG-IP APM 2000 is a flexible, high-performance access and security solution that provides unified global access to business-critical applications and networks. APM consolidates remote access, mobile application and device management, web access management, VDI, and other resources in a single policy control point that provides easy-to-manage access policies. APM is also the first remote access solution to deliver full support for both IPv4 and IPv6.
- Traffic Signaling Delivery Controller: The Diameter signaling protocol is a de facto standard adopted by service providers to deal with the massive increase in signaling traffic that has accompanied the mobile industry's transition to 4G/LTE networks. The Traffic Signaling Delivery Controller (SDC) is a single software platform consolidating Traffic's widely deployed Diameter Gateway, Diameter Load Balancer and Diameter Router solutions to deliver cost-effective connectivity, scalability and control to service providers migrating from legacy infrastructures to LTE and IMS networks. Traffic SDC solutions include interoperability of legacy and next-generation networks, mobile and fixed elements, and all third-party vendors.

Management and Orchestration

- BIG-IQ is an intelligent management framework that simplifies the process of deploying and optimizing our application delivery services. Analogous to TMOS, BIG-IQ is a software platform designed to support multiple management modules. Currently we offer three BIG-IQ modules:
 - BIG-IQ Device lets customers manage all their F5 systems and VEs across their entire infrastructure. BIG-IQ Device provides device inventory, status, backups, updates, upgrades and license management from a single management console.
 - BIG-IQ Cloud automates and orchestrates the deployment of application delivery services on F5 products across traditional data centers or public, private, and hybrid cloud infrastructures, enabling customers to deploy and manage application delivery services in a fast, consistent, and repeatable manner, regardless of the underlying infrastructure.
 - BIG-IQ Security consolidates firewall policy management across multiple Advanced Firewall Manager (AFM) devices, reducing IT overhead and increasing operational scalability by letting customers create new firewall policies, modify existing policies, push policy changes to selected firewall devices and monitor the effectiveness of each device from a single point of control.

BIG-IQ is designed with an industry leading and open set of API's, which integrates with northbound orchestrators such as OpenStack, Cisco's ACI, Microsoft's SCVMM and VMware's NSX, VCAC and VCO allowing greater flexibility in supporting hyper-converged data centers and infrastructure.

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 organization 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 team is located at our headquarters in Seattle, Washington. Product development for APM, PEM and AAM is located in San Jose, California. ASM, Traffic SDC and Versafe product development is located in Tel Aviv, Israel. Our hardware engineering team is located in Spokane, Washington. In addition, we maintain a dedicated facility for product testing and quality control in Tomsk, Russia. Members of all our product development 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, 2014, 2013 and 2012, we had research and product development expenses of \$263.8 million, \$209.6 million, and \$177.4 million, respectively.

Customers

Our customers include a wide variety of enterprises 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 2014, sales outside of the Americas represented

43.1% of our net revenues. Refer to Note 10 of our consolidated financial statements included in this Annual Report on Form 10-K for additional information regarding our revenues by geographic area.

Sales and Marketing

Sales

We sell our products and services to large enterprise customers and service providers through a variety of channels, including distributors, value-added resellers (VARs) and systems integrators. A substantial amount of our revenue for fiscal year 2014 was derived from these channel sales. Our sales teams work closely with our channel partners and also sell our products and services directly to major accounts.

Early in fiscal 2014, we introduced new pricing options for our hardware and software designed to simplify the sales process and provide incentives for customers to purchase more of our software products. Good, Better, Best (GBB) is a tiered licensing model that is available for our BIG-IP appliances, VIPRION chassis products, and Virtual Editions (VEs).

- Good is our basic traffic management option that includes BIG-IP LTM along with the full suite of features and functions available on TMOS. Additional software modules can be purchased at the list price for each module or VE.
- Better includes three modules or VEs (GTM, AAM and AFM) in addition to LTM at a discount to what they would cost if each were purchased separately.
- Best includes GTM, AAM and AFM plus our two most popular software products, ASM and APM, also at a discount to what they would cost if purchased separately.

Pricing for the modules scales with the size of the system purchased. During the last three quarters of fiscal 2014, we saw strong and growing demand for GBB from both our customers and channel partners.

Also in early fiscal 2014, we introduced a utility pricing model that allows customers of Amazon Web Services and other public cloud providers to rent VEs by the hour or day, allowing them to deploy our products on a pay-as-they-go basis.

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 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. As a key component of our sales strategy, 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 VARs and rely on our large distributors primarily for fulfillment.

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 2014, sales to three of our worldwide distributors, Avnet Technology Solutions, Ingram Micro, Inc. and Westcon Group, Inc. represented 14.0%, 17.4% and 14.5% of our total revenues, respectively. Our agreements with these distributors are standard, non-exclusive distribution agreements that renew automatically on an annual basis and generally can be terminated by either party with 30 days written notice prior to the start of any renewal term. The agreements grant Avnet Technology Solutions, Ingram Micro, Inc. and Westcon Group, Inc. 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.

Resellers and Technology Partners. Historically, our ability to compete with much larger companies has been strengthened through partnerships with large systems and software vendors. Currently we partner with Dell and Hewlett-Packard, who resell our products, and with other large technology companies, including Microsoft, Oracle, VMware and Cisco,

who recommend our products to their customers. Management of these relationships is the responsibility of our business development team, a component of our marketing organization, which closely monitors technology companies in adjacent and complementary markets for opportunities to partner with those whose solutions are complementary to ours and could enable us to expand our addressable market.

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.

To support the growing number of developers using our products, including network and application architects, we continue to promote and expand DevCentral, our on-line community website that provides technical resources to customers, prospects and partners wanting to extend and optimize F5 solutions using iRules and iCall. A key aspect of DevCentral is an on-line forum where developers as well as application and network architects discuss and share solutions they have written with iRules and iCall. At the end of fiscal year 2014, DevCentral had more than 165,000 registered members.

We also engage in a number of marketing programs and initiatives aimed at promoting our brand and creating market awareness of our technology and products. These include actively participating in industry trade shows and joint marketing events with channel and technology partners, and briefing industry analysts and members of the trade press on our latest products, business relationships and technology partnerships. In addition, we market our products to chief information officers and other information technology professionals through targeted advertising, direct mail and high-profile Web events.

Backlog

At the end of fiscal years 2014 and 2013, we had product backlog of approximately \$61.6 million and \$57.9 million, respectively. Backlog represents orders confirmed with a purchase order for products to be shipped generally within 90 days to customers with approved credit status. Orders are subject to cancellation, rescheduling by customers or product specification changes by customers. Although we believe that the backlog orders are firm, purchase orders may be cancelled by the customer prior to shipment without significant penalty. For this reason, we believe that our product backlog at any given date is not a reliable indicator of future revenues.

Customer Service and Technical Support

We believe that our ability to provide consistent, high-quality customer service and technical support is a key factor in attracting and retaining large enterprise customers. Accordingly, we offer a broad range of support services that include installation, phone support, hardware repair and replacement, software updates, online tools, consulting and training services.

We provide these services directly to end users and also utilize a multi-tiered support model, leveraging the capabilities of our channel partners when applicable. Our technical support staff is strategically located in regional service centers to support our global customer base.

Prior to the installation of our products, our services personnel work with customers to analyze their network needs and determine the best way to deploy our products and configure product features and functions to meet those needs. Our services personnel also provide on-site installation and training services to help customers make optimal use of product features and functions.

Our customers typically purchase a one-year maintenance contract which entitles them to an array of services provided by our technical support team. Maintenance services provided under the contract include online updates, software error correction releases, hardware repair and replacement, and, in the majority of cases, round-the-clock call center support. Free updates of our software are available to customers with a current maintenance contract. We also offer an online, automated, self-help customer support function called "Ask F5" that provides answers to many commonly asked questions, allowing customers to get information and solve problems quickly while significantly reducing the number of calls to our support desk. This enables us to provide comprehensive customer support while keeping our support-related expenses at a manageable, consistent level. We also offer an online service called iHealth, which allows customers to diagnose up-to-the-minute snapshots of their BIG-IP systems. Diagnoses include tailored feedback about configuration issues or code defects, a description of the issue, recommendations for resolution, and a link to further information in the AskF5™ Knowledge Base.

F5 offers training classes for customers on the configuration and use of products, including local and wide area network system administration and management. We have a complete certification program that qualifies our partners and customers for

having the appropriate skills to implement and use the functionality of our products. To provide our customers with onsite and remote help, we have a professional services team able to provide a full range of fee-based consulting services, including comprehensive network management, documentation and performance analysis, and capacity planning to assist in predicting future network requirements. During fiscal year 2014 we increased the relative size of our professional services team in response to increasing customer demand.

Manufacturing

We outsource the manufacturing of our pre-configured hardware platforms to third party contract manufacturers for assembly according to our specifications.

Our purpose-built systems are manufactured by Flextronics International LTD. Subcontracting activity at Flextronics encompasses prototype builds, full production and direct fulfillment. Flextronics also performs the following activities on our behalf; material procurement, PCB assembly and test, final assembly, system test, quality control, direct shipment and warranty repairs. We provide a rolling forecast that allows our contract manufacturers to stock component parts and other materials, plan capacity and build finished goods inventory in anticipation of end user demand. Flextronics procures components in volumes consistent with our forecast, assembles the products and tests them according to our specifications. Products are then shipped to our distributors, value-added resellers, or end users. Generally, we do not own the components. Title to the products transfers from the contract manufacturers to us and then to our customers upon shipment from a designated fulfillment location. If the components are unused or the products are not sold within specified periods of time, we may incur carrying charges or obsolete material charges for components that our contract manufacturers purchased to build products to meet our forecast or customer orders.

Hardware components for our products consist primarily of commodity parts and certain custom components designed and approved by our hardware engineering group. Most of our components are purchased from sources which we believe are readily available from other suppliers. However, some components used in the assembly of our products are purchased from a single or limited source.

Certain sub-assembly and testing processes of our products are performed at Flextronics' facility in Zhuhai, China. The majority of our sub-assemblies are shipped to Flextronics' Milpitas, California plant for configuration and final testing and eventual distribution to our end users. We also have capabilities to complete this process for some of our products in Flextronics' Zhuhai, China plant for distribution to APAC and Japan end users.

Competition

The expanding capabilities of our product offerings have enabled us to address a growing array of market opportunities, many of which are outside the bounds of the application delivery networking market as defined and measured by industry analysts such as Gartner Group, Dell'Oro and others. In addition to server load-balancing, traffic management and other functions normally associated with application delivery, our suite of integrated product modules has expanded our addressable market into security, WAN optimization, application acceleration, policy management, and Diameter signaling and routing, where we compete with a growing number of companies not included among traditional ADC vendors. The ability to create custom network services using iRules, iControl and iCall has also enabled us, our customers, and our partners to design solutions to problems for which there is no off-the-shelf solution. As a result, we believe the traditional definitions of our market do not encompass all of the features, functions and capabilities of our products or accurately represent the addressable market for those products.

Within the more narrowly defined traditional ADC market, several companies sell server load-balancing products. These include Brocade Communications Systems, Inc., Citrix Systems, Inc. and a number of smaller competitors: Radware Ltd, A10 Networks, Array Networks, Inc., Barracuda Networks, Inc., and Riverbed Technology.

In related ADC markets we compete with the following:

- Cisco, Juniper Networks and Checkpoint Systems in the network firewall market;
- Cisco, Imperva and Citrix in the web application firewall market;
- Cisco, Juniper and A10 in Carrier Grade NAT;
- Procera, Allot, Sandvine and other DPI vendors with our PEM offerings;
- Riverbed Technology and Silver Peak Systems in the WAN optimization and application acceleration market; and
- Oracle via the acquisition of Tekelec and Acme Packet in the Diameter signaling market.

- IBM in end-user protection against malware, phishing and other cyberthreats.
- Akamai Networks in cloud-based DDoS protection.
- Blue Coat Systems in protecting enterprises from inbound and outbound malware.

The principal competitive factors in the markets in which we compete include product features and performance, customer support, brand recognition, the scope of distribution and sales channels and pricing. Certain of our competitors have employed and may in the future adopt aggressive pricing policies to gain market share. However, because of the superior performance, broad functionality and unique capabilities of our products, which have resulted in high levels of customer satisfaction and growing brand awareness, we believe that we can and will compete effectively against such pricing policies.

Intellectual Property

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We have obtained 216 patents in the United States, 15 foreign patents and have applications pending for various aspects of our technology. Our future success depends in part on our ability to protect our proprietary rights to the technologies used in our principal products. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use trade secrets or other information that we regard as proprietary. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the United States. Any issued patent may not preserve our proprietary position, and competitors or others may develop technologies similar to or superior to our technology. Our failure to enforce and protect our intellectual property rights could harm our business, operating results and financial condition.

In addition to our own proprietary software, we incorporate software licensed from several third-party sources into our products. These are generally term licenses which may renew annually and that generally provide for certain rights and licenses to support our customers post termination. While we may not be able to renew certain of these licenses in the future, we believe that alternative technologies for these licenses are available both domestically and internationally.

Employees

As of September 30, 2014, we had 3,834 full-time employees, including 1,054 in product development, 1,448 in sales and marketing, 945 in professional services and technical support and 387 in accounting and finance, administration and operations. None of our employees is represented by a labor union. We have experienced no work stoppages and believe that our employee relations are good.

Executive Officers of the Registrant

The following table sets forth certain information with respect to our executive officers as of November 26, 2014:

Name	Age	Position
John McAdam	63	President, Chief Executive Officer, and Director
Edward J. Eames	56	Executive Vice President of Business Operations
David Feringa	52	Executive Vice President of Worldwide Sales
Andy Reinland	50	Executive Vice President and Chief Financial Officer
Manuel F. Rivelo	50	Executive Vice President of Strategic Solutions
Scot Rogers	47	Executive Vice President and General Counsel
Karl Triebes	47	Executive Vice President of Product Development and Chief Technical Officer

John McAdam has served as our President, Chief Executive Officer and a Director since July 2000. Prior to joining F5, Mr. McAdam served as General Manager of the Web server sales business at International Business Machines Corporation from September 1999 to July 2000. From January 1995 until August 1999, Mr. McAdam served as the President and Chief Operating Officer of Sequent Computer Systems, Inc., a manufacturer of high-end open systems, which was sold to International Business Machines Corporation in September 1999. Mr. McAdam holds a B.S. in Computer Science from the University of Glasgow, Scotland.

Edward J. Eames has served as our Executive Vice President of Business Operations since January 2001 and as our Vice President of Professional Services from October 2000 to January 2001. From September 1999 to October 2000, Mr. Eames

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

David Feringa has served as our Executive Vice President of Worldwide Sales since May 2012. Mr. Feringa joined F5 in December 2004 as Regional Vice President of Sales for the Eastern U.S. and has assumed multiple sales leadership roles during his tenure at F5. He was appointed Vice President of North America Sales in October 2007 and Senior Vice President of Americas Sales in January 2012. Prior to joining F5, Mr. Feringa served in senior sales and business development positions for 20 years at technology companies including Cisco Systems, Inc. and Lucent Technologies. Mr. Feringa holds a B.A. from Wake Forest University.

Andy Reinland has served as our Executive Vice President and Chief Financial Officer since October 2012. For SEC reporting purposes, Mr. Reinland is the principal financial officer and principal accounting officer. From October 2005 to October 2012, Mr. Reinland served as our Senior Vice President and Chief Finance Officer. Mr. Reinland joined F5 in 1998 as a senior financial analyst and served as our Vice President of Finance from January 2004 to October 2005. Prior to joining F5, Mr. Reinland was Chief Financial Officer for RTIME, Inc., a developer of real-time 3D software for Internet applications, which was acquired by Sony. Mr. Reinland started his career in public accounting. Mr. Reinland holds a B.A. in Business from Washington State University.

Manuel F. Ravelo has served as our Executive Vice President of Strategic Solutions since October 2011. Mr. Ravelo is responsible for the Company's Product Management, Marketing, Business and Corporate Development. Prior to joining F5, Mr. Ravelo served as Senior Vice President — Engineering Operations and Systems for Cisco Systems, Inc. During his 19-year career at Cisco, Ravelo was a member of the Cisco Development Counsel, the senior leadership team of the Cisco Development Organization. While at Cisco, he also served as head of the worldwide systems engineering organization. His managerial career spans over 25 years in product engineering, strategic planning, business operations, field engineering sales and IT. Ravelo serves on the Board of Directors of Apollo Group, Inc., one of the world's largest private education providers. He holds a bachelor's and master's degree in Electrical Engineering from the Stevens Institute of Technology.

Scot Rogers has served as our Executive Vice President and General Counsel since January 2014. Mr. Rogers has held a variety of positions in F5's legal department since 2005, including most recently as Senior Vice President and Associate General Counsel immediately prior to his promotion to Executive Vice President. From 2002 through 2005, Rogers was the General Counsel for Xpediate Consulting, a healthcare technology and consulting company located in the San Francisco Bay Area. Prior to becoming a corporate counsel, he spent eight years in private practice as a commercial litigator. Mr. Rogers is a graduate of the University of Texas and holds a J.D. from the Dedman School of Law of Southern Methodist University.

Karl Triebes has served as our Executive Vice President of Product Development and Chief Technical Officer since August 2004. Prior to joining F5, Mr. Triebes served as Chief Technology Officer and Vice President of Engineering of Foundry Networks, Inc. from January 2003 to August 2004. From June 2001 to January 2003, he served as Foundry's Vice President of Hardware Engineering. From May 2000 to June 2001, Mr. Triebes was Vice President of Engineering at Alcatel U.S.A., a telecommunications company. From December 1999 to May 2000, he was Assistant Vice President of Newbridge Networks Corp., a networking company subsequently acquired by Alcatel. Mr. Triebes holds a B.S. in Electrical Engineering from San Diego State University.

Item 1A. Risk Factors

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

Our quarterly and annual operating results may fluctuate in future periods, which may cause our stock price to fluctuate

Our quarterly and annual operating results have varied significantly in the past and could vary significantly in the future, which makes it difficult for us to predict our future operating results. Our operating results may fluctuate due to a variety of factors, many of which are outside of our control, including the changing and recently volatile U.S. and global economic environment, which may cause our stock price to fluctuate. In particular, we anticipate that the size of customer orders may increase as we continue to focus on larger business accounts. A delay in the recognition of revenue, even from just one account, may have a significant negative impact on our results of operations for a given period. In the past, a majority of our sales have been realized near the end of a quarter. Accordingly, a delay in an anticipated sale past the end of a particular quarter may negatively impact our results of operations for that quarter, or in some cases, that fiscal year. Additionally, we have exposure to the credit risks of some of our customers and sub-tenants. Although we have programs in place that are designed to monitor and

mitigate the associated risk, there can be no assurance that such programs will be effective in reducing our credit risks adequately. We monitor individual payment capability in granting credit arrangements, seek to limit the total credit to amounts we believe our customers can pay and maintain reserves we believe are adequate to cover exposure for potential losses. If there is a deterioration of a sub-tenant's or a major customer's creditworthiness or actual defaults are higher than expected, future losses, if incurred, could harm our business and have a material adverse effect on our operating results. Further, our operating results may be below the expectations of securities analysts and investors in future quarters or years. Our failure to meet these expectations will likely harm the market price of our common stock. Such a decline could occur, and has occurred in the past, even when we have met our publicly stated revenue and/or earnings guidance.

Our stock price could be volatile, particularly during times of economic uncertainty and volatility in domestic and international stock markets

Our stock price has been volatile and has fluctuated significantly in the past. The trading price of our stock is likely to continue to be volatile and subject to fluctuations in the future. Some of the factors that could significantly affect the market price of our stock include:

- Actual or anticipated variations in operating and financial results;
- Analyst reports or recommendations;
- Rumors, announcements or press articles regarding our competitors' operations, management, organization, financial condition or financial statements; and
- Other events or factors, many of which are beyond our control.

The stock market in general and the market for technology companies in particular, have experienced extreme price and volume fluctuations. These fluctuations have often been unrelated or disproportionate to operating performance. The fluctuations may continue in the future and this could significantly impact the value of our stock and your investment.

Cloud based computing trends present competitive and execution risks

Customers are transitioning to a hybrid computing environment utilizing various cloud-based software and services accessed via various smart client devices. Pricing and delivery models are evolving and our competitors are developing and deploying cloud-based services for customers. We are devoting significant resources to develop and deploy our own competing cloud-based software and services strategies. While we believe our expertise and investments in software and infrastructure for cloud-based services provides us with a strong foundation to compete, it is uncertain whether our strategies will attract the customers or generate the revenue required to be successful. In addition to software development costs, we are incurring costs to build and maintain infrastructure to support cloud-computing services. These costs may reduce the operating margins we have previously achieved. Whether we are successful in this new business model depends on our execution in a number of areas, including:

- continuing to innovate and bring to market compelling cloud-based services that generate increasing traffic and market share;
- maintaining the utility, compatibility and performance of our software on the growing array of cloud computing platforms; and
- implementing the infrastructure to deliver our own cloud based services.

These new business models may reduce our revenues or operating margins and could have a material adverse effect on our business, results of operations and financial condition.

Our business could be adversely impacted by conditions affecting the information technology market

A substantial portion of our business depends on the demand for information technology by large enterprise customers and service providers. In addition to the challenges presented by new cloud computing models, we are dependent upon the overall economic health of our current and prospective customers and the continued growth and evolution of the Internet. International, national, regional and local economic conditions, such as recessionary economic cycles, protracted economic slowdown or further deterioration of the economy could adversely impact demand for our products. Demand for our products and services depends substantially upon the general demand for application delivery products and associated services, which fluctuates based on numerous factors, including capital spending levels and growth of our current and prospective customers, as well as general economic conditions. Moreover, the purchase of our products is often discretionary and may involve a significant commitment of capital and other resources. Future economic projections for the information technology sector are uncertain as companies continue to reassess their spending for technology projects and embrace new models for delivery of IT

services, such as cloud computing. As a result, spending priorities for our current and future customers may vary and demand for our products and services may be impacted. In addition, customer buying patterns are changing over time and more customers seek to rent software on a subscription basis. These evolving business models could lead to changes in demand and licensing strategies, which could have a material adverse effect on our business, results of operations and financial condition.

