F5 NETWORKS INC
Form 10-K
November 21, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTIONS 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2012

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	**91-1714307**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

401 Elliott Ave West

Seattle, Washington 98119

(Address of principal executive offices)

(206) 272-5555

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common stock, no par value	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x 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 x

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 x 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 x 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 x	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 x

As of March 30, 2012, the aggregate market value of the Registrant s Common Stock held by non-affiliates of the Registrant was $10,633,270,453 based on the closing sales price of the Registrant s Common Stock on the NASDAQ Global Select Market on that date.

As of November 15, 2012, the number of shares of the Registrant s common stock outstanding was 79,050,364.

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 2012, 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.

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F5 NETWORKS, INC.

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended September 30, 2012

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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 on Demand, 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 Module, PSM, MSM, Netcelera, Protocol Security Module, 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, OpenBlox, OpenBloX [DESIGN], Rosetta Diameter Gateway, Signaling Delivery Controller, SDC, Traffix Diameter Load Balancer, Traffix, Traffix Systems, Traffix Systems (DESIGN), VAULT, and virtual Clustered Multiprocessing 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 F 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 2012 and fiscal 2012 refer to the fiscal year ended September 30, 2012.

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 a leading provider of Application Delivery Networking (ADN) technology that secures and optimizes the delivery of network-based applications and the security, performance and availability of servers, and other network resources. As strategic points of control within and between networks, our products collectively create a dynamic control plane that simplifies connecting users to applications in the fastest, most secure and highly available way possible. Our approach reduces the complexity and cost of data center operations whether our customers have a traditional data center or have a private cloud, public cloud or hybrid approach.

Our principal products are application delivery controllers (ADCs) that include our BIG-IP family of appliances and our line of scalable VIPRION systems. These products are typically deployed in front of web and application servers, balancing traffic and performing compute-intensive functions such as encrypting and un-encrypting transmissions, screening traffic for security threats, maintaining open connections with servers,

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speeding the flow of traffic, managing access to applications and data and a variety of other functions that improve the security, performance, and availability of applications. We also offer virtual editions (software only versions) of our ADN software (referred to as VEs) that can run on physical or virtual servers and allow our customers to deploy our products in virtualized and cloud environments.

By offloading functions from servers, our BIG-IP and VIPRION products make servers more efficient, reduce the number of servers needed to run specific applications, lower the cost of power and cooling, and drive down operating costs by simplifying the management of servers and applications. In virtual environments, this allows customers to increase the density of virtual servers running on physical servers and reduces the added complexity of managing a dynamic environment.

The core of our ADN technology is our full-proxy Traffic Management Operating System (TMOS) that enables our products to inspect and modify the content of IP traffic flows to and from servers at network speed and supports a broad and growing array of functions that enhance the security, performance and availability of applications. 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 supports a common software interface called iControl, which enables our products to communicate with one another and with third-party products, including custom and commercial enterprise applications. TMOS is designed to support the addition of new functionality as software modules and to exploit the performance-enhancing features of our purpose-built hardware platforms. Correspondingly, our hardware architecture integrates industry standard components with components we design ourselves to optimize TMOS and deliver performance that is demonstrably superior to competing products.

Just as our ADCs make many servers look like one, our ARX storage virtualization products sit in front of network attached storage (NAS), making multiple storage devices from different vendors look like a single device to the individual clients, servers and applications that use them. In addition, ARX products simplify the migration of data between storage devices, the addition of new storage devices, and the distribution of files across tiers of storage, including cloud storage services, that reflect their relative immediacy or importance.

In February 2012, we expanded our capabilities in the service provider market with the acquisition of Traffix Systems, a pioneer and industry leader in Diameter signaling technology. Diameter is the protocol used to control traffic for the new generation of mobile networks.

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, Chile, China, Colombia, France, Germany, Hong Kong, Italy, Japan, Mexico, Netherlands, New Zealand, Russia, Singapore, South Korea, Spain, 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

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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.

Within the past three 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 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 both the number and size of data centers. 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. The rapid growth of social networks such as Facebook and Twitter, coupled with the explosion of mobile devices and applications, has challenged the abilities of content and service providers to keep up with and monetize the growing demand for IP-based services.

Along with the growth of Internet traffic, the proliferation of unstructured data such as voice, video, images, email, spreadsheets and formatted text files continues to present an enormous and increasing challenge to IT organizations. Historically, IT organizations have responded to this challenge primarily by adding more storage. File virtualization is a relatively new technology that enables organizations to store and manage files across a heterogeneous array of storage devices and lower their overall cost of storage.

Emergence of the Dynamic Data Center

From a broad perspective, the goal of IT organizations is to optimize the secure delivery of applications and data to users wherever they are and whenever they need them. To achieve 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. Within the past year, 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 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 client

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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 networking.