Industry consolidation may result in increased competition

Some of our competitors have made acquisitions or entered into partnerships or other strategic relationships to offer a more comprehensive solution than they had previously offered. We have also entered into large, strategic partnerships to enhance our competitive position in the marketplace. As IT companies attempt to strengthen or maintain their market positions in the evolving application delivery, mobility, cloud networking and cloud platform markets, these companies continue to seek to deliver comprehensive IT solutions to end users and combine enterprise-level hardware and software solutions that may compete with our solutions and which could negatively impact our partnerships. These consolidators or potential consolidators may have significantly greater financial, technical and other resources than we do and may be better positioned to acquire and offer complementary products and services. The companies resulting from these possible combinations may create more compelling product and service offerings and be able to offer greater pricing flexibility or sales and marketing support for such offerings than we can. These heightened competitive pressures could result in a loss of customers or a reduction in our revenues or revenue growth rates, all of which could adversely affect our business, results of operations and financial condition.

In addition to other risks listed in this “Risk Factors” section, factors that may affect our operating results include, but are not limited to:

- fluctuations in demand for our products and services due to changing market conditions, pricing conditions, technology evolution, seasonality, or other changes in the global economic environment;
- changes or fluctuations in sales and implementation cycles for our products and services;
- reduced visibility into our customers’ spending and implementation plans;
- reductions in customers’ budgets for data center and other IT purchases or delays in these purchases;
- fluctuations in our gross margins, including the factors described herein, which may contribute to such fluctuations;
- our ability to control costs, including operating expenses, the costs of hardware and software components, and other manufacturing costs;
- our ability to develop, introduce and gain market acceptance of new products, technologies and services, and our success in new and evolving markets;
- any significant changes in the competitive environment, including the entry of new competitors or the substantial discounting of products or services;
- the timing and execution of product transitions or new product introductions, and related inventory costs;
- variations in sales channels, product costs, or mix of products sold;
- our ability to establish and manage our distribution channels, and the effectiveness of any changes we make to our distribution model;
- the ability of our contract manufacturers and suppliers to provide component parts, hardware platforms and other products in a timely manner;
- benefits anticipated from our investments in sales, marketing, product development, manufacturing or other activities;
- changes in tax laws or regulations, or other accounting rules; and
- general economic conditions, both domestically and in our foreign markets.

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

The markets for our products and services are characterized by:

- rapid technological change;
- evolving industry standards;
- fluctuations in customer demand;

- changes in customer requirements; and
- frequent new product and service introductions and enhancements.

Our continued success depends on our ability to identify and develop new products and new features for our existing products to meet the demands of these changes, and the acceptance of those products and features by our existing and target customers. If we are unable to identify, develop and deploy new products and new product features on a timely basis, our business and results of operations may be harmed.

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

Our success depends on sales and continued innovation of our application delivery networking product lines

For the fiscal year ended September 30, 2014, we derived approximately 98.1% of our net product revenues, or approximately 53.0% of our total net revenues, from sales of our application delivery networking (ADN) product lines. We expect to continue to derive a significant portion of our net revenues from sales of our ADN products in the future. Implementation of our strategy depends upon these products being able to solve critical network availability, performance and security problems for our customers. If our ADN products are unable to solve these problems for our customers or if we are unable to sustain the high levels of innovation in our ADN product feature set needed to maintain leadership in what will continue to be a competitive market environment, our business and results of operations will be harmed.

We may not be able to compete effectively in the emerging application delivery networking market

The markets we serve are new, rapidly evolving and highly competitive, and we expect competition to persist and intensify in the future. Our principal competitors in the application delivery networking market include Brocade Communications Systems, Inc., Citrix Systems, Inc., Radware Ltd. and A10 Networks. In related ADC markets, we compete with the following:

- Cisco, Juniper Networks and Checkpoint Systems in the network firewall market;
- Cisco, Imperva and Citrix in the web application firewall market;
- Cisco, Juniper and A10 in Carrier Grade NAT;
- Procera, Allot, Sandvine and other DPI vendors with our PEM offerings;
- Riverbed Technology and Silver Peak Systems in the WAN optimization and application acceleration market; and
- Oracle via the acquisition of Tekelec and Acme Packet in the Diameter signaling market.
- IBM in end-user protection against malware, phishing and other cyberthreats.
- Akamai Networks in cloud-based DDoS protection.
- Blue Coat Systems in protecting enterprises from inbound and outbound malware.

We expect to continue to face additional competition as new participants enter our markets. As we continue to expand globally, we may see new competitors in different geographic regions. In addition, larger companies with significant resources, brand recognition, and sales channels may form alliances with or acquire competing application delivery networking solutions from other companies and emerge as significant competitors. Potential competitors may bundle their products or incorporate an Internet traffic management or security component into existing products in a manner that discourages users from purchasing our products. Any of these circumstances may limit our opportunities for growth and negatively impact our financial performance.

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

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

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

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

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

We outsource the manufacturing of our hardware platforms to third party contract manufacturers who assemble these hardware platforms to our specifications. We have experienced minor delays in shipments from contract manufacturers in the past. However, if we experience major delays in the future or other problems, such as inferior quality and insufficient quantity of product, any one or a combination of these factors may harm our business and results of operations. The inability of our contract manufacturers to provide us with adequate supplies of our products or the loss of one or more of our contract manufacturers may cause a delay in our ability to fulfill orders while we obtain a replacement manufacturer and may harm our business and results of operations. In particular, we currently subcontract manufacturing of our application delivery networking products to a single contract manufacturer with whom we do not have a long-term contract. If our arrangement with this single source of hardware assembly was terminated or otherwise impaired, and we were not able to engage another contract manufacturer in a timely manner, our business, financial condition and results of operation could be adversely affected.

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

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

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

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

Our products are subject to U.S. export controls and may be exported outside the U.S. only with the required level of export license or through an export license exception because we incorporate encryption technology into our products. In addition, various countries regulate the import of certain encryption technology and have enacted laws that could limit our ability to distribute our products or our customers' ability to implement our products in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import

regulations or related legislation, shift in approach to the enforcement or scope of existing regulations or change in the countries, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. Any decreased use of our products or limitation on our ability to export or sell our products would likely adversely affect our business, operating results and financial condition.

Reliance on shipments at the end of the quarter could cause our revenue for the applicable period to fall below expected levels

As a result of customer buying patterns and the efforts of our sales force and channel partners to meet or exceed their sales objectives, we have historically received a substantial portion of sales orders and generated a substantial portion of revenue during the last few weeks of each fiscal quarter. In addition, any significant interruption in our information technology systems, which manage critical functions such as order processing, revenue recognition, financial forecasts, inventory and supply chain management, and trade compliance reviews, could result in delayed order fulfillment and decreased revenue for that fiscal quarter. If expected revenue at the end of any fiscal quarter is delayed for any reason, including the failure of anticipated purchase orders to materialize, our third party contract manufacturers' inability to manufacture and ship products prior to fiscal quarter-end to fulfill purchase orders received near the end of the fiscal quarter, our failure to manage inventory to meet demand, our inability to release new products on schedule, any failure of our systems related to order review and processing, or any delays in shipments based on trade compliance requirements, our revenue for that quarter could fall below our expectations, resulting in a decline in the trading price of our common stock.

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

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

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. In the ordinary course of our business, we are involved in disputes and licensing discussions with others regarding their claimed proprietary rights and cannot provide assurance that we will always successfully defend ourselves against such claims. We expect that infringement claims may increase as the number of products and competitors in our market increases and overlaps occur. Also, as we have gained greater visibility, market exposure and competitive success, we face a higher risk of being the subject of intellectual property infringement claims. If we are found to infringe the proprietary rights of others, or if we otherwise settle such claims, we could be compelled to pay damages or royalties and either obtain a license to those intellectual property rights or alter our products so that they no longer infringe upon such proprietary rights. Any license could be very expensive to obtain or may not be available at all. Similarly, changing our products or processes to avoid infringing upon the rights of others may be costly or impractical. In addition, we have initiated, and may in the future initiate, claims or litigation against third parties for infringement of our proprietary rights, or to determine the scope and validity of our proprietary rights or those of our competitors. Any of these claims, whether claims that we are infringing the proprietary rights of others, or vice versa, with or without merit, may be time-consuming, result in costly litigation and diversion of technical and management personnel or require us to cease using infringing technology, develop non-infringing technology or enter into royalty or licensing agreements. Further, our license agreements typically require us to indemnify our customers, distributors and resellers for infringement actions related to our technology, which could cause us to become involved in infringement claims made against our customers, distributors or resellers. Any of the above-described circumstances relating to intellectual property rights disputes could result in our business and results of operations being harmed.

We incorporate open source software into our products. Although we monitor our use of open source closely, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. We could also be subject to similar conditions or restrictions should there be any changes in the licensing terms of the open source software incorporated into our products. In either event, we could be required to seek licenses from third parties in order to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely or successful basis, any of which could adversely affect our business, operating results and financial condition.

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

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

We sell our products and services through multiple distribution channels in the United States and internationally, including leading industry distributors, value-added resellers, systems integrators, service providers and other indirect channel partners. We have a limited number of agreements with companies in these channels, and we may not be able to increase our number of distribution relationships or maintain our existing relationships. Recruiting and retaining qualified channel partners and training them in our technologies requires significant time and resources. These channel partners may also market, sell and support products and services that are competitive with ours and may devote more resources to the marketing, sales and support of such competitive products. Our indirect sales channel structure could subject us to lawsuits, potential liability, and reputational harm if, for example, any of our channel partners misrepresent the functionality of our products or services to customers or violate laws or our corporate policies. If we are unable to establish or maintain our indirect sales channels, our business and results of operations will be harmed. In addition, three worldwide distributors of our products accounted for 45.9% of our total net revenue for fiscal year 2014. Three worldwide distributors of our products accounted for 44.1% of our total net revenue for fiscal year 2013. A substantial reduction or delay in sales of our products to these distribution partners, if not replaced by sales to other indirect channel partners and distributors, could harm our business, operating results and financial condition.

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

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

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

Our products are used to manage critical applications and data for customers and third parties may attempt to exploit security vulnerabilities in our products. As we continue to focus on the development and marketing of security solutions, we become a bigger target for malicious computer hackers who wish to exploit security vulnerabilities in our products. These problems may cause us to incur significant remediation costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations problems. Adverse publicity related to security vulnerabilities or damage to a customer's operations due to exploitation of security vulnerability in our products may harm our business and results of operations.

Any errors, defects or vulnerabilities in our products could result in:

- expenditures of significant financial and product development resources in efforts to analyze, correct, eliminate, or work-around errors and defects or to address and eliminate vulnerabilities;
- loss of existing or potential customers or channel partners;
- delayed or lost revenue;
- delay or failure to attain market acceptance;
- an increase in warranty claims compared with our historical experience, or an increased cost of servicing warranty claims, either of which would adversely affect our gross margins; and

- litigation, regulatory inquiries, or investigations that may be costly and harm our reputation.

We are dependent on various information technology systems, and failures of or interruptions to those systems could harm our business

Many of our business processes depend upon our IT systems, the systems and processes of third parties, and on interfaces with the systems of third parties. For example, our order entry system provides information to the systems of our contract manufacturers, which enables them to build and ship our products. If those systems fail or are interrupted, or if our ability to connect to or interact with one or more networks is interrupted, our processes may function at a diminished level or not at all. This would harm our ability to ship products, and our financial results may be harmed.

In addition, reconfiguring our IT systems or other business processes in response to changing business needs may be time-consuming and costly. To the extent this impacted our ability to react timely to specific market or business opportunities, our financial results may be harmed.

Our operating results are exposed to risks associated with international commerce

As our international sales increase, our operating results become more exposed to international operating risks. Additionally, our international sales and operations are subject to a number of risks, including the following:

- greater difficulty in enforcing contracts and accounts receivable collection and longer collection periods;
- the uncertainty of protection for intellectual property rights in some countries;
- greater risk of unexpected changes in regulatory practices, tariffs, and tax laws and treaties;
- risks associated with trade restrictions and foreign legal requirements, including the importation, certification, and localization of our products required in foreign countries;
- greater risk of a failure of foreign employees, partners, distributors, and resellers to comply with both U.S. and foreign laws, including antitrust regulations, the U.S. Foreign Corrupt Practices Act, and any trade regulations ensuring fair trade practices;
- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements;
- increased expenses incurred in establishing and maintaining office space and equipment for our international operations;
- greater difficulty in recruiting local experienced personnel, and the costs and expenses associated with such activities;
- management communication and integration problems resulting from cultural and geographic dispersion;
- fluctuations in exchange rates between the U.S. dollar and foreign currencies in markets where we do business;
- economic uncertainty around the world, including continued economic uncertainty as a result of sovereign debt issues in Europe; and
- general economic and political conditions in these foreign markets.

We must hire and train experienced personnel to staff and manage our foreign operations. To the extent that we experience difficulties in recruiting, training, managing, and retaining an international staff, and specifically staff related to sales management and sales personnel, we may experience difficulties in sales productivity in foreign markets. We also enter into strategic distributor and reseller relationships with companies in certain international markets where we do not have a local presence. If we are not able to maintain successful strategic distributor relationships internationally or recruit additional companies to enter into strategic distributor relationships, our future success in these international markets could be limited. Business practices in the international markets that we serve may differ from those in the United States and may require us in the future to include terms other than our standard terms in customer contracts. We intend to continue expanding into international markets. Sales outside of the Americas represented 43.1% and 42.5% of our net revenues for the fiscal years ended September 30, 2014 and 2013, respectively.

These factors and other factors could harm our ability to gain future international revenues and, consequently, materially impact our business, operating results, and financial condition. The expansion of our existing international operations and entry into additional international markets will require significant management attention and financial resources. Our failure to successfully manage our international operations and the associated risks effectively could limit the future growth of our business.

A portion of our revenue is generated by sales to government entities, which are subject to a number of challenges and risks

Sales to U.S. and foreign, federal, state, and local governmental agency end-customers account for a significant portion of our revenues and we may in the future increase sales to government entities. Sales to government entities are subject to a number of risks. Selling to government entities can be highly competitive, expensive, and time consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. The substantial majority of our sales to date to government entities have been made indirectly through our channel partners. Government certification requirements for products like ours may change, thereby restricting our ability to sell into the federal government sector until we have attained the revised certification. Government demand and payment for our products and services may be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products and services. Government entities may have statutory, contractual or other legal rights to terminate contracts with our distributors and resellers for convenience or due to a default, and any such termination may adversely impact our future operating results. Governments routinely investigate and audit government contractors' administrative processes, and any unfavorable audit could result in the government refusing to continue buying our products and services, a reduction of revenue or fines or civil or criminal liability if the audit uncovers improper or illegal activities, which could adversely impact our operating results in a material way. Finally, for purchases by the U.S. government, the government may require certain products to be manufactured in the United States and other relatively high cost manufacturing locations, and we may not manufacture all products in locations that meet the requirements of the U.S. government, affecting our ability to sell these products to the U.S. government.

Our failure to adequately protect personal information could have a material adverse effect on our business

A wide variety of local, state, national, and international laws, directives and regulations apply to the collection, use, retention, protection, disclosure, transfer, and other processing of personal data. These data protection and privacy-related laws and regulations continue to evolve and may result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions and increased costs of compliance. Our failure to comply with applicable laws and regulations, or to protect such data, could result in enforcement action against us, including fines, imprisonment of company officials and public censure, claims for damages by end-customers and other affected individuals, damage to our reputation and loss of goodwill (both in relation to existing end-customers and prospective end-customers), any of which could have a material adverse effect on our operations, financial performance, and business. Changing definitions of personal data and personal information, within the European Union, the United States, and elsewhere, especially relating to classification of IP addresses, machine identification, location data, and other information, may limit or inhibit our ability to operate or expand our business, including limiting strategic partnerships that may involve the sharing of data.

Misuse of our products could harm our reputation

Our products may be misused by end-customers or third parties that obtain access to our products. For example, our products could be used to censor private access to certain information on the Internet. Such use of our products for censorship could result in negative publicity and damage to our reputation. In addition, as many of our products are subject to export control regulations, diversion of our products to restricted third parties by others could result in investigations, penalties, fines, trade restrictions and negative publicity that could damage our reputation and materially impact our business, operating results, and financial condition.

Changes in governmental regulations could negatively affect our revenues

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

New regulations related to conflict minerals may force us to incur additional expenses and could limit the supply and increase the costs of certain metals and minerals used in the manufacturing of our products

In August 2012, the SEC adopted new requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (or the Dodd-Frank Act) for companies that use certain minerals and derivative metals (referred to as conflict minerals, regardless of their country of origin) in their products, whether or not these products are manufactured by third parties. The Dodd-Frank Act requires companies to perform due diligence and disclose whether or not such minerals originate from the Democratic Republic of Congo or adjoining countries. We filed a report on Form SD with the SEC regarding such matters on May 30, 2014 and are required to file on an annual basis going forward. These new requirements could adversely

affect the sourcing, availability and pricing of minerals or metals used in the manufacture of our products and the numerous components that go into our products all of which could adversely affect our business, financial condition, and operating results. In addition, we will incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any relevant minerals and metals used in our products. We have a complex supply chain and many components are sourced through our contract manufacturer and we may not be able to sufficiently verify the origins for these minerals and metals used in our products through the due diligence procedures that we implement. As a result, we may face reputational challenges with our customers and other stakeholders and possible regulatory risk.

Changes in financial accounting standards may cause adverse unexpected revenue fluctuations and affect our reported results of operations

A change in accounting policies can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New pronouncements and varying interpretations of existing pronouncements have occurred with frequency and may occur in the future. Changes to existing rules, or changes to the interpretations of existing rules, could lead to changes in our accounting practices, and such changes could adversely affect our reported financial results or the way we conduct our business.

We may have exposure to greater than anticipated tax liabilities

Our provision for income taxes is subject to volatility and could be adversely affected by nondeductible stock-based compensation, changes in the research and development tax credit laws, earnings being lower than anticipated in jurisdictions where we have lower statutory rates and being higher than anticipated in jurisdictions where we have higher statutory rates, transfer pricing adjustments, not meeting the terms and conditions of tax holidays or incentives, changes in the valuation of our deferred tax assets and liabilities, changes in actual results versus our estimates, or changes in tax laws, regulations, accounting principles or interpretations thereof. In addition, like other companies, we may be subject to examination of our income tax returns by the U.S. Internal Revenue Service and other tax authorities. While we regularly assess the likelihood of adverse outcomes from such examinations and the adequacy of our provision for income taxes, there can be no assurance that such provision is sufficient and that a determination by a tax authority will not have an adverse effect on our results of operations.

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

With respect to our past acquisitions, as well as any other future acquisitions we may undertake, we may find that the acquired businesses, products or technologies do not further our business strategy as expected, that we paid more than what the assets are later worth or that economic conditions change, all of which may generate future impairment charges. Our acquisitions may be viewed negatively by customers, financial markets or investors. There may be difficulty integrating the operations and personnel of the acquired business, and we may have difficulty retaining the key personnel of the acquired business. We may have difficulty in integrating the acquired technologies or products with our existing product lines. Our ongoing business and management's attention may be disrupted or diverted by transition or integration issues and the complexity of managing geographically and culturally diverse locations. We may have difficulty maintaining uniform standards, controls, procedures and policies across locations. We may experience significant problems or liabilities associated with product quality, technology and other matters.

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

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

Our success depends, in large part, on our ability to attract, engage, retain, and integrate qualified executives and other key employees throughout all areas of our business. In order to attract and retain executives and other key employees in a competitive marketplace, we must provide a competitive compensation package, including cash- and equity-based compensation. If we do not obtain the stockholder approval needed to continue granting equity compensation in a competitive manner, our ability to attract, retain, and motivate executives and key employees could be weakened. Failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations. In addition, our CEO recently announced his intended retirement at the end of fiscal year 2015. The process of identifying his successor could be disruptive to our business and the failure to identify and hire his successor in a timely manner could adversely affect our business and results of operations. Further, changes in our management team may be disruptive to our business, and any failure to successfully integrate key new hires or promoted employees could adversely

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

We face litigation risks

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

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

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

Our business is subject to the risks of earthquakes, fire, power outages, floods, and other catastrophic events, and to interruption by man-made problems such as terrorism

A significant natural disaster, such as an earthquake, a fire, a flood, or a significant power outage could have a material adverse impact on our business, operating results, and financial condition. We have an administrative and product development office and a third party contract manufacturer located in the San Francisco Bay Area, a region known for seismic activity. In addition, natural disasters could affect our supply chain, manufacturing vendors, or logistics providers' ability to provide materials and perform services such as manufacturing products or assisting with shipments on a timely basis. In the event our or our service providers' information technology systems or manufacturing or logistics abilities are hindered by any of the events discussed above, shipments could be delayed, resulting in missed financial targets, such as revenue and shipment targets, for a particular quarter. In addition, cyber-attacks, acts of terrorism, or other geo-political unrest could cause disruptions in our business or the business of our supply chain, manufacturers, logistics providers, partners, or end-customers or the economy as a whole. Any disruption in the business of our supply chain, manufacturers, logistics providers, partners or end-customers that impacts sales at the end of a fiscal quarter could have a significant adverse impact on our quarterly results. All of the aforementioned risks may be further increased if the disaster recovery plans for us and our suppliers prove to be inadequate. To the extent that any of the above should result in delays or cancellations of customer orders, or the delay in the manufacture, deployment or shipment of our products, our business, financial condition and operating results would be adversely affected.

Item 1B. *Unresolved Staff Comments*

Not applicable.

Item 2. *Properties*

We lease our principal administrative, sales, marketing, research and development facilities, which are located in Seattle, Washington and consist of approximately 300,000 square feet. In April 2010, we amended and restated the lease agreement for the three buildings that serve as our corporate headquarters. The lease commenced in April, July and August of 2010 for various sections of the first building; and August 2010 for the second and third buildings. The lease for all three buildings will expire in 2022 with an option for renewal. In October 2006, we entered into an agreement to lease a building adjacent to the three

buildings that serve as our corporate headquarters. This lease will expire in 2018. We are currently subleasing all floors of this building to two subtenants.

We believe that our existing properties are in good condition and suitable for the conduct of our business. We also lease office space for our product development personnel in Spokane, Washington and Bellevue, Washington, San Jose, California, Louisville, Colorado, Lowell, Massachusetts, Israel, and Russia and for our sales and support personnel in California, Florida, Georgia, Illinois, Missouri, New York, Tennessee, Washington D.C., Australia, Brazil, Canada, China, Denmark, Finland, France, Germany, Hong Kong, India, Indonesia, Italy, Japan, Malaysia, Mexico, Netherlands, New Zealand, the Philippines, Poland, Singapore, South Africa, South Korea, Spain, Sweden, Taiwan, Thailand, Turkey, the United Arab Emirates and the United Kingdom. We believe that our future growth can be accommodated by our current facilities or by leasing additional space if necessary.

Item 3. *Legal Proceedings*

We are not aware of any pending legal proceedings that, individually or in the aggregate, are reasonably possible to have a material adverse effect on our business, operating results, or financial condition. We are subject to a variety of other claims and suits that arise from time to time in the ordinary course of our business. Although management currently believes that resolving claims against us, individually or in aggregate, will not have a material adverse impact on our financial statements, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

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

Market Prices of Common Stock

Our common stock is traded on the Nasdaq Global Select Market under the symbol "FFIV." The following table sets forth the high and low sales prices of our common stock as reported on the Nasdaq Global Select Market.

	Fiscal Year 2014		Fiscal Year 2013	
	High	Low	High	Low
First Quarter	\$ 93.25	\$ 78.14	\$ 108.37	\$ 81.07
Second Quarter	\$ 116.71	\$ 87.47	\$ 107.99	\$ 86.33
Third Quarter	\$ 114.14	\$ 99.26	\$ 92.57	\$ 67.53
Fourth Quarter	\$ 128.30	\$ 108.03	\$ 94.66	\$ 68.22

The last reported sales price of our common stock on the Nasdaq Global Select Market on November 20, 2014 was \$127.97.

As of November 20, 2014, there were approximately 61 holders of record of our common stock. As many of our shares of common stock are held by brokers and other institutions on behalf of shareholders, we are unable to estimate the total number of beneficial holders of our common stock represented by these record holders.

Dividend Policy

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

Unregistered Securities Sold in 2014

We did not sell any unregistered shares of our common stock during the fiscal year 2014.

Issuer Purchases of Equity Securities

On January 22, 2014, we announced that our Board of Directors authorized an additional \$500 million for our common stock share repurchase program. This new authorization is incremental to the existing \$1.1 billion program, initially approved in October 2010 and expanded in August 2011, October 2011, April 2013, and November 2013. Acquisitions for the share repurchase programs will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. The programs can be terminated at any time. As of November 20, 2014, we had repurchased and retired 18,449,755 shares at an average price of \$82.41 per share and we had \$279.6 million remaining to purchase shares as part of our repurchase programs.

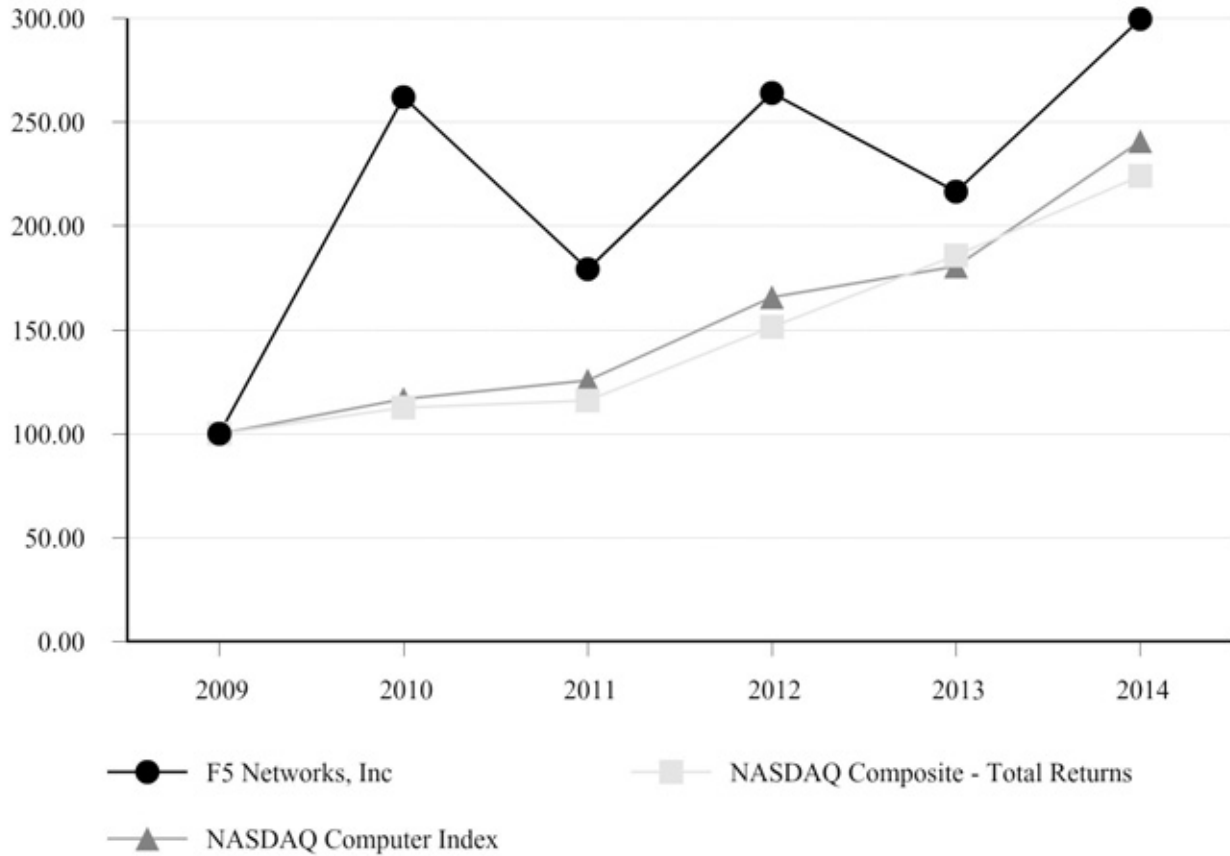
Shares repurchased and retired as of November 20, 2014 are as follows (in thousands, except shares and per share data):

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased per the Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan
October 1, 2013 — October 31, 2013	57,152	\$ 84.45	57,152	\$ 176,436
November 1, 2013 — November 30, 2013	1,153,393	\$ 82.48	1,153,393	\$ 381,264
December 1, 2013 — December 31, 2013	1,218,150	\$ 82.06	1,218,150	\$ 281,264
January 1, 2014 — January 31, 2014	695,250	\$ 107.23	695,250	\$ 706,712
February 1, 2014 — February 28, 2014	697,224	\$ 108.21	697,224	\$ 631,264
March 1, 2014 — March 31, 2014	—	\$ —	—	\$ 631,264
April 1, 2014 — April 30, 2014	—	\$ —	—	\$ 631,264
May 1, 2014 — May 31, 2014	1,447,544	\$ 104.00	1,447,544	\$ 480,722
June 1, 2014 — June 30, 2014	—	\$ —	—	\$ 480,722
July 1, 2014 — July 31, 2014	205,000	\$ 112.96	205,000	\$ 457,565
August 1, 2014 — August 31, 2014	1,119,958	\$ 113.26	1,119,958	\$ 330,722
September 1, 2014 — September 30, 2014	—	\$ —	—	\$ 330,722
October 1, 2014 — October 31, 2014	—	\$ —	—	\$ 330,722
November 1, 2014 — November 20, 2014	407,244	\$ 125.55	407,244	\$ 279,594

Performance Measurement Comparison of Shareholder Return

The following graph compares the annual percentage change in the cumulative total return on shares of our common stock, the Nasdaq Composite Index and the Nasdaq Computer Index for the period commencing September 30, 2009, and ending September 30, 2014.

**Comparison of Cumulative Total Return
On Investment Since September 30, 2009***



The Company's closing stock price on September 30, 2014, the last trading day of the Company's 2014 fiscal year, was 118.74 per share.

* Assumes that \$100 was invested September 30, 2009 in shares of Common Stock and in each index, and that all dividends were reinvested. Shareholder returns over the indicated period should not be considered indicative of future shareholder returns.

Item 6. Selected Financial Data

The following selected consolidated historical financial data are derived from our audited financial statements. The consolidated balance sheet data as of September 30, 2014 and 2013 and the consolidated statement of operations data for the years ended September 30, 2014, 2013 and 2012 are derived from our audited consolidated financial statements and related notes that are included elsewhere in this report. The consolidated balance sheet data as of September 30, 2012, 2011 and 2010 and the consolidated statement of operations for the years ended September 30, 2011 and 2010 are derived from our audited consolidated financial statements and related notes which are not included in this report. The information set forth below should be read in conjunction with our historical financial statements, including the notes thereto, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included elsewhere in this report.

	Years Ended September 30,				
	2014	2013	2012	2011	2010
(In thousands, except per share data)					
Consolidated Statement of Operations Data					
Net revenues					
Products	\$ 936,130	\$ 798,856	\$ 818,555	\$ 721,975	\$ 561,142
Services	795,916	682,458	558,692	429,859	320,830
Total	<u>1,732,046</u>	<u>1,481,314</u>	<u>1,377,247</u>	<u>1,151,834</u>	<u>881,972</u>
Cost of net revenues					
Products	158,788	129,066	137,102	129,325	113,834
Services	151,171	123,981	99,066	78,679	58,118
Total	<u>309,959</u>	<u>253,047</u>	<u>236,168</u>	<u>208,004</u>	<u>171,952</u>
Gross profit	<u>1,422,087</u>	<u>1,228,267</u>	<u>1,141,079</u>	<u>943,830</u>	<u>710,020</u>
Operating expenses					
Sales and marketing	558,284	483,041	445,595	370,735	293,201
Research and development	263,792	209,614	177,406	138,910	118,314
General and administrative	106,454	102,401	91,775	83,523	68,503
Loss on facility sublease (1)	—	2,393	—	—	—
Total	<u>928,530</u>	<u>797,449</u>	<u>714,776</u>	<u>593,168</u>	<u>480,018</u>
Income from operations	493,557	430,818	426,303	350,662	230,002
Other income, net	3,785	7,274	5,911	10,089	7,625
Income before income taxes	497,342	438,092	432,214	360,751	237,627
Provision for income taxes	186,159	160,778	157,028	119,354	86,474
Net income	<u>\$ 311,183</u>	<u>\$ 277,314</u>	<u>\$ 275,186</u>	<u>\$ 241,397</u>	<u>\$ 151,153</u>
Net income per share — basic	<u>\$ 4.13</u>	<u>\$ 3.53</u>	<u>\$ 3.48</u>	<u>\$ 2.99</u>	<u>\$ 1.90</u>
Weighted average shares — basic	<u>75,395</u>	<u>78,565</u>	<u>79,135</u>	<u>80,658</u>	<u>79,609</u>
Net income per share — diluted	<u>\$ 4.09</u>	<u>\$ 3.50</u>	<u>\$ 3.45</u>	<u>\$ 2.96</u>	<u>\$ 1.86</u>
Weighted average shares — diluted	<u>76,092</u>	<u>79,136</u>	<u>79,780</u>	<u>81,482</u>	<u>81,049</u>
Consolidated Balance Sheet Data					
Cash, cash equivalents, and short-term investments	\$ 645,379	\$ 542,143	\$ 532,151	\$ 542,550	\$ 428,496
Restricted cash (2)	798	860	179	162	195
Long-term investments	482,917	728,981	662,803	470,203	433,570
Total assets	2,184,950	2,230,554	1,911,201	1,568,549	1,362,192
Long-term liabilities	178,659	140,492	115,772	90,806	71,409
Total shareholders’ equity	1,369,310	1,538,712	1,329,400	1,105,436	1,003,698

- (1) Loss on facility sublease expense represents a charge related to the consolidation of certain subleases at our corporate headquarters in Seattle, Washington.
- (2) Restricted cash represents escrow accounts established in connection with lease agreements for our facilities.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion of our financial condition and results of operations contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. These statements include, but are not limited to, statements about our plans, objectives, expectations, strategies, intentions or other characterizations of future events or circumstances and are generally identified by the words “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” and similar expressions. These forward-looking statements are based on current information and expectations and are subject to a number of risks and uncertainties. Our actual results could differ materially 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” herein 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.

Overview

We are a global provider of software and hardware solutions and services within an intelligent services framework that help companies efficiently and securely manage the delivery, optimization and security of application and data traffic on networks, and to optimize the performance and utilization of data storage infrastructure and other network resources for their customers, partners, and employees. We market and sell our products primarily through multiple indirect sales channels in the Americas (primarily the United States); Europe, the Middle East, and Africa (EMEA); Japan; and the Asia Pacific region (APAC). Enterprise customers (Fortune 1000 or Business Week Global 1000 companies) in the technology, telecommunications, financial services, transportation, education, manufacturing and health care industries, along with government customers, continue to make up the largest percentage of our customer base.

Our management team monitors and analyzes a number of key performance indicators in order to manage our business and evaluate our financial and operating performance. Those indicators include:

- *Revenues.* The majority of our revenues are derived from sales of our application delivery networking (ADN) products including our high end VIPRION chassis and related software modules; Local Traffic Manager (LTM), Global Traffic Manager (GTM) and Link Controller; Advanced Firewall Manager (AFM), Carrier Grade Network Address Translation (CGNAT) and Policy Enforcement Manager (PEM), that leverage the unique performance characteristics of our hardware and software architecture; and products that incorporate acquired technology, including Application Security Manager (ASM), Application Acceleration Manager (AAM), Access Policy Manager (APM) and Edge Gateway; signaling delivery controller products (SDC); and the WebSafe, MobileSafe and Secure Web Gateway security offerings which are sold to customers on a subscription basis. We also derive revenues from the sales of services including annual maintenance contracts, training and consulting services. We carefully monitor the sales mix of our revenues within each reporting period. We believe customer acceptance rates of our new products and feature enhancements are indicators of future trends. We also consider overall revenue concentration by customer and by geographic region as additional indicators of current and future trends.
- *Cost of revenues and gross margins.* We strive to control our cost of revenues and thereby maintain our gross margins. Significant items impacting cost of revenues are hardware costs paid to our contract manufacturers, third-party software license fees, amortization of developed technology and personnel and overhead expenses. Our margins have remained relatively stable; however, factors such as sales price, product mix, inventory obsolescence, returns, component price increases and warranty costs could significantly impact our gross margins from quarter to quarter and represent significant indicators we monitor on a regular basis.
- *Operating expenses.* Operating expenses are substantially driven by personnel and related overhead expenses. Existing headcount and future hiring plans are the predominant factors in analyzing and forecasting future operating expense trends. Other significant operating expenses that we monitor include marketing and promotions, travel, professional fees, computer costs related to the development of new products, facilities and depreciation expenses.
- *Liquidity and cash flows.* Our financial condition remains strong with significant cash and investments and no long term debt. The decrease in cash and investments for fiscal year 2014 was primarily due to \$650.5 million of cash used to repurchase outstanding common stock under our share repurchase program. This decrease was partially offset by cash provided by operating activities of \$549.0 million in fiscal year 2014. Going forward, we believe the primary driver of cash flows will be net income from operations. On May 22, 2014, we acquired all issued and outstanding shares of Defense.Net, Inc. (Defense.Net) for \$49.4 million in cash. Capital expenditures of \$22.7 million for fiscal year 2014 were comprised primarily of information technology infrastructure and equipment to support the growth of our core business activities. We will continue to evaluate possible acquisitions of, or investments in businesses, products, or technologies that we believe are strategic, which may require the use of cash.

- *Balance sheet.* We view cash, short-term and long-term investments, deferred revenue, accounts receivable balances and days sales outstanding as important indicators of our financial health. Deferred revenues continued to increase in fiscal 2014 due to growth in the amount of annual maintenance contracts purchased on new products and maintenance renewal contracts related to our existing product installation base. Our days sales outstanding for the fourth quarter of fiscal year 2014 was 47.

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect the more significant estimates and judgments used in the preparation of our financial statements.

Revenue Recognition. We sell products through distributors, resellers, and directly to end users. Revenue is recognized provided that all of the following criteria have been met:

- Persuasive evidence of an arrangement exists. Evidence of an arrangement generally consists of a purchase order issued pursuant to the terms and conditions of a distributor, reseller or end user agreement.
- Delivery has occurred. We use shipping or related documents, or written evidence of customer acceptance, when applicable, to verify delivery or completion of any performance terms.
- The sales price is fixed or determinable. We assess whether the sales price is fixed or determinable based on payment terms associated with the transaction and whether the sales price is subject to refund or adjustment.
- Collectability is reasonably assured. We assess collectability primarily based on the creditworthiness of the customer as determined by credit checks and related analysis, as well as the customer's payment history.

Revenue from the sale of products is generally recognized when the product has been shipped and the customer is obligated to pay for the product. When rights of return are present and we cannot estimate returns, revenue is recognized when such rights of return lapse. Payment terms to domestic customers are generally net 30 days to net 45 days. Payment terms to international customers range from net 30 days to net 120 days based on normal and customary trade practices in the individual markets. We offer extended payment terms to certain customers, in which case, revenue is recognized when payments are due.

Revenues for post-contract customer support (PCS) are recognized on a straight-line basis over the service contract term. PCS includes a limited period of telephone support, updates, repair or replacement of any failed product or component that fails during the term of the agreement, bug fixes and rights to upgrades, when and if available. Consulting services are customarily billed at fixed hourly rates, plus out-of-pocket expenses, and revenues are recognized when the consulting has been completed. Training revenue is recognized when the training has been completed.

Arrangement consideration is first allocated between software (consisting of nonessential and stand-alone software) and non-software deliverables. The majority of our products are hardware appliances which contain software essential to the overall functionality of the products. Hardware appliances are generally sold with PCS and on occasion, with consulting and/or training services. Arrangement consideration in such multiple element transactions is allocated to each element based on a fair value hierarchy, where the selling price for an element is based on vendor specific objective evidence (VSOE), if available, third-party evidence (TPE), if available and VSOE is not available; or the best estimate of selling price (BESP), if neither VSOE or TPE is available.

For software deliverables, we allocate revenue between multiple elements based on software revenue recognition guidance. Software revenue recognition guidance requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair values of those elements. The fair value of an element must be based on VSOE. Where fair value of delivered elements is not available, revenue is recognized on the "residual method" based on the fair value of undelivered elements. If evidence of fair value of one or more undelivered elements does not exist, all revenue is deferred and recognized at the earlier of the delivery of those elements or the establishment of fair value of the remaining undelivered elements.

We establish VSOE for our products, PCS, consulting and training services based on the sales price charged for each element when sold separately. The sales price is discounted from the applicable list price based on various factors including the type of customer, volume of sales, geographic region and program level. Our list prices are generally not fair value as discounts

may be given based on the factors enumerated above. We use historical sales transactions to determine whether VSOE can be established for each of the elements. In most instances, VSOE of fair value is the sales price of actual standalone (unbundled) transactions within the past 12 month period, when a substantial majority of transactions (more than 80%) are priced within a narrow range, which we have determined to be plus or minus 15% of the median sales price.

We believe that the VSOE of fair value of training and consulting services is represented by the billable rate per hour, based on the rates charged to customers when they purchase standalone training or consulting services. The price of consulting services is not based on the type of customer, volume of sales, geographic region or program level.

We are typically not able to determine VSOE or TPE for non-software products. TPE is determined based on competitor prices for similar elements when sold separately. Generally, our go-to-market strategy differs from that of other competitive products or services in its markets and our offerings contain a significant level of differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, we are unable to reliably determine the selling prices on a stand-alone basis of similar products offered by our competitors.

When we are unable to establish selling price using VSOE or TPE, we use BESP in our allocation of arrangement consideration. The objective of BESP is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. We have been able to establish BESP through the list price, less a discount deemed appropriate to maintain a reasonable gross margin. Management regularly reviews gross margin information at the consolidated level. Non-software product BESP is determined through our review of historical sales transactions within the past 12 month period. Additional factors considered in determining an appropriate BESP include, but are not limited to, cost of products, pricing practices, geographies, customer classes, and distribution channels.

We regularly validate the VSOE of fair value and BESP for elements in its multiple element arrangements. We account for taxes collected from customers and remitted to governmental authorities on a net basis and excluded these amounts from revenues.

Reserve for Doubtful Accounts. Estimates are used in determining our allowance for doubtful accounts and are based upon an assessment of selected accounts and as a percentage of our remaining accounts receivable by aging category. In determining these percentages, we evaluate historical write-offs, current trends in the credit quality of our customer base, as well as changes in the credit policies. We perform ongoing credit evaluations of our customers' financial condition and do not require any collateral. If there is deterioration of a major customer's credit worthiness or actual defaults are higher than our historical experience, our allowance for doubtful accounts may not be sufficient.

Reserve for Product Returns. In some instances, product revenue from distributors is subject to agreements allowing rights of return. Product returns are estimated based on historical experience and are recorded at the time revenues are recognized. Accordingly, we reduce recognized revenue for estimated future returns at the time revenue is recorded. When rights of return are present and we cannot estimate returns, revenue is recognized when such rights lapse. The estimates for returns are adjusted periodically based upon changes in historical rates of returns and other related factors. It is possible that these estimates will change in the future or that the actual amounts could vary from our estimates.

Accounting for Income Taxes. We are required to estimate our income taxes in each of the jurisdictions in which we operate as part of the process of preparing our consolidated financial statements. This process involves estimating our actual current tax exposure, including assessing the risks associated with tax audits, together with assessing temporary differences resulting from the different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. Due to the evolving nature and complexity of tax rules combined with the large number of jurisdictions in which we operate, it is possible that our estimates of our tax liability could change in the future, which may result in additional tax liabilities and adversely affect our results of operations, financial condition and cash flows.

Stock-Based Compensation. We account for stock-based compensation using the straight-line attribution method for recognizing compensation expense over the requisite service period of the related award. We recognized \$127.2 million and \$104.2 million of stock-based compensation expense for the years ended September 30, 2014 and 2013, respectively. As of September 30, 2014, there was \$100.0 million of total unrecognized stock-based compensation cost, the majority of which will be recognized over the next two years. Going forward, stock-based compensation expenses may increase as we issue additional equity-based awards to continue to attract and retain key employees.

We issue incentive awards to our employees through stock-based compensation consisting of restricted stock units (RSUs). The value of RSUs is determined using the fair value method, which in this case, is based on the number of shares granted and the quoted price of our common stock on the date of grant.

We recognize compensation expense for only the portion of RSUs that are expected to vest. Therefore, we apply estimated forfeiture rates that are derived from historical employee termination behavior. Based on historical differences with forfeitures of stock-based awards granted to our executive officers and Board of Directors versus grants awarded to all other employees, we developed separate forfeiture expectations for these two groups. In fiscal year 2014, the estimated forfeiture rate for grants awarded to our executive officers and Board of Directors was approximately 6.6% and the estimated forfeiture rate for grants awarded to all other employees was approximately 7.3%. If the actual number of forfeitures differs from those estimated by management, additional adjustments to stock-based compensation expense may be required in future periods.

We recognize compensation costs for awards with performance conditions when we conclude it is probable that the performance condition will be achieved. We reassess the probability of vesting at each balance sheet date and adjust compensation costs based on our probability assessment.

Common stock repurchase. On January 22, 2014, we announced that our Board of Directors authorized an additional \$500 million for our common stock share repurchase program. This new authorization is incremental to the existing \$1.1 billion program, initially approved in October 2010 and expanded in August 2011, October 2011, April 2013, and November 2013. Acquisitions for the share repurchase programs will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. The programs can be terminated at any time. As of November 20, 2014, we had repurchased and retired 18,449,755 shares at an average price of \$82.41 per share and we had \$279.6 million remaining to purchase shares as part of our repurchase programs.

Goodwill and intangible assets. Goodwill represents the excess purchase price over the estimated fair value of net assets acquired as of the acquisition date. We test goodwill for impairment on an annual basis and between annual tests when impairment indicators are identified. Goodwill is written down when impaired. Goodwill was recorded in connection with the acquisition of Defense.Net, Inc. in May 2014, Versafe Ltd. and LineRate Systems, Inc. in fiscal year 2013, Traffix Systems in fiscal year 2012, Acopia Networks, Inc. in fiscal year 2007, Swan Labs, Inc. in fiscal year 2006, MagniFire Websystems, Inc. in fiscal year 2004 and uRoam, Inc. in fiscal year 2003. For our annual goodwill impairment test in all periods to date, we have operated under one reporting unit and the fair value of the reporting unit has been determined by the Company's enterprise value. We perform our annual goodwill impairment test during the second fiscal quarter.

As part of the annual goodwill impairment test, we first perform a qualitative assessment to determine whether further impairment testing is necessary. If, as a result of its qualitative assessment, it is more-likely-than-not (i.e. greater than 50% chance) that the fair value of our reporting unit is less than its carrying amount, the quantitative impairment test will be required. Otherwise, no further testing will be required.

Examples of events and circumstances that might indicate that a reporting unit's fair value is less than its carrying amount include macro-economic conditions such as deterioration in the entity's operating environment or industry or market considerations; entity-specific events such as increasing costs, declining financial performance, or loss of key personnel; or other events such as an expectation that a reporting unit will be sold or a sustained decrease in the stock price on either an absolute basis or relative to peers.

If it is determined, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of our reporting unit is less than its carrying amount, the provisions of authoritative guidance require that we perform a two-step impairment test on goodwill. The first step of the test identifies whether potential impairment may have occurred, while the second step of the test measures the amount of the impairment, if any. Impairment is recognized when the carrying amount of goodwill exceeds its fair value. In March 2014, we completed a qualitative assessment of potential impairment indicators and concluded that it was more-likely-than-not that the fair value of our reporting unit exceeded its carrying amount.

Acquired in-process research and development (IPR&D) are intangible assets initially recognized at fair value and classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. During the development period, these assets will not be amortized as charges to earnings; instead these assets will be tested for impairment on an annual basis or more frequently if impairment indicators are identified. IPR&D was recorded in connection with the acquisition of LineRate Systems, Inc. in February 2013.

Investments. Our investments are diversified among high-credit quality debt securities in accordance with our investment policy. We classify our investments as available-for-sale, which are reported at fair market value with the related unrealized gains and losses included in accumulated other comprehensive income or loss in stockholders' equity. Realized gains and losses and declines in value of these investments judged to be other than temporary are included in other income (expense). To date, we have not deemed it necessary to record any charges related to other-than-temporary declines in the estimated fair values of our marketable debt securities. However, the fair value of our investments is subject to volatility. Declines in the fair value of our investments judged to be other than temporary could adversely affect our future operating results.

Results of Operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

	Years Ended September 30,		
	2014	2013	2012
	(in thousands, except percentages)		
Net Revenues			
Products	\$ 936,130	\$ 798,856	\$ 818,555
Services	795,916	682,458	558,692
Total	<u>\$ 1,732,046</u>	<u>\$ 1,481,314</u>	<u>\$ 1,377,247</u>
Percentage of net revenues			
Products	54.0%	53.9%	59.4%
Services	46.0	46.1	40.6
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Net Revenues. Total net revenues increased 16.9% in fiscal year 2014 from fiscal year 2013, compared to an increase of 7.6% in fiscal year 2013 from the prior year. Overall revenue growth for the year ended September 30, 2014 was primarily due to increased service and product revenues as a result of our increased installed base of products and increased demand for our core ADN products. International revenues represented 48.3%, 47.5% and 47.1% of net revenues in fiscal years 2014, 2013 and 2012, respectively. We expect international sales will continue to represent a significant portion of net revenues, although we cannot provide assurance that international revenues as a percentage of net revenues will remain at current levels.

Net product revenues increased 17.2% in fiscal year 2014 from fiscal year 2013, compared to a decrease of 2.4% in fiscal year 2013 from the prior year. The increase of \$137.3 million in net product sales for fiscal year 2014 was primarily due to a \$130.6 million increase in the volume of sales of our ADN products and a \$11.5 million increase in the volume of sales of our Traffix products, partially offset by a \$4.7 million reduction in the volume of sales of our ARX file virtualization products. The decrease of \$19.7 million in net product sales for fiscal year 2013 was primarily due to a \$14.0 million reduction in the volume of sales of our ADN products and a \$5.7 million reduction in the volume of sales of our ARX file virtualization products. Product sales slowed particularly in the first and second quarters of fiscal year 2013, as many customers evaluated new appliances that were introduced during fiscal year 2014. Product sales showed significant sequential growth in the third and fourth quarters of fiscal year 2013, with strong customer demand for the new appliances. Sales of our ADN products represented 98.1%, 98.7% and 98.4% of total product revenues in fiscal years 2014, 2013 and 2012, respectively.

Net service revenues increased 16.6% in fiscal year 2014 from fiscal year 2013, compared to an increase of 22.2% in fiscal year 2013 from the prior year. The increases in service revenue were the result of increased purchases or renewals of maintenance contracts driven by additions to our installed base of products, as well as growth in sales of consulting and training offerings.

Avnet Technology Solutions, one of our worldwide distributors, accounted for 14.0%, 16.6% and 17.1% of our total net revenues in fiscal years 2014, 2013 and 2012, respectively. Ingram Micro, Inc., another worldwide distributor, accounted for 17.4%, 15.7% and 13.8% of our total net revenues in fiscal year 2014, 2013 and 2012, respectively. Westcon, another worldwide distributor, accounted for 14.5% and 11.8% of our total net revenues in fiscal year 2014 and 2013, respectively. Ingram Micro, Inc. and Westcon Group, Inc. accounted for 14.2% and 19.8% of our accounts receivable as of September 30, 2014, respectively. Ingram Micro, Inc. accounted for 18.6% of our accounts receivable as of September 30, 2013. No other distributors accounted for more than 10% of total net revenue or receivables.

	Years Ended September 30,		
	2014	2013	2012
	(in thousands, except percentages)		
Cost of net revenues and Gross Margin			
Products	\$ 158,788	\$ 129,066	\$ 137,102
Services	151,171	123,981	99,066
Total	<u>309,959</u>	<u>253,047</u>	<u>236,168</u>
Gross profit	<u>\$ 1,422,087</u>	<u>\$ 1,228,267</u>	<u>\$ 1,141,079</u>
Percentage of net revenues and Gross Margin (as a percentage of related net revenue)			
Products	17.0%	16.2%	16.7%
Services	19.0	18.2	17.7
Total	<u>17.9</u>	<u>17.1</u>	<u>17.1</u>
Gross profit	<u>82.1%</u>	<u>82.9%</u>	<u>82.9%</u>

Cost of Net Product Revenues. Cost of net product revenues consist of finished products purchased from our contract manufacturers, manufacturing overhead, freight, warranty, provisions for excess and obsolete inventory and amortization expenses in connection with developed technology from acquisitions. Cost of net product revenues increased to \$158.8 million in fiscal year 2014, up 23.0% from the prior year, primarily due to a higher volume of units shipped, while margins remained relatively consistent compared to the prior year. Cost of net product revenues decreased to \$129.1 million in fiscal year 2013 from \$137.1 million in fiscal year 2012, primarily due to a reduction in the volume of units shipped.

Cost of Net Service Revenues. Cost of net service revenues consist of the salaries and related benefits of our professional services staff, travel, facilities and depreciation expenses. Cost of net service revenues as a percentage of net service revenues increased to 19.0% in fiscal year 2014 compared to 18.2% in fiscal year 2013, primarily due to increased salary and benefits attributed to growth in headcount. Cost of net service revenues as a percentage of net service revenues in fiscal year 2013 increased from 17.7% in fiscal year 2012, primarily due to increased salary and benefits attributed to growth in headcount. Professional services headcount at the end of fiscal year 2014 increased to 945 from 770 at the end of fiscal year 2013 and 654 at the end of fiscal year 2012. In addition, cost of net service revenues included stock-based compensation expense of \$12.4 million, \$10.0 million and \$9.4 million for fiscal years 2014, 2013 and 2012, respectively.

	Years Ended September 30,		
	2014	2013	2012
	(in thousands, except percentages)		
Operating expenses			
Sales and marketing	\$ 558,284	\$ 483,041	\$ 445,595
Research and development	263,792	209,614	177,406
General and administrative	106,454	102,401	91,775
Loss on facility sublease	—	2,393	—
Total	<u>\$ 928,530</u>	<u>\$ 797,449</u>	<u>\$ 714,776</u>
Operating expenses (as a percentage of net revenue)			
Sales and marketing	32.3%	32.6%	32.3%
Research and development	15.2	14.1	12.9
General and administrative	6.1	6.9	6.7
Loss on facility sublease	—	0.2	—
Total	<u>53.6%</u>	<u>53.8%</u>	<u>51.9%</u>

Sales and Marketing. Sales and marketing expenses consist of the salaries, commissions and related benefits of our sales and marketing staff, the costs of our marketing programs, including public relations, advertising and trade shows, travel, facilities, and depreciation expenses. Sales and marketing expense increased 15.6% in fiscal year 2014 from the prior year, as compared to a year over year increase of 8.4% in fiscal year 2013. The increase in sales and marketing expense for fiscal year 2014 was primarily due to increases in commissions and personnel costs of \$55.5 million, compared to the prior year. The increases in commissions and personnel costs were driven by growth in sales and marketing employee headcount and increased sales volume for fiscal year 2014 over the prior year. In fiscal year 2013, the increase in sales and marketing expense was also primarily due to increases in commissions and personnel costs of \$28.1 million, compared to the prior year. The increases in

commissions and personnel costs were driven by growth in sales and marketing employee headcount and increased sales volume for fiscal year 2013 over the prior year. Sales and marketing headcount at the end of fiscal 2014 increased to 1,448 from 1,319 at the end of fiscal 2013 and 1,278 at the end of fiscal 2012. Sales and marketing expense included stock-based compensation expense of \$50.1 million, \$39.5 million and \$37.0 million for fiscal years 2014, 2013 and 2012, respectively.

Research and Development. Research and development expenses consist of the salaries and related benefits of our product development personnel, prototype materials and other expenses related to the development of new and improved products, facilities and depreciation expenses. Research and development expense increased 25.8% in fiscal year 2014, compared to the prior year. The increase in research and development expense for fiscal year 2014 was primarily due to increased personnel costs of \$30.4 million, compared to the prior year. In addition, research and development expense included a year over year increase in computer equipment and software costs of \$6.5 million primarily related to prototyping and planning for future product releases. In fiscal year 2013, research and development expense increased 18.2%, compared to the prior year. The increase in research and development expense for fiscal year 2013 was primarily due to increased personnel costs of \$24.4 million. Research and development headcount at the end of fiscal 2014 increased to 1,054 from 920 at the end of fiscal 2013 and 774 at the end of fiscal 2012. Research and development expense included stock-based compensation expense of \$43.6 million, \$32.7 million and \$27.9 million for fiscal years 2014, 2013 and 2012, respectively. We expect research and development expenses to remain consistent as a percentage of net revenue in the foreseeable future.

General and Administrative. General and administrative expenses consist of the salaries, benefits and related costs of our executive, finance, information technology, human resource and legal personnel, third-party professional service fees, bad debt charges, facilities and depreciation expenses. General and administrative expense increased 4.0% in fiscal year 2014, compared to the prior year. The increase in general and administrative expense for fiscal year 2014 was primarily due to an increase in personnel costs of \$5.2 million, compared to the prior year. In fiscal year 2013, general and administrative expense increased 11.6% compared to the prior year. The increase in general and administrative expense for fiscal year 2013 was primarily due to an increase in personnel costs of \$5.6 million, compared to the prior year. In addition, fees paid to outside consultants for legal, accounting and information technology services increased \$3.4 million for fiscal year 2013, compared to the prior year. General and administrative headcount at the end of fiscal 2014 increased to 387 from 347 at the end of fiscal 2013 and 323 at the end of fiscal 2012. General and administrative expense included stock-based compensation expense of \$19.4 million, \$20.9 million and \$19.6 million for fiscal years 2014, 2013 and 2012, respectively.

Loss on Facility Sublease. We incurred a charge in August 2013 related to the consolidation of certain subleases at our corporate headquarters.

	Years Ended September 30,		
	2014	2013	2012
(in thousands, except percentages)			
Other income and income taxes			
Income from operations	\$ 493,557	\$ 430,818	\$ 426,303
Other income, net	3,785	7,274	5,911
Income before income taxes	497,342	438,092	432,214
Provision for income taxes	186,159	160,778	157,028
Net income	<u>\$ 311,183</u>	<u>\$ 277,314</u>	<u>\$ 275,186</u>
Other income and income taxes (as percentage of net revenue)			
Income from operations	28.5%	29.1%	31.0%
Other income, net	0.2	0.5	0.4
Income before income taxes	28.7	29.6	31.4
Provision for income taxes	10.7	10.9	11.4
Net income	<u>18.0%</u>	<u>18.7%</u>	<u>20.0%</u>

Other Income, Net. Other income, net, consists primarily of interest income and foreign currency transaction gains and losses. Other income, net decreased 48.0% in fiscal year 2014, as compared to fiscal year 2013 and increased 23.1% in fiscal year 2013, as compared to fiscal year 2012. Interest income was \$5.7 million, \$6.3 million and \$6.9 million for fiscal years 2014, 2013 and 2012, respectively. The decrease in other income, net for fiscal year 2014 was primarily due to \$1.7 million in foreign currency losses, compared to the prior year and a \$1.0 million charge for a legal settlement in the first quarter of fiscal year 2014. The increase in other income, net for fiscal year 2013 as compared to fiscal year 2012 was primarily due to an increase in foreign currency transaction gains of \$1.4 million.

Provision for Income Taxes. We recorded a 37.4% provision for income taxes for fiscal year 2014, compared to 36.7% for fiscal year 2013 and 36.3% for fiscal year 2012. The increase in the effective tax rate from fiscal year 2013 to 2014 was primarily due to the expiration of the United States Federal Credit for Increasing Research Activities at December 31, 2013, and due to additional tax benefit recognized during fiscal year 2013 as a result of the reinstatement of the United States Federal Credit for Increasing Research Activities retroactive to January 1, 2012.

We record a valuation allowance to reduce our deferred tax assets to the amount we believe is more likely than not to be realized. In making these determinations we consider historical and projected taxable income, and ongoing prudent and feasible tax planning strategies in assessing the appropriateness of a valuation allowance. The net increase in the valuation allowance of \$1.8 million for fiscal year 2014 was primarily related to tax net operating losses incurred in certain foreign jurisdictions, and state tax credit carryforwards. Our net deferred tax assets as of September 30, 2014 and 2013 were \$43.1 million and \$33.4 million, respectively.

Our worldwide effective tax rate may fluctuate based on a number of factors, including variations in projected taxable income in the various geographic locations in which we operate, changes in the valuation of our net deferred tax assets, resolution of potential exposures, tax positions taken on tax returns filed in the various geographic locations in which we operate, and the introduction of new accounting standards or changes in tax laws or interpretations thereof in the various geographic locations in which we operate. We have recorded liabilities to address potential tax exposures related to business and income tax positions we have taken that could be challenged by taxing authorities. The ultimate resolution of these potential exposures may be greater or less than the liabilities recorded which could result in an adjustment to our future tax expense.

Liquidity and Capital Resources

We have funded our operations with our cash balances, cash generated from operations and proceeds from public offerings of our securities.

	Years Ended September 30,		
	2014	2013	2012
	(in thousands)		
Liquidity and Capital Resources			
Cash and cash equivalents and investments	\$ 1,128,296	\$ 1,271,124	\$ 1,194,954
Cash provided by operating activities	548,992	499,693	495,437
Cash provided by (used in) investing activities	150,641	(352,470)	(352,279)
Cash used in financing activities	(604,960)	(166,318)	(149,231)

Cash and cash equivalents, short-term investments and long-term investments totaled \$1,128.3 million as of September 30, 2014 compared to \$1,271.1 million as of September 30, 2013, representing a decrease of \$142.8 million. The decrease was primarily due to \$650.5 million of cash required for the repurchase of outstanding common stock under our share repurchase program in fiscal 2014, and cash requirements of \$49.4 million for the purchase of Defense.Net in the third fiscal quarter, which was partially offset by cash provided by operating activities of \$549.0 million for fiscal year 2014. In fiscal year 2013, the increase was primarily due to cash provided by operating activities of \$499.7 million, which was partially offset by \$200.0 million of additional cash required for the repurchase of outstanding common stock under our share repurchase program in fiscal 2013. The increase in cash provided by operating activities for fiscal year 2013 was also partially offset by \$124.9 million for the acquisition of LineRate Systems and \$87.7 million for the acquisition of Versafe.

Cash provided by operating activities during fiscal year 2014 was \$549.0 million compared to \$499.7 million in fiscal year 2013 and \$495.4 million in fiscal year 2012. Cash provided by operating activities resulted primarily from cash generated from net income, after adjusting for non-cash charges such as stock-based compensation, depreciation and amortization charges and changes in operating assets and liabilities.

Cash provided by investing activities during fiscal year 2014 was \$150.6 million compared to cash used in investing activities of \$352.5 million in fiscal year 2013 and cash used in investing activities of \$352.3 million in fiscal year 2012. Cash provided by investing activities for fiscal year 2014 was primarily the result of the sale and maturity of investments partially offset by the purchase of investments and capital expenditures related to maintaining our operations worldwide, and \$49.4 million for the Defense.Net acquisition. Cash used in investing activities for fiscal year 2013 was primarily the result of the purchase of investments and capital expenditures related to maintaining our operations worldwide and \$212.6 million for the LineRate Systems and Versafe acquisitions, partially offset by the sale and maturity of investments. Cash used in investing activities for fiscal year 2012 was primarily the result of the purchase of investments and capital expenditures related to maintaining our operations worldwide and \$128.3 million for the acquisition of Traffix Systems, partially offset by the sale and maturity of investments.

Cash used in financing activities was \$605.0 million for fiscal year 2014, compared to \$166.3 million for fiscal year 2013 and \$149.2 million for fiscal year 2012. Cash used in financing activities for fiscal year 2014 included \$650.5 million to repurchase common stock under our share repurchase program, which was partially offset by cash received from the exercise of employee stock options and stock purchases under our employee stock purchase plan of \$35.3 million and excess tax benefits related to share-based compensation of \$10.3 million. Cash used in financing activities for fiscal year 2013 included \$200.0 million to repurchase common stock under our share repurchase program, which was partially offset by cash received from the exercise of employee stock options and stock purchases under our employee stock purchase plan of \$29.6 million and excess tax benefits related to share-based compensation of \$4.1 million. Cash used in financing activities for fiscal 2012 included \$184.8 million to repurchase common stock under our share repurchase program, which was partially offset by cash received from the exercise of employee stock options and stock purchases under our employee stock purchase plan of \$25.2 million and excess tax benefits related to share-based compensation of \$10.4 million.

Based on our current operating and capital expenditure forecasts, we believe that our existing cash and investment balances, together with cash generated from operations should be sufficient to meet our operating requirements for the next twelve months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities, the timing and extent of expansion into new territories, the timing of introductions of new products and enhancements of existing products, and the continuing market acceptance of our products.

Obligations and Commitments

The following table summarizes our contractual payment obligations and commitments as of September 30, 2014:

	Payment Obligations by Year						Total
	2015	2016	2017	2018	2019	Thereafter	
	(in thousands)						
Operating leases	\$ 22,368	\$ 20,188	\$ 18,444	\$ 16,614	\$ 12,818	\$ 32,334	\$ 122,766
Purchase obligations	24,326	—	—	—	—	—	24,326
Total	\$ 46,694	\$ 20,188	\$ 18,444	\$ 16,614	\$ 12,818	\$ 32,334	\$ 147,092

We lease our facilities under operating leases that expire at various dates through 2024.

As of September 30, 2014, we had approximately \$6.8 million of tax liabilities, including interest and penalties, related to uncertain tax positions (See Note 6 to our Consolidated Financial Statements). Because of the high degree of uncertainty regarding the settlement of these liabilities, we are unable to estimate the years in which future cash outflows may occur.

Purchase obligations are comprised of purchase commitments with our contract manufacturers. The agreement with our primary contract manufacturer allows it to procure component inventory on our behalf based on our production forecast. We are obligated to purchase component inventory that the contract manufacturer procures in accordance with the forecast, unless cancellation is given within applicable lead times.

Recent Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-2, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income* (ASU 2013-2), to improve the reporting of reclassifications out of accumulated other comprehensive income. ASU 2013-2 requires presentation, either on the face of the financial statements or in the notes, of amounts reclassified out of accumulated other comprehensive income by component and by net income line item. ASU 2013-2 is effective prospectively for fiscal years, and interim periods within those years, beginning after

December 15, 2012. We adopted ASU 2013-2 in the first quarter of fiscal 2014. The adoption of ASU 2013-2 did not have a significant impact on our consolidated financial statements, but did require additional disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. The amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and early adoption is not permitted. The standard can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are currently assessing the impact that this updated standard will have on our consolidated financial statements and footnote disclosures.

In June 2014, the FASB issued ASU 2014-12, *Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period* (ASU 2014-12), which requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Risk. Our cash equivalents consist of high-quality securities, as specified in our investment policy guidelines. The policy limits the amount of credit exposure to any one issue or issuer to a maximum of 5% of the total portfolio with the exception of U.S. treasury and agency securities, commercial paper and money market funds, which are exempt from size limitation. The policy requires investments in securities that mature in three years or less, with the average maturity being no greater than one and a half years. These securities are subject to interest rate risk and will decrease in value if interest rates increase. A decrease of one percent in the average interest rate would have resulted in a decrease of approximately \$5.8 million in our interest income for the fiscal year 2014.

	Maturing in			Total	Fair Value
	Three Months or Less	Three Months to One Year	Greater Than One Year		
(in thousands, except for percentages)					
September 30, 2014					
Included in cash and cash equivalents	\$ 43,618	\$ —	\$ —	\$ 43,618	\$ 43,618
Weighted average interest rate	0.1%	—	—	—	—
Included in short-term investments	\$ 70,405	\$ 293,472	\$ —	\$ 363,877	\$ 363,877
Weighted average interest rates	0.4%	0.5%	—	—	—
Included in long-term investments	\$ —	\$ —	\$ 482,917	\$ 482,917	\$ 482,917
Weighted average interest rate	—	—	0.7%	—	—
September 30, 2013					
Included in cash and cash equivalents	\$ 13,145	\$ —	\$ —	\$ 13,145	\$ 13,145
Weighted average interest rate	0.1%	—	—	—	—
Included in short-term investments	\$ 84,774	\$ 267,676	\$ —	\$ 352,450	\$ 352,450
Weighted average interest rates	0.7%	0.6%	—	—	—
Included in long-term investments	\$ —	\$ —	\$ 728,981	\$ 728,981	\$ 728,981
Weighted average interest rate	—	—	0.5%	—	—
September 30, 2012					
Included in cash and cash equivalents	\$ 35,658	\$ —	\$ —	\$ 35,658	\$ 35,658
Weighted average interest rate	0.2%	—	—	—	—
Included in short-term investments	\$ 70,971	\$ 249,999	\$ —	\$ 320,970	\$ 320,970
Weighted average interest rates	0.8%	0.8%	—	—	—
Included in long-term investments	\$ —	\$ —	\$ 662,803	\$ 662,803	\$ 662,803
Weighted average interest rate	—	—	0.7%	—	—

Foreign Currency Risk. The majority of our sales and expenses are denominated in U.S. dollars and as a result, we have not experienced significant foreign currency transaction gains and losses to date. While we have conducted some transactions in foreign currencies during the fiscal year ended September 30, 2014 and expect to continue to do so, we do not anticipate that foreign currency transaction gains or losses will be significant at our current level of operations. However, as we continue to expand our operations internationally, transaction gains or losses may become significant in the future. We have not engaged in foreign currency hedging to date. However, we may do so in the future.

Item 8. *Financial Statements and Supplementary Data*

**F5 NETWORKS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<u>Page</u>
Consolidated Financial Statements	
Report of Independent Registered Public Accounting Firm	44
Consolidated Balance Sheets	45
Consolidated Income Statements	46
Consolidated Statements of Comprehensive Income	47
Consolidated Statements of Shareholders' Equity	48
Consolidated Statements of Cash Flows	49
Notes to Consolidated Financial Statements	50

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of F5 Networks, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows present fairly, in all material respects, the financial position of F5 Networks, Inc. and its subsidiaries at September 30, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2014, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Seattle, WA

November 26, 2014

F5 NETWORKS, INC.
CONSOLIDATED BALANCE SHEETS

	September 30,	
	2014	2013
	(In thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 281,502	\$ 189,693
Short-term investments	363,877	352,450
Accounts receivable, net of allowances of \$4,958 and \$3,259	242,242	204,205
Inventories	24,471	19,026
Deferred tax assets	42,290	16,342
Other current assets	44,466	34,655
Total current assets	998,848	816,371
Property and equipment, net	66,791	63,522
Long-term investments	482,917	728,981
Deferred tax assets	4,434	22,389
Goodwill	556,957	523,727
Other assets, net	75,003	75,564
Total assets	\$ 2,184,950	\$ 2,230,554
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 43,772	\$ 37,313
Accrued liabilities	108,772	92,608
Deferred revenue	484,437	421,429
Total current liabilities	636,981	551,350
Other long-term liabilities	22,718	25,202
Deferred revenue, long-term	152,312	109,944
Deferred tax liabilities	3,629	5,346
Total long-term liabilities	178,659	140,492
Commitments and contingencies (Note 8)		
Shareholders' equity		
Preferred stock, no par value; 10,000 shares authorized, no shares outstanding	—	—
Common stock, no par value; 200,000 shares authorized, 73,390 and 78,090 shares issued and outstanding	15,753	262,505
Accumulated other comprehensive loss	(9,584)	(7,414)
Retained earnings	1,363,141	1,283,621
Total shareholders' equity	1,369,310	1,538,712
Total liabilities and shareholders' equity	\$ 2,184,950	\$ 2,230,554

The accompanying notes are an integral part of these consolidated financial statements.

F5 NETWORKS, INC.
CONSOLIDATED INCOME STATEMENTS

	Years Ended September 30,		
	2014	2013	2012
	(In thousands, except per share data)		
Net revenues			
Products	\$ 936,130	\$ 798,856	\$ 818,555
Services	795,916	682,458	558,692
Total	<u>1,732,046</u>	<u>1,481,314</u>	<u>1,377,247</u>
Cost of net revenues			
Products	158,788	129,066	137,102
Services	151,171	123,981	99,066
Total	<u>309,959</u>	<u>253,047</u>	<u>236,168</u>
Gross profit	<u>1,422,087</u>	<u>1,228,267</u>	<u>1,141,079</u>
Operating expenses			
Sales and marketing	558,284	483,041	445,595
Research and development	263,792	209,614	177,406
General and administrative	106,454	102,401	91,775
Loss on facility sublease	—	2,393	—
Total	<u>928,530</u>	<u>797,449</u>	<u>714,776</u>
Income from operations	<u>493,557</u>	<u>430,818</u>	<u>426,303</u>
Other income, net	3,785	7,274	5,911
Income before income taxes	<u>497,342</u>	<u>438,092</u>	<u>432,214</u>
Provision for income taxes	186,159	160,778	157,028
Net income	<u>\$ 311,183</u>	<u>\$ 277,314</u>	<u>\$ 275,186</u>
Net income per share — basic	<u>\$ 4.13</u>	<u>\$ 3.53</u>	<u>\$ 3.48</u>
Weighted average shares — basic	<u>75,395</u>	<u>78,565</u>	<u>79,135</u>
Net income per share — diluted	<u>\$ 4.09</u>	<u>\$ 3.50</u>	<u>\$ 3.45</u>
Weighted average shares — diluted	<u>76,092</u>	<u>79,136</u>	<u>79,780</u>

The accompanying notes are an integral part of these consolidated financial statements.

F5 NETWORKS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended September 30,		
	2014	2013	2012
	(In thousands)		
Net income	\$ 311,183	\$ 277,314	\$ 275,186
Other comprehensive (loss) income:			
Foreign currency translation adjustment	(1,997)	(2,407)	295
Available-for-sale securities:			
Unrealized (losses) gains on securities, net of taxes of \$101, \$692, and \$(1,350) for the years ended September 30, 2014, 2013, and 2012, respectively	(26)	(952)	2,397
Reclassification adjustment for realized gains included in net income, net of taxes of \$86, \$133, and \$58 for the years ended September 30, 2014, 2013, and 2012, respectively	(147)	(226)	(99)
Net change in unrealized (losses) gains on available-for-sale securities, net of tax	(173)	(1,178)	2,298
Total other comprehensive (loss) income	(2,170)	(3,585)	2,593
Comprehensive income	<u>\$ 309,013</u>	<u>\$ 273,729</u>	<u>\$ 277,779</u>

The accompanying notes are an integral part of these consolidated financial statements.

F5 NETWORKS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock		Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
			(In thousands)		
Balance, September 30, 2011	79,145	\$ 380,737	\$ (6,422)	\$ 731,121	\$ 1,105,436
Exercise of employee stock options	120	1,130	—	—	1,130
Issuance of stock under employee stock purchase plan	281	24,043	—	—	24,043
Issuance of restricted stock	832	—	—	—	—
Repurchase of common stock	(1,663)	(184,776)	—	—	(184,776)
Tax benefit from employee stock transactions	—	10,440	—	—	10,440
Stock-based compensation	—	95,348	—	—	95,348
Net income	—	—	—	275,186	275,186
Other comprehensive gain	—	—	2,593	—	2,593
Balance, September 30, 2012	78,715	\$ 326,922	\$ (3,829)	\$ 1,006,307	\$ 1,329,400
Exercise of employee stock options	126	1,341	—	—	1,341
Issuance of stock under employee stock purchase plan	422	28,251	—	—	28,251
Issuance of restricted stock	1,094	—	—	—	—
Repurchase of common stock	(2,267)	(200,000)	—	—	(200,000)
Tax benefit from employee stock transactions	—	1,779	—	—	1,779
Stock-based compensation	—	104,212	—	—	104,212
Net income	—	—	—	277,314	277,314
Other comprehensive loss	—	—	(3,585)	—	(3,585)
Balance, September 30, 2013	78,090	\$ 262,505	\$ (7,414)	\$ 1,283,621	\$ 1,538,712
Exercise of employee stock options	149	1,422	—	—	1,422
Issuance of stock under employee stock purchase plan	516	33,878	—	—	33,878
Issuance of restricted stock	1,228	—	—	—	—
Repurchase of common stock	(6,593)	(418,879)	—	(231,663)	(650,542)
Tax benefit from employee stock transactions	—	9,671	—	—	9,671
Stock-based compensation	—	127,156	—	—	127,156
Net income	—	—	—	311,183	311,183
Other comprehensive loss	—	—	(2,170)	—	(2,170)
Balance, September 30, 2014	73,390	\$ 15,753	\$ (9,584)	\$ 1,363,141	\$ 1,369,310

The accompanying notes are an integral part of these consolidated financial statements.

F5 NETWORKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended September 30,		
	2014	2013	2012
	(In thousands)		
Operating activities			
Net income	\$ 311,183	\$ 277,314	\$ 275,186
Adjustments to reconcile net income to net cash provided by operating activities:			
Realized (gain) loss on disposition of assets and investments	(195)	(187)	546
Stock-based compensation	127,156	104,212	95,348
Provisions for doubtful accounts and sales returns	2,870	1,025	1,572
Depreciation and amortization	46,121	40,005	35,139
Deferred income taxes	(3,090)	474	(4,293)
Changes in operating assets and liabilities, net of amounts acquired:			
Accounts receivable	(40,895)	(18,867)	(20,207)
Inventories	(5,445)	(1,617)	(262)
Other current assets	(9,828)	(3,614)	(998)
Other assets	(2,502)	683	(134)
Accounts payable and accrued liabilities	18,339	16,790	9,953
Deferred revenue	105,278	83,475	103,587
Net cash provided by operating activities	<u>548,992</u>	<u>499,693</u>	<u>495,437</u>
Investing activities			
Purchases of investments	(515,737)	(938,571)	(1,059,853)
Maturities of investments	523,983	613,927	784,601
Sales of investments	214,493	212,011	81,444
Decrease (increase) in restricted cash	59	(612)	(19)
Acquisition of intangible assets	—	—	(250)
Acquisition of businesses, net of cash acquired	(49,439)	(212,642)	(128,335)
Purchases of property and equipment	(22,718)	(26,583)	(29,867)
Net cash provided by (used in) investing activities	<u>150,641</u>	<u>(352,470)</u>	<u>(352,279)</u>
Financing activities			
Excess tax benefit from stock-based compensation	10,283	4,091	10,371
Proceeds from the exercise of stock options and purchases of stock under employee stock purchase plan	35,299	29,591	25,174
Repurchase of common stock	(650,542)	(200,000)	(184,776)
Net cash used in financing activities	<u>(604,960)</u>	<u>(166,318)</u>	<u>(149,231)</u>
Net increase (decrease) in cash and cash equivalents	94,673	(19,095)	(6,073)
Effect of exchange rate changes on cash and cash equivalents	(2,864)	(2,393)	470
Cash and cash equivalents, beginning of year	189,693	211,181	216,784
Cash and cash equivalents, end of year	<u>\$ 281,502</u>	<u>\$ 189,693</u>	<u>\$ 211,181</u>
Supplemental information			
Cash paid for taxes	\$ 169,424	\$ 156,833	\$ 145,874

The accompanying notes are an integral part of these consolidated financial statements.

F5 NETWORKS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The Company

F5 Networks, Inc. (the “Company”) is the leading developer and provider of software-defined application services. The Company’s core technology is a full-proxy, programmable, highly-scalable software platform called TMOS, which supports the industry’s broadest array of features and functions designed to ensure that applications delivered over Internet Protocol (IP) networks are secure, fast and available. The Company’s TMOS-based offerings include software products for local and global traffic management, network and application security, access management, web acceleration and a number of other network and application services. These products are available as modules that can run individually or as part of an integrated solution on the Company’s high-performance, scalable, purpose-built BIG-IP appliances and VIPRION chassis-based hardware, or as software-only Virtual Editions designed to run on all major hypervisors. During fiscal year 2014, the Company acquired Defense.Net, Inc. (Defense.Net), a provider of cloud-based security services for protecting data centers and Internet applications from distributed denial-of-service (DDoS) attacks. In connection with its products, the Company offers a broad range of services including consulting, training, installation, maintenance and other technical support services.

Accounting Principles

The Company’s consolidated financial statements and accompanying notes are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America (GAAP).

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates are used in accounting for revenue recognition, reserves for doubtful accounts, product returns, obsolete and excess inventory and valuation allowances on deferred tax assets. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company invests its cash and cash equivalents in deposits with four major financial institutions, which, at times, exceed federally insured limits. The Company has not experienced any losses on its cash and cash equivalents.

Investments

The Company classifies its investment securities as available-for-sale. Investment securities, consisting of certificates of deposit, corporate and municipal bonds and notes, United States government and agency securities and international government securities are reported at fair value with the related unrealized gains and losses included as a component of accumulated other comprehensive income (loss) in shareholders’ equity. Realized gains and losses and declines in value of securities judged to be other than temporary are included in other income (expense). The cost of investments for purposes of computing realized and unrealized gains and losses is based on the specific identification method. Investments in securities with maturities of less than one year or where management’s intent is to use the investments to fund current operations are classified as short-term investments. Investments with maturities of greater than one year are classified as long-term investments.

Concentration of Credit Risk

The Company extends credit to customers and is therefore subject to credit risk. The Company performs initial and ongoing credit evaluations of its customers' financial condition and does not require collateral. An allowance for doubtful accounts is recorded to account for potential bad debts. Estimates are used in determining the allowance for doubtful accounts and are based upon an assessment of selected accounts and as a percentage of remaining accounts receivable by aging category. In determining these percentages, the Company evaluates historical write-offs, and current trends in customer credit quality, as well as changes in credit policies. At September 30, 2014, Westcon Group, Inc. and Ingram Micro, Inc. accounted for 19.8% and 14.2% of the Company's accounts receivable, respectively. At September 30, 2013, Ingram Micro, Inc. accounted for 18.6% of the Company's accounts receivable.

The Company maintains its cash and investment balances with high credit quality financial institutions.

Fair Value of Financial Instruments

Short-term and long-term investments are recorded at fair value as the underlying securities are classified as available-for-sale with any unrealized gain or loss being recorded to other comprehensive income. The fair value for securities held is determined using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

Inventories

The Company outsources the manufacturing of its pre-configured hardware platforms to contract manufacturers, who assemble each product to the Company's specifications. As protection against component shortages and to provide replacement parts for its service teams, the Company also stocks limited supplies of certain key product components. The Company reduces inventory to net realizable value based on excess and obsolete inventories determined primarily by historical usage and forecasted demand. Inventories consist of hardware and related component parts and are recorded at the lower of cost or market (as determined by the first-in, first-out method).

Inventories consist of the following (in thousands):

	September 30,	
	2014	2013
Finished goods	\$ 18,046	\$ 13,509
Raw materials	6,425	5,517
	<u>\$ 24,471</u>	<u>\$ 19,026</u>

Property and Equipment

Property and equipment is stated at cost. Depreciation of property and equipment are provided using the straight-line method over the estimated useful lives of the assets, ranging from two to five years. Leasehold improvements are amortized over the lesser of the lease term or the estimated useful life of the improvements. The cost of normal maintenance and repairs is charged to expense as incurred and expenditures for major improvements are capitalized at cost. Gains or losses on the disposition of assets are reflected in the income statements at the time of disposal.

Property and equipment consist of the following (in thousands):

	September 30,	
	2014	2013
Computer equipment	\$ 113,290	\$ 93,326
Office furniture and equipment	14,325	13,391
Leasehold improvements	57,976	54,972
	<u>185,591</u>	<u>161,689</u>
Accumulated depreciation and amortization	(118,800)	(98,167)
	<u>\$ 66,791</u>	<u>\$ 63,522</u>

Depreciation and amortization expense totaled approximately \$24.7 million, \$22.3 million, and \$19.0 million for the fiscal years ended September 30, 2014, 2013 and 2012, respectively.

Goodwill

Goodwill represents the excess purchase price over the estimated fair value of net assets acquired as of the acquisition date. The Company tests goodwill for impairment on an annual basis and between annual tests when impairment indicators are identified. Goodwill is written down when impaired. Goodwill was recorded in connection with the acquisition of Defense.Net, Inc. in May 2014, Versafe Ltd. and LineRate Systems, Inc. in fiscal year 2013, Traffix Systems in fiscal year 2012, Acopia Networks, Inc. in fiscal year 2007, Swan Labs, Inc. in fiscal year 2006, MagniFire Websystems, Inc. in fiscal year 2004 and uRoam, Inc. in fiscal year 2003. For its annual goodwill impairment test in all periods to date, the Company has operated under one reporting unit and the fair value of its reporting unit has been determined by the Company's enterprise value. The Company performs its annual goodwill impairment test during the second fiscal quarter.

As part of the annual goodwill impairment test, the Company first performs a qualitative assessment to determine whether further impairment testing is necessary. If, as a result of its qualitative assessment, it is more-likely-than-not (i.e. greater than 50% chance) that the fair value of the Company's reporting unit is less than its carrying amount, the quantitative impairment test will be required. Otherwise, no further testing will be required.

Examples of events and circumstances that might indicate that a reporting unit's fair value is less than its carrying amount include macro-economic conditions such as deterioration in the entity's operating environment or industry or market considerations; entity-specific events such as increasing costs, declining financial performance, or loss of key personnel; or other events such as an expectation that a reporting unit will be sold or a sustained decrease in the stock price on either an absolute basis or relative to peers.

If it is determined, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the Company's reporting unit is less than its carrying amount, the provisions of authoritative guidance require that the Company perform a two-step impairment test on goodwill. The first step of the test identifies whether potential impairment may have occurred, while the second step of the test measures the amount of the impairment, if any. Impairment is recognized when the carrying amount of goodwill exceeds its fair value. In March 2014, the Company completed a qualitative assessment of potential impairment indicators and concluded that it was more-likely-than-not that the fair value of its reporting unit exceeded its carrying amount. The Company also considered potential impairment indicators at September 30, 2014 and noted no indicators of impairment. The Company reduced the carrying amount of goodwill by \$6.1 million in the second quarter of fiscal year 2014 to correct the original accounting for a 2007 acquisition, which omitted certain acquired deferred tax assets. The Company reduced goodwill to reflect the additional deferred tax assets obtained at the date of acquisition. No other financial statement amounts were affected by this correction. The correction was not material to the current period or any of the previous period financial statements.

Other Assets

Other assets primarily consist of acquired and developed technology, software development costs and customer relationships.

Acquired technology is recorded at cost and amortized over its estimated useful life of five years. The estimated useful life of these assets is assessed and evaluated for reasonableness periodically. Acquired technology of \$3.6 million in fiscal year 2014, \$15.4 million in fiscal year 2013 and \$14.9 million in fiscal 2012 was recorded in connection with the acquisitions of Defense.Net, Versafe and Traffix Systems, respectively.

Acquired in-process research and development (IPR&D) are intangible assets initially recognized at fair value and classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. During the development period, these assets will not be amortized as charges to earnings; instead these assets will be tested for impairment on an annual basis or more frequently if impairment indicators are identified. IPR&D was recorded in connection with the acquisition of LineRate Systems, Inc. in February 2013. In the fourth quarter of fiscal year 2014, the IPR&D project related to the LineRate acquisition was completed and amortization commenced over the technology's estimated useful life of ten years.

Amortization expense related to acquired technology, including completed IPR&D, totaled \$7.9 million, \$3.8 million and \$5.3 million during the fiscal years 2014, 2013 and 2012, respectively, and is charged to cost of product revenues.

Software development costs are charged to research and development expense in the period incurred until technological feasibility is established. Thereafter, until the product is released for sale, software development costs are capitalized and reported at the lower of unamortized cost or net realizable value of each product. Capitalized software development costs are amortized over the remaining estimated economic life of the product. The establishment of technological feasibility and the ongoing assessment of recoverability of costs require considerable judgment by the Company with respect to certain internal

and external factors, including, but not limited to, anticipated future gross product revenues, estimated economic life and changes in hardware and software technology. The Company did not capitalize any software development costs in fiscal years 2014, 2013 and 2012. Amortization expense related to capitalized software development was immaterial for fiscal years 2014, 2013, and 2012.

The Company's intangible assets subject to amortization are amortized using the straight-line method over their estimated useful lives, ranging from three to ten years. The Company evaluates the recoverability of intangible assets periodically by taking into account events or circumstances that may warrant revised estimates of useful lives or that indicate the asset may be impaired. Amortization expense of all other intangible assets, including customer relationships, patents and trademarks was not material during the fiscal years 2014, 2013 and 2012.

Impairment of Long-Lived Assets

The Company assesses the impairment of long-lived assets whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be recoverable. When such events occur, management determines whether there has been impairment by comparing the anticipated undiscounted net future cash flows to the related asset's carrying value. If impairment exists, the asset is written down to its estimated fair value. No impairment of long-lived assets was noted as of and for the year ended September 30, 2014.

Revenue Recognition

The Company sells products through distributors, resellers, and directly to end users. Revenue is recognized provided that all of the following criteria have been met:

- Persuasive evidence of an arrangement exists. Evidence of an arrangement generally consists of a purchase order issued pursuant to the terms and conditions of a distributor, reseller or end user agreement.
- Delivery has occurred. The Company uses shipping or related documents, or written evidence of customer acceptance, when applicable, to verify delivery or completion of any performance terms.
- The sales price is fixed or determinable. The Company assesses whether the sales price is fixed or determinable based on payment terms associated with the transaction and whether the sales price is subject to refund or adjustment.
- Collectability is reasonably assured. The Company assesses collectability primarily based on the creditworthiness of the customer as determined by credit checks and related analysis, as well as the Customer's payment history.

Revenue from the sale of products is generally recognized when the product has been shipped and the customer is obligated to pay for the product. When rights of return are present and the Company cannot estimate returns, revenue is recognized when such rights of return lapse. Payment terms to domestic customers are generally net 30 days to net 45 days. Payment terms to international customers range from net 30 days to net 120 days based on normal and customary trade practices in the individual markets. The Company offers extended payment terms to certain customers, in which case, revenue is recognized when payments are due.

Revenues for post-contract customer support (PCS) are recognized on a straight-line basis over the service contract term. PCS includes a limited period of telephone support, updates, repair or replacement of any failed product or component that fails during the term of the agreement, bug fixes and rights to upgrades, when and if available. Consulting services are customarily billed at fixed hourly rates, plus out-of-pocket expenses, and revenues are recognized when the consulting has been completed. Training revenue is recognized when the training has been completed.

Arrangement consideration is first allocated between software (consisting of nonessential and stand-alone software) and non-software deliverables. The majority of the Company's products are hardware appliances which contain software essential to the overall functionality of the products. Hardware appliances are generally sold with PCS and on occasion, with consulting and/or training services. Arrangement consideration in such multiple element transactions is allocated to each element based on a fair value hierarchy, where the selling price for an element is based on vendor specific objective evidence (VSOE), if available, third-party evidence (TPE), if available and VSOE is not available; or the best estimate of selling price (BESP), if neither VSOE or TPE is available.

For software deliverables, the Company allocates revenue between multiple elements based on software revenue recognition guidance. Software revenue recognition guidance requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair values of those elements. The fair value of an element must be based on VSOE. Where fair value of delivered elements is not available, revenue is recognized on the "residual method" based on the fair value of undelivered elements. If evidence of fair value of one or more undelivered

elements does not exist, all revenue is deferred and recognized at the earlier of the delivery of those elements or the establishment of fair value of the remaining undelivered elements.

The Company establishes VSOE for its products, PCS, consulting and training services based on the sales price charged for each element when sold separately. The sales price is discounted from the applicable list price based on various factors including the type of customer, volume of sales, geographic region and program level. The Company's list prices are generally not fair value as discounts may be given based on the factors enumerated above. The Company uses historical sales transactions to determine whether VSOE can be established for each of the elements. In most instances, VSOE of fair value is the sales price of actual standalone (unbundled) transactions within the past 12 month period, when a substantial majority of transactions (more than 80%) are priced within a narrow range, which the Company has determined to be plus or minus 15% of the median sales price.

The Company believes that the VSOE of fair value of training and consulting services is represented by the billable rate per hour, based on the rates charged to customers when they purchase standalone training or consulting services. The price of consulting services is not based on the type of customer, volume of sales, geographic region or program level.

The Company is typically not able to determine VSOE or TPE for non-software products. TPE is determined based on competitor prices for similar elements when sold separately. Generally, the Company's go-to-market strategy differs from that of other competitive products or services in its markets and the Company's offerings contain a significant level of differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, the Company is unable to reliably determine the selling prices on a stand-alone basis of similar products offered by its competitors.

When the Company is unable to establish selling price using VSOE or TPE, the Company uses BEBP in its allocation of arrangement consideration. The objective of BEBP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. The Company has been able to establish BEBP through the list price, less a discount deemed appropriate to maintain a reasonable gross margin. Management regularly reviews gross margin information at the consolidated level. Non-software product BEBP is determined through the Company's review of historical sales transactions within the past 12 month period. Additional factors considered in determining an appropriate BEBP include, but are not limited to, cost of products, pricing practices, geographies, customer classes, and distribution channels.

The Company regularly validates the VSOE of fair value and BEBP for elements in its multiple element arrangements. The Company accounts for taxes collected from customers and remitted to governmental authorities on a net basis and excluded these amounts from revenues.

Shipping and Handling

Shipping and handling fees charged to the Company's customers are recognized as product revenue in the period shipped and the related costs for providing these services are recorded as a cost of sale.

Guarantees and Product Warranties

In the normal course of business to facilitate sales of its products, the Company indemnifies other parties, including customers, resellers, lessors, and parties to other transactions with the Company, with respect to certain matters. The Company has agreed to hold the other party harmless against losses arising from a breach of representations or covenants, or out of intellectual property infringement or other claims made against certain parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. The Company has entered into indemnification agreements with its officers and directors, and the Company's bylaws contain similar indemnification obligations to the Company's agents. It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement.

The Company offers warranties of one year for hardware for those customers without service contracts, with the option of purchasing additional warranty coverage in yearly increments. The Company accrues for warranty costs as part of its cost of sales based on associated material product costs and technical support labor costs. Accrued warranty costs as of September 30, 2014, 2013 and 2012 were not considered material.

Research and Development

Research and development expenses consist of salaries and related benefits of product development personnel, prototype materials and expenses related to the development of new and improved products, and an allocation of facilities and depreciation expense. Research and development expenses are reflected in the statements of income as incurred.

Advertising

Advertising costs are expensed as incurred. The Company incurred \$3.6 million, \$2.8 million and \$1.8 million in advertising costs during the fiscal years 2014, 2013 and 2012, respectively.

Income Taxes

Deferred income tax assets and liabilities are determined based upon differences between the financial statement and income tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The realization of deferred tax assets is based on historical tax positions and estimates of future taxable income. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized.

The Company assesses whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefits to be recognized in the financial statements from such a position is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The Company adjusts these liabilities based on a variety of factors, including the evaluation of information not previously available. These adjustments are reflected as increases or decreases to income tax expense in the period in which new information is available.

Foreign Currency

The functional currency for the Company's foreign subsidiaries is the local currency in which the respective entity is located, with the exception of F5 Networks Ltd. in the United Kingdom and F5 Networks (Israel) Ltd., Traffix Communication Systems Ltd. and Versafe Ltd. in Israel, that use the U.S. dollar as their functional currency. An entity's functional currency is determined by the currency of the economic environment in which the majority of cash is generated and expended by the entity. The financial statements of all majority-owned subsidiaries and related entities, with a functional currency other than the U.S. dollar, have been translated into U.S. dollars. All assets and liabilities of the respective entities are translated at year-end exchange rates and all revenues and expenses are translated at average rates during the respective period. Translation adjustments are reported as other comprehensive income (loss) in the consolidated statements of comprehensive income.

Foreign currency transaction gains and losses are a result of the effect of exchange rate changes on transactions denominated in currencies other than the functional currency, including U.S. dollars. Gains and losses on those foreign currency transactions are included in determining net income or loss for the period of exchange. The net effect of foreign currency gains and losses was not significant during the fiscal years ended September 30, 2014, 2013 and 2012.

Segments

Management has determined that the Company was organized as, and operated in, one reportable operating segment for fiscal year 2014 and prior years: the development, marketing and sale of application delivery networking products that optimize the security, performance and availability of network applications, servers and storage systems.

Stock-Based Compensation

The Company accounts for stock-based compensation using the straight-line attribution method for recognizing compensation expense. The Company recognized \$127.2 million, \$104.2 million and \$95.3 million of stock-based compensation expense for the fiscal years ended September 30, 2014, 2013 and 2012, respectively. As of September 30, 2014, there was \$100.0 million of total unrecognized stock-based compensation cost, the majority of which will be recognized over the next two years. Going forward, stock-based compensation expenses may increase as the Company issues additional equity-based awards to continue to attract and retain key employees.

The Company issues incentive awards to its employees through stock-based compensation consisting of restricted stock units (RSUs). On October 31, 2014, the Company's Board of Directors and Compensation Committee approved 1,064,464 RSUs to employees and executive officers pursuant to the Company's annual equity awards program. The value of RSUs is determined using the fair value method, which in this case, is based on the number of shares granted and the quoted price of the Company's common stock on the date of grant. All stock options granted in fiscal years 2014, 2013 and 2012 were assumed as part of the acquisitions of Defense.Net, LineRate Systems and Traffix Systems, respectively. In determining the fair value of shares issued under the Employee Stock Purchase Plan (ESPP), the Company uses the Black-Scholes option pricing model that employs the following key assumptions.

**Employee Stock Purchase Plan
Years Ended September 30,**

	2014	2013	2012
Risk-free interest rate	0.05%	0.06%	0.14%
Expected dividend	—	—	—
Expected term	0.5 years	0.5 years	0.5 years
Expected volatility	24.44%	42.92%	45.20%

The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The Company does not anticipate declaring dividends in the foreseeable future. Expected volatility is based on the annualized daily historical volatility of the Company's stock price commensurate with the expected life of the ESPP option. Expected term of the ESPP option is based on an offering period of six months. The assumptions above are based on management's best estimates at that time, which impact the fair value of the ESPP option calculated under the Black-Scholes methodology and, ultimately, the expense that will be recognized over the life of the ESPP option.

The Company recognizes compensation expense for only the portion of restricted stock units that are expected to vest. Therefore, the Company applies estimated forfeiture rates that are derived from historical employee termination behavior. Based on historical differences with forfeitures of stock-based awards granted to the Company's executive officers and Board of Directors versus grants awarded to all other employees, the Company has developed separate forfeiture expectations for these two groups. The estimated forfeiture rate for grants awarded to the Company's executive officers and Board of Directors was approximately 6.6% and the estimated forfeiture rate for grants awarded to all other employees was approximately 7.3% in fiscal 2014. If the actual number of forfeitures differs from those estimated by management, additional adjustments to compensation expense may be required in future periods.

In November 2013, the Company granted 231,320 RSUs to certain current executive officers as part of the annual equity awards program. Fifty percent of the aggregate number of RSUs vest in equal quarterly increments over four years, until such portion of the grant is fully vested on November 1, 2017. One-eighth of the RSU grant, or a portion thereof, was subject to the Company achieving specified quarterly revenue and EBITDA goals during fiscal year 2014. In each case, 70% of the quarterly performance stock grant is based on achieving at least 80% of the quarterly revenue goal and the other 30% is based on achieving at least 80% of the quarterly EBITDA goal. The quarterly performance stock grant is paid linearly above 80% of the targeted goals. At least 100% of both goals must be attained in order for the quarterly performance stock grant to be awarded over 100%. Each goal is evaluated individually and subject to the 80% achievement threshold and 100% over-achievement threshold. The remaining 37.5% of this annual equity awards RSU grant shall be subject to quarterly performance based vesting for fiscal years 2015, 2016 and 2017 (12.5% in each period). The Compensation Committee of the Board of Directors will set applicable performance targets and vesting formulas for each of these periods.

In November 2012, the Company granted 290,415 RSUs to certain current executive officers as part of the annual equity awards program. Fifty percent of the aggregate number of RSUs vest in equal quarterly increments over four years, until such portion of the grant is fully vested on November 1, 2016. One-quarter of the RSU grant, or a portion thereof, was subject to the Company achieving specified quarterly revenue and EBITDA goals during fiscal years 2013 and 2014. The remaining 25% of this annual equity awards RSU grant shall be subject to quarterly performance based vesting for fiscal years 2015 and 2016 (12.5% in each period). The Compensation Committee of the Board of Directors will set applicable performance targets and vesting formulas for each of these periods.

In November 2011, as part of the annual review of executive compensation by the Compensation Committee of the Board of Directors and a change in the grant date for the Company's annual equity awards program for the executive officers from August 1 to November 1, the Company granted 82,968 RSUs to certain current executive officers. Fifty percent of the aggregate number of RSUs vest in equal quarterly increments over three years, until such portion of the grant is fully vested on November 1, 2014. One-half of the RSU grant, or a portion thereof, was subject to the Company achieving specified quarterly revenue and EBITDA goals during fiscal years 2012, 2013 and 2014.

The Company recognizes compensation costs for awards with performance conditions when it concludes it is probable that the performance condition will be achieved. The Company reassesses the probability of vesting at each balance sheet date and adjusts compensation costs based on the probability assessment.

Common Stock Repurchase

On January 22, 2014, the Company announced that its Board of Directors authorized an additional \$500 million for its common stock share repurchase program. This new authorization is incremental to the existing \$1.1 billion program, initially approved in October 2010 and expanded in August 2011, October 2011, April 2013 and November 2013. Acquisitions for the

share repurchase programs will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. The programs can be terminated at any time. As of November 20, 2014, the Company had repurchased and retired 18,449,755 shares at an average price of \$82.41 per share and the Company had \$279.6 million remaining to purchase shares as part of its repurchase programs.

Earnings Per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of common and dilutive common stock equivalent shares outstanding during the period. The Company's nonvested restricted stock awards and restricted stock units do not have nonforfeitable rights to dividends or dividend equivalents.

The following table sets forth the computation of basic and diluted net income per share (in thousands, except per share data):

	Years Ended September 30,		
	2014	2013	2012
Numerator			
Net income	\$ 311,183	\$ 277,314	\$ 275,186
Denominator			
Weighted average shares outstanding — basic	75,395	78,565	79,135
Dilutive effect of common shares from stock options and restricted stock units	697	571	645
Weighted average shares outstanding — diluted	76,092	79,136	79,780
Basic net income per share	\$ 4.13	\$ 3.53	\$ 3.48
Diluted net income per share	\$ 4.09	\$ 3.50	\$ 3.45

An immaterial amount of common shares potentially issuable from stock options for the years ended September 30, 2014, 2013 and 2012 are excluded from the calculation of diluted earnings per share because the exercise price was greater than the average market price of common stock for the respective period.

Recent Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-2, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income* (ASU 2013-2), to improve the reporting of reclassifications out of accumulated other comprehensive income. ASU 2013-2 requires presentation, either on the face of the financial statements or in the notes, of amounts reclassified out of accumulated other comprehensive income by component and by net income line item. ASU 2013-2 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2012. The Company adopted ASU 2013-2 in the first quarter of fiscal 2014. The adoption of ASU 2013-2 did not have a significant impact on the Company's consolidated financial statements, but did require additional disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. The amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and early adoption is not permitted. The standard can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is currently assessing the impact that this updated standard will have on its consolidated financial statements and footnote disclosures.

In June 2014, the FASB issued ASU 2014-12, *Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period* (ASU 2014-12), which requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The new standard is effective for

fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The Company does not anticipate that the adoption of this standard will have a material impact on its consolidated financial statements.

2. Fair Value Measurements

In accordance with the authoritative guidance on fair value measurements and disclosure under GAAP, the Company determines fair value using a fair value hierarchy that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity, and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances and expands disclosure about fair value measurements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date, essentially the exit price.

The levels of fair value hierarchy are:

Level 1: Quoted prices in active markets for identical assets and liabilities at the measurement date that the Company has the ability to access.

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs for which there is little or no market data available. These inputs reflect management's assumptions of what market participants would use in pricing the asset or liability.

Level 1 investments are valued based on quoted market prices in active markets and include the Company's cash equivalent investments. Level 2 investments, which include investments that are valued based on quoted prices in markets that are not active, broker or dealer quotations, actual trade data, benchmark yields or alternative pricing sources with reasonable levels of price transparency, include the Company's certificates of deposit, corporate bonds and notes, municipal bonds and notes, U.S. government securities, U.S. government agency securities and international government securities. Fair values for the Company's level 2 investments are based on similar assets without applying significant judgments. In addition, all of the Company's level 2 investments have a sufficient level of trading volume to demonstrate that the fair values used are appropriate for these investments.

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Company. The Company considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The Company's financial assets measured at fair value on a recurring basis subject to the disclosure requirements at September 30, 2014, were as follows (in thousands):

	Fair Value Measurements at Reporting Date Using			Fair Value at September 30, 2014
	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash equivalents	\$ 43,618	\$ —	\$ —	\$ 43,618
Short-term investments				
Available-for-sale securities — corporate bonds and notes	—	205,698	—	205,698
Available-for-sale securities — municipal bonds and notes	—	43,430	—	43,430
Available-for-sale securities — U.S. government securities	—	5,006	—	5,006
Available-for-sale securities — U.S. government agency securities	—	109,743	—	109,743
Long-term investments				
Available-for-sale securities — corporate bonds and notes	—	325,282	—	325,282
Available-for-sale securities — municipal bonds and notes	—	24,582	—	24,582
Available-for-sale securities — U.S. government securities	—	7,407	—	7,407
Available-for-sale securities — U.S. government agency securities	—	123,087	—	123,087
Available-for-sale securities — international government securities	—	2,559	—	2,559
Total	\$ 43,618	\$ 846,794	\$ —	\$ 890,412

The Company's financial assets measured at fair value on a recurring basis subject to the disclosure requirements at September 30, 2013, were as follows (in thousands):

	Fair Value Measurements at Reporting Date Using			Fair Value at September 30, 2013
	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash equivalents	\$ 13,145	\$ —	\$ —	\$ 13,145
Short-term investments				
Available-for-sale securities — corporate bonds and notes	—	125,212	—	125,212
Available-for-sale securities — municipal bonds and notes	—	72,164	—	72,164
Available-for-sale securities — U.S. government securities	—	5,000	—	5,000
Available-for-sale securities — U.S. government agency securities	—	150,074	—	150,074
Long-term investments				
Available-for-sale securities — corporate bonds and notes	—	260,318	—	260,318
Available-for-sale securities — municipal bonds and notes	—	24,371	—	24,371
Available-for-sale securities — U.S. government securities	—	14,798	—	14,798
Available-for-sale securities — U.S. government agency securities	—	426,458	—	426,458
Available-for-sale securities — auction rate securities	—	—	3,036	3,036
Total	\$ 13,145	\$ 1,078,395	\$ 3,036	\$ 1,094,576

The following table provides a reconciliation between the beginning and ending balances of items measured at fair value on a recurring basis in the tables above that used significant unobservable inputs (Level 3) (in thousands):

	<u>2014</u>	<u>2013</u>
Balance, beginning of period	\$ 3,036	\$ 4,750
Total gains (losses) realized or unrealized:		
Included in other comprehensive income	264	(14)
Settlements	(3,300)	(1,700)
Balance, end of period	<u>\$ —</u>	<u>\$ 3,036</u>
Unrealized losses attributable to assets still held as of the end of the period	<u>—</u>	<u>(14)</u>

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable or there is limited market activity such that the determination of fair value requires significant judgment or estimation.

The Company uses the fair value hierarchy for financial assets and liabilities. The Company's non-financial assets and liabilities, which include goodwill, intangible assets, and long-lived assets, are not required to be carried at fair value on a recurring basis. These non-financial assets and liabilities are measured at fair value on a non-recurring basis when there is an indicator of impairment, and they are recorded at fair value only when impairment is recognized. The Company reviews goodwill and intangible assets for impairment annually, during the second quarter of each fiscal year, or as circumstances indicate the possibility of impairment. The Company monitors the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate its carrying amount may not be recoverable. During the year ended September 30, 2014, the Company did not recognize any impairment charges related to goodwill, intangible assets, or long-lived assets.

3. Short-Term and Long-Term Investments

Short-term investments consist of the following (in thousands):

September 30, 2014	<u>Cost or Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Corporate bonds and notes	\$ 205,490	\$ 244	\$ (36)	\$ 205,698
Municipal bonds and notes	43,398	34	(2)	43,430
U.S. government securities	4,996	10	—	5,006
U.S. government agency securities	109,685	66	(8)	109,743
	<u>\$ 363,569</u>	<u>\$ 354</u>	<u>\$ (46)</u>	<u>\$ 363,877</u>

September 30, 2013	<u>Cost or Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Corporate bonds and notes	\$ 125,010	\$ 210	\$ (8)	\$ 125,212
Municipal bonds and notes	72,116	58	(10)	72,164
U.S. government securities	4,998	2	—	5,000
U.S. government agency securities	150,069	15	(10)	150,074
	<u>\$ 352,193</u>	<u>\$ 285</u>	<u>\$ (28)</u>	<u>\$ 352,450</u>

Long-term investments consist of the following (in thousands):

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2014				
Corporate bonds and notes	\$ 325,896	\$ 208	\$ (822)	\$ 325,282
Municipal bonds and notes	24,559	31	(8)	24,582
U.S. government securities	7,377	30	—	7,407
U.S. government agency securities	123,207	40	(160)	123,087
International government securities	2,568	—	(9)	2,559
	<u>\$ 483,607</u>	<u>\$ 309</u>	<u>\$ (999)</u>	<u>\$ 482,917</u>

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2013				
Corporate bonds and notes	\$ 260,345	\$ 363	\$ (390)	\$ 260,318
Municipal bonds and notes	24,332	44	(5)	24,371
Auction rate securities	3,300	—	(264)	3,036
U.S. government securities	14,755	43	—	14,798
U.S. government agency securities	426,616	294	(452)	426,458
	<u>\$ 729,348</u>	<u>\$ 744</u>	<u>\$ (1,111)</u>	<u>\$ 728,981</u>

The amortized cost and fair value of fixed maturities at September 30, 2014, by contractual years-to-maturity, are presented below (in thousands):

	Cost or Amortized Cost	Fair Value
September 30, 2014		
One year or less	\$ 363,569	\$ 363,877
Over one year	483,607	482,917
	<u>\$ 847,176</u>	<u>\$ 846,794</u>

The following table summarizes investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for more than 12 months as of September 30, 2014 (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
September 30, 2014						
Corporate bonds and notes	\$ 262,771	\$ (848)	\$ 7,804	\$ (10)	\$ 270,575	\$ (858)
Municipal bonds and notes	14,649	(10)	—	—	14,649	(10)
U.S. government agency securities	89,464	(135)	26,975	(33)	116,439	(168)
International government securities	2,559	(9)	—	—	2,559	(9)
Total	<u>\$ 369,443</u>	<u>\$ (1,002)</u>	<u>\$ 34,779</u>	<u>\$ (43)</u>	<u>\$ 404,222</u>	<u>\$ (1,045)</u>

The Company invests in securities that are rated investment grade or better. The unrealized losses on investments for fiscal year 2014 were primarily caused by interest rate increases.

The Company reviews the individual securities in its portfolio to determine whether a decline in a security's fair value below the amortized cost basis is other-than-temporary. The Company determined that as of September 30, 2014, there were no investments in its portfolio that were other-than-temporarily impaired.

4. Business Combinations

The Company's acquisitions are accounted for under the acquisition method. The total purchase price is allocated to the tangible and intangible assets acquired and the liabilities assumed based on their estimated fair values. The excess of the purchase price over those fair values is recorded as goodwill. The fair value assigned to the tangible and intangible assets acquired and liabilities assumed are based on estimates and assumptions provided by management. Goodwill is not amortized but instead is tested for impairment at least annually, as described in Note 1.

Fiscal Year 2014 Acquisition of Defense.Net, Inc.

On May 22, 2014, the Company acquired all issued and outstanding shares of Defense.Net, Inc. (Defense.Net), a privately held Delaware corporation headquartered in Belmont, California for \$49.7 million. Direct transaction costs associated with the acquisition were approximately \$0.3 million and were expensed as general and administrative expenses in the third quarter of fiscal 2014. Defense.Net is a provider of cloud-based security services for protecting data centers and Internet applications from distributed denial-of-service (DDoS) attacks. Through this acquisition, the Company gains access to Defense.Net's DDoS mitigation technology and service platform, their intellectual property and engineering talent. Defense.Net's cloud-based DDoS offering complements the Company's highly-scalable on-premise DDoS offering, providing a first line of defense for those customers who choose to implement both solutions. As a result of the acquisition, the Company acquired all the assets and assumed all the liabilities of Defense.Net. The results of operations of Defense.Net have been included in the Company's consolidated financial statements from the date of acquisition. Pro forma results of operations for this acquisition have not been presented as this transaction is not considered a material acquisition and the effects were not material to the Company's financial results for the year ended September 30, 2014 individually or in aggregate with Defense.Net.

The purchase price allocation is as follows (in thousands):

Assets acquired	
Cash	\$ 220
Current assets	249
Property and equipment, net	2,353
Deferred tax assets, net	1,162
Developed technology, customer relationships and other intangibles	6,682
Goodwill	39,346
Total assets acquired	<u>\$ 50,012</u>
Liabilities assumed	
Accrued liabilities	\$ (256)
Deferred revenue	(97)
Total liabilities assumed	<u>(353)</u>
Net assets acquired	<u>\$ 49,659</u>

Of the total estimated purchase price, \$3.6 million was allocated to developed technology and \$3.1 million to customer relationships and other intangibles. To determine the fair value of developed technology, the relief-from-royalty method under the income approach was used, which included estimates and assumptions provided by Defense.Net and Company management. The relief-from-royalty method is based on a hypothetical royalty that the owner would otherwise be willing to pay to use the asset, assuming it was not already owned. Hypothetical royalty is calculated as a percentage of forecasted revenue, or the royalty rate. To value the technology acquired from Defense.Net, management used a royalty rate of 15%, which was based off of independent research of comparable royalty agreements for similar technology. A combination of the income and cost approaches were used to determine the fair value of customer relationships and other intangibles. Goodwill generated from this transaction is primarily related to expected synergies of the technology and expanded breadth of the Company's existing security solutions. Goodwill is not expected to be deductible for federal tax purposes.

Developed technology will be amortized on a straight-line basis over its estimated useful life of five years and included in cost of net product revenues. Customer relationships will be amortized on a straight-line basis over its estimated useful life of ten years and included in sales and marketing expenses. The weighted average life of the amortizable intangible assets recognized from the Defense.Net acquisition was 6.6 years. The estimated useful lives for the acquired intangible assets were based on the expected future cash flows associated with each respective asset.

5. Balance Sheet Details

Goodwill

Changes in the carrying amount of goodwill during fiscal years 2014 and 2013 are summarized as follows (in thousands):

Balance, September 30, 2012	\$ 348,239
Acquisition of LineRate Systems	99,560
Acquisition of Versafe	75,937
Other	(9)
Balance, September 30, 2013	<u>523,727</u>
Acquisition of Defense.Net	39,346
Adjustment to goodwill (1)	(6,116)
Balance, September 30, 2014	<u><u>\$ 556,957</u></u>

- (1) The Company reduced the carrying amount of goodwill by \$6.1 million in the second quarter of fiscal year 2014 to correct the original accounting for a 2007 acquisition, which omitted certain acquired deferred tax assets. The Company reduced goodwill to reflect the additional deferred tax assets obtained at the date of acquisition.

Other Assets

Other assets consist of the following (in thousands):

	September 30,	
	2014	2013
Acquired and developed technology and software development costs	\$ 55,133	\$ 59,453
Deposits and other	19,072	15,251
Restricted cash	798	860
	<u>\$ 75,003</u>	<u>\$ 75,564</u>

Amortization expense related to other assets was approximately \$9.5 million, \$4.3 million, and \$6.4 million for the fiscal years ended September 30, 2014, 2013 and 2012, respectively.

Intangible assets are included in other assets on the balance sheet and consist of the following (in thousands):

	2014			2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired and developed technology and software development costs	\$ 103,031	\$ (47,899)	\$ 55,132	\$ 99,463	\$ (40,010)	\$ 59,453
Customer relationships	10,941	(3,778)	7,163	8,399	(3,123)	5,276
Patents and trademarks	3,044	(2,587)	457	3,044	(2,525)	519
Trade names	1,173	(445)	728	1,173	(250)	923
Non-compete covenants	2,732	(949)	1,783	2,160	(200)	1,960
	<u>\$ 120,921</u>	<u>\$ (55,658)</u>	<u>\$ 65,263</u>	<u>\$ 114,239</u>	<u>\$ (46,108)</u>	<u>\$ 68,131</u>

Estimated amortization expense for intangible assets for the five succeeding fiscal years is as follows (in thousands):

2015	\$ 12,611
2016	12,516
2017	9,907
2018	8,507
2019	4,336
	<u><u>\$ 47,877</u></u>

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	September 30,	
	2014	2013
Payroll and benefits	\$ 84,055	\$ 73,461
Sales and marketing	2,221	3,746
Income tax accruals	8,615	4,196
Other	13,881	11,205
	<u>\$ 108,772</u>	<u>\$ 92,608</u>

6. Income Taxes

The United States and international components of income before income taxes are as follows (in thousands):

	Years Ended September 30,		
	2014	2013	2012
United States	\$ 492,577	\$ 431,833	\$ 421,346
International	4,765	6,259	10,868
	<u>\$ 497,342</u>	<u>\$ 438,092</u>	<u>\$ 432,214</u>

The provision for income taxes (benefit) consists of the following (in thousands):

	Years Ended September 30,		
	2014	2013	2012
Current			
U.S. federal	\$ 164,994	\$ 138,372	\$ 147,774
State	15,462	14,322	10,733
Foreign	13,287	6,633	4,218
Total	<u>193,743</u>	<u>159,327</u>	<u>162,725</u>
Deferred			
U.S. federal	(5,778)	1,310	(7,320)
State	(83)	(203)	187
Foreign	(1,723)	344	1,436
Total	<u>(7,584)</u>	<u>1,451</u>	<u>(5,697)</u>
	<u>\$ 186,159</u>	<u>\$ 160,778</u>	<u>\$ 157,028</u>

The effective tax rate differs from the U.S. federal statutory rate as follows (in thousands):

	Years Ended September 30,		
	2014	2013	2012
Income tax provision at statutory rate	\$ 174,070	\$ 153,332	\$ 151,275
State taxes, net of federal benefit	12,901	10,944	8,733
Foreign operations	5,050	4,786	1,850
Research and development and other credits	(6,397)	(10,649)	(3,537)
Domestic manufacturing deduction	(15,514)	(14,047)	(12,539)
Stock-based and other compensation	14,583	15,286	10,501
Other	1,466	1,126	745
	<u>\$ 186,159</u>	<u>\$ 160,778</u>	<u>\$ 157,028</u>

The tax effects of the temporary differences that give rise to the deferred tax assets and liabilities are as follows (in thousands):

	Years Ended September 30,	
	2014	2013
Deferred tax assets		
Net operating loss carry-forwards	\$ 8,245	\$ 10,072
Allowance for doubtful accounts	1,724	1,112
Accrued compensation and benefits	8,273	7,272
Inventories and related reserves	1,139	1,120
Stock-based compensation	7,295	5,933
Deferred revenue	30,662	26,277
Other accruals and reserves	13,473	10,131
Tax credit carryforwards	2,852	2,122
Depreciation	738	—
	<u>74,401</u>	<u>64,039</u>
Valuation allowance	(7,198)	(5,390)
	<u>67,203</u>	<u>58,649</u>
Deferred tax liabilities		
Purchased intangibles and other	(24,108)	(21,567)
Depreciation	—	(3,697)
	<u>(24,108)</u>	<u>(25,264)</u>
Net deferred tax assets	<u>\$ 43,095</u>	<u>\$ 33,385</u>

At September 30, 2014, the Company had foreign net operating loss carry-forwards of approximately \$27.0 million that can be carried forward indefinitely. In addition, there are \$8.7 million of federal net operating loss carryforwards, the annual utilization of which is limited under Internal Revenue Code Section 382, and will expire in fiscal years 2033 and 2034. Management believes that it is more likely than not that the benefit from certain foreign net operating loss carryforwards and state tax carryforwards will not be realized. In recognition of this risk, the Company has provided a valuation allowance on the deferred tax assets relating to these carryforwards. The net change in the total valuation allowance was an increase of \$1.8 million and \$5.2 million for the years ended September 30, 2014 and 2013, respectively.

United States income and foreign withholding taxes have not been provided on approximately \$27.6 million of undistributed earnings from the Company's international subsidiaries. The Company has not recognized a deferred tax liability for the undistributed earnings of its foreign subsidiaries because the Company currently does not expect to remit those earnings in the foreseeable future. Determination of the amount of unrecognized deferred tax liability related to undistributed earnings of foreign subsidiaries is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

The Company recognizes the financial statement impact of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest impact that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

The following table provides a reconciliation of the beginning and ending amount of unrecognized tax benefits in fiscal years 2014, 2013 and 2012:

	2014	2013	2012
Balance, beginning of period	\$ 7,302	\$ 5,452	\$ 5,952
Gross increases related to prior period tax positions	901	1,231	79
Gross decreases related to prior period tax positions	(224)	(142)	(280)
Gross increases related to current period tax positions	1,081	1,957	702
Decreases relating to settlements with tax authorities	(2,589)	—	(3)
Reductions due to lapses of statute of limitations	(77)	(1,196)	(998)
Balance, end of period	<u>\$ 6,394</u>	<u>\$ 7,302</u>	<u>\$ 5,452</u>

The Company recognizes interest and, if applicable, penalties (not included in the “unrecognized tax benefits” table above) for any uncertain tax positions. Interest and penalties are recorded as a component of income tax expense. In the years ended September 30, 2014, 2013 and 2012 the Company recorded approximately \$5,000, \$244,000 and \$250,000, respectively, of interest and penalty expense related to uncertain tax positions. As of September 30, 2014 and 2013, the Company had a cumulative balance of accrued interest and penalties on unrecognized tax positions of \$436,000 and \$431,000, respectively.

All unrecognized tax benefits, if recognized, would affect the effective tax rate. There is a reasonable possibility that the Company’s unrecognized tax benefits will change within twelve months due to audit settlements or the expiration of statute of limitations, but the Company does not expect the change to be material to the consolidated financial statements.

The Company and its subsidiaries are subject to U.S. federal income tax as well as the income tax of multiple state and foreign jurisdictions. The Company has concluded all U.S. federal income tax matters for fiscal years through September 30, 2011. The Company is currently under audit by various states for fiscal years 2009 through 2013. Major jurisdictions where there are wholly owned subsidiaries of F5 Networks, Inc. which require income tax filings include the United Kingdom, Japan, Singapore, and Australia. The earliest periods open for review by local taxing authorities are fiscal years 2012 for the United Kingdom, 2007 for Japan, 2008 for Singapore, and 2010 for Australia. Within the next four fiscal quarters, the statute of limitations will begin to close on the fiscal years 2009, 2010 and 2011 state income tax returns.

7. Stock-based Compensation

The majority of awards consist of restricted stock units and to a lesser degree, stock options. Employees vest in restricted stock units and stock options ratably over the corresponding service term, generally one to four years. The Company’s stock options expire ten years from the date of grant. Restricted stock units are payable in shares of the Company’s common stock as the periodic vesting requirements are satisfied. The value of a restricted stock unit is based upon the fair market value of the Company’s common stock on the date of grant. The value of restricted stock units is determined using the intrinsic value method and is based on the number of shares granted and the quoted price of the Company’s common stock on the date of grant. Alternatively, the Company used the Black-Scholes option pricing model to determine the fair value of its stock options. Compensation expense related to restricted stock units and stock options is recognized over the vesting period. The Company has adopted a number of stock-based compensation plans as discussed below.

1998 Equity Incentive Plan. In November 1998, the Company adopted the 1998 Equity Incentive Plan, or the 1998 Plan, which provided for discretionary grants of non-qualified and incentive stock options, stock purchase awards and stock bonuses for employees and other service providers. The 1998 Plan expired on November 11, 2008 and no shares remain available for awards under the 1998 Plan. Upon certain changes in control of the Company, all outstanding and unvested options or stock awards under the 1998 Plan will vest at the rate of 50%, unless assumed or substituted by the acquiring entity. During the fiscal years 2014 and 2013, the Company issued no stock options, stock purchase awards or stock bonuses under this plan. As of September 30, 2014, there were options to purchase 6,800 shares outstanding under the 1998 Plan.

2011 Employee Stock Purchase Plan. In April 2012, the Board of Directors amended and restated the Company’s 1999 Employee Stock Purchase Plan, or the Employee Stock Purchase Plan. A total of 6,000,000 shares of common stock have been reserved for issuance under the Employee Stock Purchase Plan. The Employee Stock Purchase Plan permits eligible employees to acquire shares of the Company’s common stock through periodic payroll deductions of up to 15% of base compensation. No employee may purchase more than 10,000 shares during an offering period. In addition, no employee may purchase more than \$25,000 worth of stock, determined by the fair market value of the shares at the time such option is granted, in one calendar year. The Employee Stock Purchase Plan has been implemented in a series of offering periods, each 6 months in duration. The price at which the common stock may be purchased is 85% of the lesser of the fair market value of the Company’s common

stock on the first day of the applicable offering period or on the last day of the respective purchase period. As of September 30, 2014 there were 498,605 shares available for awards under the Employee Stock Purchase Plan.

Acquisition Related Incentive Plans. In connection with the Company's acquisition of Acopia in the fourth quarter of fiscal year 2007, the Company assumed the Acopia 2001 Stock Incentive Plan, or the Acopia Plan. Unvested options to acquire Acopia's common stock were converted into options to acquire the Company's common stock in connection with the acquisition. A total of 2,230,703 shares of common stock were reserved for issuance under the Acopia Plan. The plan provided for discretionary grants of non-qualified and incentive stock options, restricted stock awards and other stock-based awards to persons who were employees, officers, directors, consultants or advisors to Acopia on or prior to September 12, 2007. During the fiscal year 2014, the Company issued no stock options or restricted stock units under the Acopia Plan. As of September 30, 2014, there were options to purchase 11,853 shares outstanding and no shares available for awards under the Acopia Plan. The Company terminated the Acopia Plan effective November 1, 2008 and no additional shares may be issued from the Acopia Plan.

In February 2012, the Company adopted the Traffix Acquisition Equity Incentive Plan, or the Traffix Acquisition Plan. The Traffix Acquisition Plan provided for discretionary grants of non-statutory stock options and stock units for employees, directors and consultants of Traffix Communication Systems Ltd. to whom the Company offered employment in connection with the Company's acquisition of Traffix. A total of 75,000 shares of common stock were reserved for issuance under the Traffix Acquisition Plan. Upon certain changes in control of the Company, the surviving entity will either assume or substitute all outstanding stock awards under the Traffix Acquisition Plan or the vesting of 50% of the stock awards shall be accelerated. During the fiscal year 2014, the Company issued no stock options or restricted stock units under the Traffix Acquisition Plan. As of September 30, 2014, there were no options outstanding, 20,156 restricted stock units outstanding and no shares available for awards under the Traffix Acquisition Plan. The Company terminated the Traffix Acquisition Plan effective January 3, 2014 and no additional shares may be issued from the Traffix Acquisition Plan.

In connection with the Company's acquisition of Traffix Systems in the second quarter of fiscal year 2012, the Company assumed the Traffix 2007 Israeli Employee Share Option Plan, or the Traffix Plan. Unvested options to acquire Traffix's common stock were converted into options to acquire the Company's common stock in connection with the acquisition. A total of 106,829 shares of common stock were reserved for issuance under the Traffix Plan. The plan provided for grants of stock options to persons who were employees, officers, directors, consultants or advisors to Traffix on or prior to February 21, 2012. During the fiscal year 2014, the Company issued no stock options or restricted stock units under the Traffix Plan. As of September 30, 2014, there were options to purchase 19,464 shares outstanding and no shares available for additional awards under the Traffix Plan. The Company terminated the Traffix Plan effective January 3, 2014 and no additional shares may be issued from the Traffix Plan.

In February 2013, the Company adopted the LineRate Acquisition Equity Incentive Plan, or the LineRate Acquisition Plan. The LineRate Acquisition Plan provided for discretionary grants of non-statutory stock options and stock units for employees, directors and consultants of LineRate Systems to whom the Company offered employment in connection with the Company's acquisition of LineRate Systems. A total of 100,000 shares of common stock were reserved for issuance under the LineRate Acquisition Plan. Upon certain changes in control of the Company, the surviving entity will either assume or substitute all outstanding stock awards under the LineRate Acquisition Plan or the vesting of 50% of the stock awards shall be accelerated. During the fiscal year 2014, the Company issued no stock options or restricted stock units under the LineRate Acquisition Plan. As of September 30, 2014, there were no options outstanding, 68,773 restricted stock units outstanding and no shares available for awards under the LineRate Acquisition Plan. The Company terminated the LineRate Acquisition Plan effective January 3, 2014 and no additional shares may be issued from the LineRate Acquisition Plan.

In connection with the Company's acquisition of LineRate Systems in the second quarter of fiscal year 2013, the Company assumed the LineRate Systems, Inc. Third Amended and Restated 2009 Equity Incentive Plan, or the LineRate Plan. Unvested options to acquire LineRate Systems' common stock were converted into options to acquire the Company's common stock in connection with the acquisition. A total of 201,478 shares of common stock were reserved for issuance under the LineRate Plan. The plan provided for grants of stock options to persons who were employees, officers, directors, consultants or advisors to LineRate Systems on or prior to February 11, 2013. During the fiscal year 2014, the Company issued no stock options or restricted stock units under the LineRate Plan. As of September 30, 2014, there were options to purchase 22,877 shares outstanding and no shares available for additional awards under the LineRate Plan. The Company terminated the LineRate Plan effective January 3, 2014 and no additional shares may be issued from the LineRate Plan.

In September 2013, the Company adopted the Versafe Acquisition Equity Incentive Plan, or the Versafe Acquisition Plan. The Versafe Acquisition Plan provided for discretionary grants of non-statutory stock options and stock units for employees, directors and consultants of Versafe Ltd. to whom the Company offered employment in connection with the Company's acquisition of Versafe. A total of 60,000 shares of common stock were reserved for issuance under the Versafe Acquisition Plan.

Upon certain changes in control of the Company, the surviving entity will either assume or substitute all outstanding stock awards under the Versafe Acquisition Plan or the vesting of 50% of the stock awards shall be accelerated. During the fiscal year 2014, the Company issued no stock options and 42,642 restricted stock units under the Versafe Acquisition Plan. As of September 30, 2014, there were no options outstanding, 35,892 restricted stock units outstanding and no shares available for awards under the Versafe Acquisition Plan. The Company terminated the Versafe Acquisition Plan effective January 3, 2014 and no additional shares may be issued from the Versafe Acquisition Plan.

In May 2014, the Company adopted the Defense.Net Acquisition Equity Incentive Plan, or the Defense.Net Acquisition Plan. The Defense.Net Acquisition Plan provided for discretionary grants of non-statutory stock options and stock units for employees, directors and consultants of Defense.Net, Inc. to whom the Company offered employment in connection with the Company's acquisition of Defense.Net. A total of 30,000 shares of common stock were reserved for issuance under the Defense.Net Acquisition Plan. Upon certain changes in control of the Company, the surviving entity will either assume or substitute all outstanding stock awards under the Defense.Net Acquisition Plan or the vesting of 50% of the stock awards shall be accelerated. During the fiscal year 2014, the Company issued no stock options and 23,000 restricted stock units under the Defense.Net Acquisition Plan. As of September 30, 2014, there were no options outstanding, 23,000 restricted stock units outstanding and 7,000 shares available for awards under the Defense.Net Acquisition Plan.

In connection with the Company's acquisition of Defense.Net, Inc. in the third quarter of fiscal year 2014, the Company assumed the Defense.Net, Inc. 2012 Stock Option and Grant Plan, or the Defense.Net Plan. Unvested options to acquire Defense.Net's common stock were converted into options to acquire the Company's common stock in connection with the acquisition. A total of 84,375 shares of common stock were reserved for issuance under the Defense.Net Plan. The plan provided for grants of stock options to persons who were employees, officers, directors, consultants or advisors to Defense.Net, Inc. on or prior to May 22, 2014. During the fiscal year 2014, the Company issued 10,088 stock options as part of such conversion under the Defense.Net Plan. As of September 30, 2014, there were options to purchase 9,774 shares outstanding and 46,757 shares available for additional awards under the Defense.Net Plan.

2014 Incentive Plan. In March 2014, the Company adopted the 2014 Incentive Plan, or the 2014 Plan, which amended and restated the 2005 Equity Incentive Plan. The 2014 Plan provides for discretionary grants of non-statutory stock options and stock units for employees, including officers, and other service providers. A total of 15,380,000 shares of common stock have been reserved for issuance under the 2014 Plan. Upon certain changes in control of the Company, all outstanding and unvested options or stock awards under the 2014 Plan will vest at the rate of 50%, unless assumed or substituted by the acquiring entity. During the fiscal year 2014, the Company issued no stock options and 1,719,690 restricted stock units under the 2014 Plan. As of September 30, 2014, there were no options outstanding, 1,290,782 restricted stock units outstanding and 3,565,538 shares available for new awards under the 2014 Plan.

A majority of the restricted stock units the Company grants to its employees vest quarterly over a two-year period. The restricted stock units under all plans were granted during fiscal years 2014, 2013 and 2012 with a per-share weighted average fair value of \$83.81, \$86.69 and \$99.63, respectively. The fair value of restricted stock vested during fiscal years 2014, 2013 and 2012 was \$128.9 million, \$97.5 million and \$93.8 million, respectively.

A summary of restricted stock unit activity under the 2014 Plan is as follows:

	Outstanding Stock Units	Weighted Average Grant Date Fair Value
Balance, September 30, 2013	926,035	\$ 95.47
Units granted	1,719,690	83.53
Units vested	(1,184,877)	104.87
Units cancelled	(170,066)	90.51
Balance, September 30, 2014	<u>1,290,782</u>	<u>\$ 88.44</u>

A summary of stock option activity under all of the Company's plans is as follows:

	Options Outstanding	
	Number of Shares	Weighted Average Exercise Price per Share
Balance, September 30, 2013	210,219	\$ 9.80
Options granted	10,088	3.68
Options exercised	(149,134)	9.53
Options cancelled	(405)	3.83
Balance, September 30, 2014	<u>70,768</u>	<u>\$ 9.53</u>

All stock options granted in fiscal year 2014 were assumed as part of the acquisition of Defense.Net in the third fiscal quarter. All stock options granted in fiscal year 2013 were assumed as part of the acquisition of LineRate Systems in the second fiscal quarter. All stock options granted in fiscal year 2012 were assumed as part of the acquisition of Traxx Systems in the second fiscal quarter.

The total intrinsic value of options exercised during fiscal 2014, 2013 and 2012 was \$14.1 million, \$9.8 million and \$13.2 million, respectively.

	Number of Shares	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price per Share	Aggregate Intrinsic Value(1)
				(In thousands)
Stock options outstanding	70,768	6.08	\$ 9.53	\$ 7,728
Exercisable	<u>29,435</u>	<u>3.84</u>	<u>\$ 19.23</u>	<u>\$ 2,929</u>
Vested and expected to vest	<u>68,423</u>	<u>6.01</u>	<u>\$ 9.77</u>	<u>\$ 7,456</u>

- (1) Aggregate intrinsic value represents the difference between the fair value of the Company's common stock underlying these options at September 30, 2014 and the related exercise prices.

As of September 30, 2014, equity based awards (including stock options and restricted stock units) are available for future issuance as follows:

	Awards Available for Grant
Balance, September 30, 2013	2,198,736
Granted	(1,795,420)
Cancelled	178,554
Additional shares reserved (terminated), net	3,037,425
Balance, September 30, 2014	<u>3,619,295</u>

8. Commitments and Contingencies

Operating Leases

The majority of the Company's operating lease payments relate to the Company's three building corporate headquarters in Seattle, Washington. In April 2010, the lease for all three buildings was amended and now the lease will expire in 2022 with an option for renewal. The Company also leases additional office space for product development and sales and support personnel in the United States and internationally.

In October 2006, the Company entered into an agreement to lease a total of approximately 137,000 square feet of office space in a building known as 333 Elliott West, which is adjacent to the three buildings that serve as the Company's corporate headquarters. The lease expires in 2018. The Company is currently subleasing all floors of this building.

Future minimum operating lease payments, net of sublease income, are as follows (in thousands):

	<u>Gross Lease Payments</u>	<u>Sublease Income</u>	<u>Net Lease Payments</u>
2015	22,368	4,032	18,336
2016	20,188	3,992	16,196
2017	18,444	4,102	14,342
2018	16,614	2,770	13,844
2019	12,818	—	12,818
Thereafter	32,334	—	32,334
	<u>\$ 122,766</u>	<u>\$ 14,896</u>	<u>\$ 107,870</u>

Rent expense under non-cancelable operating leases amounted to approximately \$28.6 million, \$26.5 million, and \$21.6 million for the fiscal years ended September 30, 2014, 2013, and 2012, respectively.

Purchase Obligations

Purchase obligations are comprised of purchase commitments with the Company's contract manufacturers. The agreement with the Company's primary contract manufacturer allows them to procure component inventory on the Company's behalf based on the Company's production forecast. The Company is obligated to purchase component inventory that the contract manufacturer procures in accordance with the forecast, unless cancellation is given within applicable lead times. As of September 30, 2014, the Company's purchase obligations were \$24.3 million.

Litigation

Management is not aware of any pending legal proceedings that, individually or in the aggregate, are reasonably possible to have a material adverse effect on the Company's business, operating results, or financial condition. The Company is subject to a variety of other claims and suits that arise from time to time in the ordinary course of business. Although management currently believes that resolving claims against the Company, individually or in aggregate, will not have a material adverse impact on its financial statements, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

9. Employee Benefit Plans

The Company has a 401(k) savings plan whereby eligible employees may voluntarily contribute a percentage of their compensation. The Company may, at its discretion, match a portion of the employees' eligible contributions. Contributions by the Company to the plan during the years ended September 30, 2014, 2013, and 2012 were approximately \$7.2 million, \$6.4 million and \$5.7 million, respectively. Contributions made by the Company vest over four years.

10. Geographic Sales and Significant Customers

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Management has determined that the Company is organized as, and operates in, one reportable operating segment: the development, marketing and sale of application delivery networking products that optimize the security, performance and availability of network applications, servers and storage systems.

The Company does business in four main geographic regions: the Americas (primarily the United States); Europe, the Middle East, and Africa (EMEA); Japan; and the Asia Pacific region (APAC). The Company's chief operating decision-making group reviews financial information presented on a consolidated basis accompanied by information about revenues by geographic region. The Company's foreign offices conduct sales, marketing and support activities. Revenues are attributed by geographic location based on the location of the customer. The Company's assets are primarily located in the United States. Therefore, geographic information is presented only for net revenue.

The following presents revenues by geographic region (in thousands):

	Years Ended September 30,		
	2014	2013	2012
Americas:			
United States	\$ 896,010	\$ 777,516	\$ 729,238
Other	89,786	74,391	64,144
Total Americas	<u>985,796</u>	<u>851,907</u>	<u>793,382</u>
EMEA	404,300	327,109	294,191
Japan	90,131	83,051	90,521
Asia Pacific	251,819	219,247	199,153
	<u>\$ 1,732,046</u>	<u>\$ 1,481,314</u>	<u>\$ 1,377,247</u>

One worldwide distributor of the Company's products accounted for 14.0%, 16.6%, and 17.1% of total net revenues in fiscal years 2014, 2013, and 2012, respectively. Another worldwide distributor of the Company's products accounted for 17.4%, 15.7% and 13.8% of total net revenues in fiscal years 2014, 2013 and 2012, respectively. Another worldwide distributor of the Company's products accounted for 14.5% and 11.8% of total net revenue in fiscal years 2014 and 2013, respectively. Two worldwide distributor accounted for 14.2% and 19.8% of the Company's accounts receivable as of September 30, 2014. One worldwide distributor accounted for 18.6% of the Company's accounts receivable as of September 30, 2013. No other distributors accounted for more than 10% of total net revenue or receivables.

11. Quarterly Results of Operations (Unaudited)

The following presents the Company's unaudited quarterly results of operations for the eight quarters ended September 30, 2014. The information should be read in conjunction with the Company's financial statements and related notes included elsewhere in this report. This unaudited information has been prepared on the same basis as the audited financial statements and includes all adjustments, consisting only of normal recurring adjustments that were considered necessary for a fair statement of the Company's operating results for the quarters presented.

	Three Months Ended							
	Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013	Dec. 31, 2012
	(Unaudited and in thousands, except per share data)							
Net revenues								
Products	\$255,461	\$236,933	\$225,135	\$218,601	\$212,291	\$196,746	\$185,107	\$204,712
Services	209,805	203,352	194,908	187,851	183,038	173,556	165,125	160,739
Total	<u>465,266</u>	<u>440,285</u>	<u>420,043</u>	<u>406,452</u>	<u>395,329</u>	<u>370,302</u>	<u>350,232</u>	<u>365,451</u>
Cost of net revenues								
Products	43,351	40,387	37,806	37,244	35,151	32,350	29,773	31,792
Services	38,601	39,075	37,856	35,639	31,792	32,567	30,529	29,093
Total	<u>81,952</u>	<u>79,462</u>	<u>75,662</u>	<u>72,883</u>	<u>66,943</u>	<u>64,917</u>	<u>60,302</u>	<u>60,885</u>
Gross profit	<u>383,314</u>	<u>360,823</u>	<u>344,381</u>	<u>333,569</u>	<u>328,386</u>	<u>305,385</u>	<u>289,930</u>	<u>304,566</u>
Operating expenses								
Sales and marketing	143,284	139,945	140,252	134,803	119,836	121,906	119,031	122,268
Research and development	65,401	67,026	67,232	64,133	54,464	54,075	52,534	48,541
General and administrative	27,148	27,773	26,033	25,500	26,512	25,327	25,889	24,673
Loss on facility sublease	—	—	—	—	2,393	—	—	—
Total operating expenses	<u>235,833</u>	<u>234,744</u>	<u>233,517</u>	<u>224,436</u>	<u>203,205</u>	<u>201,308</u>	<u>197,454</u>	<u>195,482</u>
Income from operations	147,481	126,079	110,864	109,133	125,181	104,077	92,476	109,084
Other income, net	2,323	1,193	23	246	732	2,874	2,118	1,550
Income before income taxes	<u>149,804</u>	<u>127,272</u>	<u>110,887</u>	<u>109,379</u>	<u>125,913</u>	<u>106,951</u>	<u>94,594</u>	<u>110,634</u>
Provision for income taxes	55,783	47,799	41,246	41,331	49,682	38,773	31,182	41,141
Net income	<u>\$ 94,021</u>	<u>\$ 79,473</u>	<u>\$ 69,641</u>	<u>\$ 68,048</u>	<u>\$ 76,231</u>	<u>\$ 68,178</u>	<u>\$ 63,412</u>	<u>\$ 69,493</u>
Net income per share — basic	<u>\$ 1.27</u>	<u>\$ 1.06</u>	<u>\$ 0.92</u>	<u>\$ 0.88</u>	<u>\$ 0.97</u>	<u>\$ 0.87</u>	<u>\$ 0.81</u>	<u>\$ 0.88</u>
Weighted average shares — basic	<u>73,817</u>	<u>74,812</u>	<u>75,508</u>	<u>77,438</u>	<u>78,353</u>	<u>78,516</u>	<u>78,601</u>	<u>78,789</u>
Net income per share — diluted	<u>\$ 1.26</u>	<u>\$ 1.05</u>	<u>\$ 0.91</u>	<u>\$ 0.87</u>	<u>\$ 0.97</u>	<u>\$ 0.86</u>	<u>\$ 0.80</u>	<u>\$ 0.88</u>
Weighted average shares — diluted	<u>74,366</u>	<u>75,369</u>	<u>76,244</u>	<u>77,822</u>	<u>78,674</u>	<u>78,864</u>	<u>79,114</u>	<u>79,278</u>

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to ensure that required information is recorded, processed, summarized and reported within the required timeframe, as specified in the rules set forth by the Securities Exchange Commission. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2014 and, based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2014.

Management’s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management conducted an assessment of the effectiveness of our internal control over financial reporting as of September 30, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework (1992)*. Based on the results of this assessment and on those criteria, management concluded that our internal control over financial reporting was effective as of September 30, 2014.

The effectiveness of the Company’s internal control over financial reporting as of September 30, 2014, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control over Financial Reporting

During the fourth fiscal quarter, there were no changes to our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

Certain information required by this item regarding the Company's directors and executive officers is incorporated herein by reference to the sections entitled "Board of Directors — Nominees and Continuing Directors," "Corporate Governance — Committees of the Board — Audit Committee" and "— Code of Ethics for Senior Financial Officers" and "— Director Nomination," and "Security Ownership of Certain Beneficial Owners and Management — Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement that will be furnished to the SEC no later than January 28, 2015 (the "Proxy Statement"). Additional information regarding the Company's directors and executive officers is set forth in Item 1 of Part I of this Annual Report on Form 10-K under the caption "Directors and Executive Officers of the Registrant."

Item 11. *Executive Compensation*

The information required by this item is incorporated by reference to the sections entitled "Executive Compensation" and "Corporate Governance — Committees of the Board — Compensation Committee" and "— Compensation Committee Interlocks and Insider Participation" and "— Compensation Committee Report" in the Proxy Statement.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters*

The information required by this item is incorporated by reference to the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this item is incorporated by reference to the sections entitled "Board of Directors — Director Independence" and "Corporate Governance — Related Person Transactions Policy and Procedures" and "— Certain Relationships and Related Person Transactions" in the Proxy Statement.

Item 14. *Principal Accountant Fees and Services*

The information required by this item is incorporated by reference to the section entitled "Executive Compensation — Fees Paid to PricewaterhouseCoopers LLP" and "— Audit Committee Pre-Approval Procedures" and "— Annual Independence Determination" in the Proxy Statement.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a) Documents filed as part of this report are as follows:

1. Consolidated Financial Statements:

Our Consolidated Financial Statements are listed in the Index to Consolidated Financial Statements.

2. Financial Statement Schedule:

Financial statement schedules have been omitted because the information required to be set forth therein is not applicable, material, or is shown in the Consolidated Financial Statements or the notes hereto.

3. Exhibits:

The required exhibits are included at the end of this Annual Report on Form 10-K and are described in the Exhibit Index immediately preceding the first exhibit.

EXHIBIT INDEX

Exhibit Number	Exhibit Description
2.1	— Agreement and Plan of Merger dated as of May 31, 2004, by and among the Registrant, Fire5, Inc., a wholly owned subsidiary of the Registrant, MagniFire Websystems, Inc., and Lucent Venture Partners III LLC(1)
2.2	— Agreement and Plan of Merger, dated September 6, 2005, among the Registrant, Sparrow Acquisition Corp., Swan Labs Corporation and the other parties referred to therein.(2)
2.3	— Agreement and Plan of Merger, dated August 6, 2007, among the Registrant, Checkmate Acquisition Corp., Acopia Networks, Inc. and Charles River Ventures, LLC.(18)
3.1	— Second Amended and Restated Articles of Incorporation of the Registrant(3)
3.2	— Amended and Restated Bylaws of the Registrant(3)
3.3	— Second Amended and Restated Bylaws of F5 Networks, Inc.(22)
3.4	— Third Amended and Restated Bylaws of F5 Networks, Inc.(23)
3.5	— Fourth Amended and Restated Bylaws of F5 Networks, Inc.(31)
4.1	— Specimen Common Stock Certificate(3)
10.1	— Amended and Restated Office Lease Agreement dated April 3, 2000, between the Registrant and 401 Elliott West LLC(4)
10.2	— Sublease Agreement dated March 30, 2001 between the Registrant and Cell Therapeutics, Inc.(5)
10.3	— uRoam Acquisition Equity Incentive Plan(6) §
10.4	— Form of Indemnification Agreement between the Registrant and each of its directors and certain of its officers(3) §
10.5	— 1998 Equity Incentive Plan, as amended(7) §
10.6	— Form of Option Agreement under the 1998 Equity Incentive Plan(3) §
10.7	— Amended and Restated Directors’ Nonqualified Stock Option Plan(3) §
10.8	— Form of Option Agreement under the Amended and Restated Directors’ Nonqualified Stock Option Plan(3) §
10.9	— Amended and Restated 1996 Stock Option Plan(3) §
10.10	— Form of Option Agreement under the Amended and Restated 1996 Stock Option Plan(3) §
10.11	— 1999 Non-Employee Directors’ Stock Option Plan(3) §
10.12	— Form of Option Agreement under 1999 Non-Employee Directors’ Stock Option Plan(3) §
10.13	— NonQualified Stock Option Agreement between John McAdam and the Registrant dated July 24, 2000(8) §
10.14	— 2000 Employee Equity Incentive Plan(9) §
10.15	— Form of Option Agreement under the 2000 Equity Incentive Plan(10) §
10.16	— NonQualified Stock Option Agreement between M. Thomas Hull and the Registrant dated October 20, 2003(11) §
10.17	— 2011 Employee Stock Purchase Plan(27) §
10.18	— MagniFire Acquisition Equity Incentive Plan(13) §
10.19	— NonQualified Stock Option Agreement between Karl Triebes and the Registrant dated August 16, 2004(13) §
10.20	— Incentive Compensation Plan for Executive Officers(13) §
10.21	— 2005 Equity Incentive Plan(14) §
10.22	— Form of Restricted Stock Unit agreement under the 2005 Equity Incentive Plan (with acceleration upon change of control)(15) §
10.23	— Form of Restricted Stock Unit agreement under the 2005 Equity Incentive Plan (no acceleration upon change of control)(15) §
10.24	— Amendment to F5 Networks, Inc. 2005 Equity Incentive Plan Award Agreement, dated March 8, 2006, between the Registrant and John Rodriguez(16) §
10.25	— Amendment to F5 Networks, Inc. 2005 Equity Incentive Plan Award Agreement, dated March 8, 2006, between the Registrant and Andy Reinland(16) §

Exhibit Number	Exhibit Description
10.27	— Office Lease Agreement with Selig Real Estate Holdings IIX, L.L.C. dated October 31, 2006(17)
10.28	— First Amendment to Sublease Agreement dated April 13, 2001 between the Registrant and Cell Therapeutics, Inc.(19)
10.29	— Second Amendment to Sublease Agreement dated March 6, 2002 between the Registrant and Cell Therapeutics, Inc.(19)
10.30	— Third Amendment to Sublease Agreement dated as of December 22, 2005 between the Registrant and Cell Therapeutics, Inc.(19)
10.31	— Assumed Acopia Networks, Inc. 2001 Stock Incentive Plan(20) §
10.32	— Acopia Acquisition Equity Incentive Plan(20) §
10.33	— Form of Restricted Stock Unit Agreement under the Acopia Acquisition Equity Incentive Plan (with acceleration upon change of control)(21) §
10.34	— Form of Restricted Stock Unit Agreement under the Acopia Acquisition Equity Incentive Plan (no acceleration upon change of control)(21) §
10.35	— Form of Change of Control Agreement between F5 Networks, Inc. and each of John McAdam, John Rodriguez, Karl Triebes, Edward J. Eames, Dan Matte and certain other executive officers(24) §
10.36	— 2005 Equity Incentive Plan, as amended January 2009(25) §
10.37	— Form of Restricted Stock Unit Agreement under the 2005 Equity Incentive Plan as amended (with acceleration upon change of control) as revised July 2009(26) §
10.38	— Traffix Communication Systems Ltd. 2007 Israeli Employee Share Option Plan(28) §
10.39	— Traffix Communication Systems Ltd. Acquisition Equity Incentive Plan(28) §
10.40	— LineRate Systems, Inc. Third Amended and Restated 2009 Equity Incentive Plan(29) §
10.41	— LineRate Systems, Inc. Acquisition Equity Incentive Plan(29) §
10.42	— Versafe Ltd. Acquisition Equity Incentive Plan(30) §
10.43	— 2014 Incentive Plan(32) §
10.44	— Defense.Net, Inc. 2012 Stock Option and Grant Plan(33) §
10.45	— Defense.Net Acquisition Equity Incentive Plan(33) §
10.46 *	— Form of 2014 Incentive Plan Award Agreement (Accelerated Vesting) as revised November 2014 §
21.1 *	— Subsidiaries of the Registrant
23.1 *	— Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
31.1 *	— Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2 *	— Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 *	— Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS *	— XBRL Instance Document
101.SCH *	— XBRL Taxonomy Extension Schema Document
101.CAL *	— XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF *	— XBRL Taxonomy Extension Definition Linkbase Document
101.LAB *	— XBRL Taxonomy Extension Label Linkbase Document
101.PRE *	— XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

§ Indicates a management contract or compensatory plan or arrangement.

- (1) Incorporated by reference from Current Report on Form 8-K dated May 31, 2004 and filed with the SEC on June 2, 2004.
- (2) Incorporated by reference from Current Report on Form 8-K dated October 4, 2005 and filed with the SEC on October 5, 2005.
- (3) Incorporated by reference from Registration Statement on Form S-1, File No. 333-75817.
- (4) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.
- (5) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
- (6) Incorporated by reference from Registration Statement on Form S-8, File No. 333-109895.
- (7) Incorporated by reference from Registration Statement on Form S-8, File No. 333-104169.
- (8) Incorporated by reference from Annual Report on Form 10-K for the year ended September 30, 2000.

- (9) Incorporated by reference from Registration Statement on Form S-8, File No. 333-51878.
- (10) Incorporated by reference from Annual Report on Form 10-K for the year ended September 30, 2001.
- (11) Incorporated by reference from Registration Statement on Form S-8, File No. 333-112022.
- (13) Incorporated by reference from Annual Report on Form 10-K for the year ended September 30, 2004.
- (14) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.
- (15) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
- (16) Incorporated by reference from Current Report on Form 8-K dated March 8, 2006 and filed with the SEC on March 10, 2006.
- (17) Incorporated by reference from Current Report on Form 8-K dated October 31, 2006 and filed with the SEC on November 3, 2006.
- (18) Incorporated by reference from Current Report on Form 8-K dated August 6, 2007 and filed with the SEC on August 8, 2007.
- (19) Incorporated by reference from Annual Report on Form 10-K for the year ended September 30, 2006.
- (20) Incorporated by reference from Registration Statement on Form S-8, File No. 333-146195.
- (21) Incorporated by reference from Annual Report on Form 10-K for the year ended September 30, 2007.
- (22) Incorporated by reference from Annual Report on Form 10-K for the year ended September 30, 2008.
- (23) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended December 31, 2008.
- (24) Incorporated by reference from Current Report on Form 8-K dated April 29, 2009 and filed with the SEC on May 4, 2009.
- (25) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.
- (26) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.
- (27) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.
- (28) Incorporated by reference from Registration Statement on Form S-8 File No. 333-179794.
- (29) Incorporated by reference from Registration Statement on Form S-8 File No. 333-186765.
- (30) Incorporated by reference from Registration Statement on Form S-8 File No. 333-191773.
- (31) Incorporated by reference from Current Report on Form 8-K dated April 11, 2014 and filed with the SEC on April 15, 2014.
- (32) Incorporated by reference from Registration Statement on Form S-8 File No. 333-194620.
- (33) Incorporated by reference from Registration Statement on Form S-8 File No. 333-196405.