ADCs dynamically manage the flow of traffic between users and servers (physical or virtual), making them 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 the 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 features and functions on a single, high-performance platform simplifies management of the device and the servers it sits in front of and reduces overall capital and operating costs. File virtualization delivers similar benefits by reducing the cost and complexity of file storage.

Along with other types of IP traffic, the volume of file-based information created and accessed by Internet users and network applications is growing rapidly. File virtualization allows IT organizations to map individual users and applications to a single device that can distribute files across a heterogeneous array of storage devices, keep track of their location, and retrieve them as needed. File virtualization devices maximize storage utilization and simplify the migration of data from one vendor s storage devices to another s. They can also be programmed to allocate files across tiers of storage systems, matching the cost, capacity, and performance of the storage devices to the type of information being stored, frequency of usage, and relative importance, substantially reducing both the capital and operating costs associated with file storage.

F5 s Strategy

Our goal is to lead the industry in delivering network architectures that integrate IP networks with applications and data, enabling the delivery of dynamic services in the data center. Those services include security, optimization and orchestration of data center operations and resources, as well as coordination of services spanning multiple data centers. 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 our TMOS architecture for application delivery networking, we have developed TMOS-based versions of our own legacy products, such as Local Traffic Manager (LTM), Global Traffic Manager (GTM) and Link Controller, and acquired technology, including Application Security Manager (ASM), WebAccelerator, WAN Optimization Module (WOM), Edge Gateway and Application Policy Manager (APM). All of these products are currently available as integrated software modules on our BIG-IP family of ADCs. We believe this approach sharply differentiates our products from our competitors offerings and provides customers

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with an expanding array of integrated application delivery networking solutions that can be customized to meet their specific needs.

Investing in technology to meet evolving customer needs.

We continue to invest in research and development to provide our customers with comprehensive, integrated solutions. In application delivery networking, our product development efforts leverage the unique attributes of our software-based platforms to deliver new features and functions that address the complex, changing needs of our customers. Although the bulk of our investment in application delivery and file virtualization technologies is software development, concurrent development of tightly integrated, high-performance hardware is a key part of our investment strategy. 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 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 Module (ASM). As we developed these security modules, we leveraged the full proxy capabilities of TMOS to enhance and add new security features to our LTM product, and in January 2012 we received certification of BIG-IP LTM from ICSA Labs as a network firewall. While each of these products address a different element 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 ADC products. As a result of this strategy and our development and acquisition of technology in other related markets such as WAN optimization, Diameter switching and routing, and classification, we believe our current addressable market is significantly larger than the ADC market as it has been traditionally defined by industry analysts.

Continuing to build and expand relationships with strategic technology partners.

To compete successfully against Cisco Systems, Inc. and other large competitors who have an established presence in our target accounts, we have developed strategic technology partnerships with enterprise software vendors, such as Microsoft, Oracle, VMware and others, who often have an established or growing presence in those accounts. By taking advantage of our open application programming interface, called iControl, these vendors can equip their applications to control our products in the network, enhancing overall application performance. In return, they 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. We plan to continue building on our existing relationships and to extend our competitive edge by developing new strategic partnerships with other technology leaders, including providers of Software Defined Networking solutions.

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

Customization of our products using iRules enhances their stickiness by allowing customers to solve problems in both their applications and their networks that would be difficult if not impossible to solve by other means. To promote the use of iRules, we host an online community, DevCentral, where network architects and developers can discuss and share the ways in which they use iRules to solve problems and enhance the security, performance and availability of applications. A corollary benefit is that many of the iRules solutions posted by

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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

We design integrated software products that run on purpose-built hardware and are also available as virtual (software only) editions. Our 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. We believe our products offer the most intelligent architecture and advanced functionality in the marketplace along with performance and flexibility that enable organizations to simplify management of their data center operations and integrate disparate resources to reduce operating costs, enhance productivity and improve service to employees, customers and partners.

Application Delivery Networking

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 offer solutions that include application security, secure remote access, WAN optimization and access policy management, 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.

Software

The core of our 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 introduced two major upgrades, adding hundreds of new features designed to interpret and act on specific content in the traffic passing between users and applications. TMOS Version 11, announced in July 2011, includes enhancements to iRules, a built-in programming language, that allows customers to create or modify policies that provide direct, granular control over how our products act on traffic at any moment within the application transaction or flow. In addition, Version 11 includes several new 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 more than 20 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.

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 multiple processors (cores) within a BIG-IP appliance and across blades in our 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 (appliances, VIPRION chassis, or virtual editions). Devices can be added to or removed

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from a DSC without disrupting application services, and application services can be independently managed within the cluster. TMOS Version 11 also includes a number of new security features that enhance the ability of our products to protect networks and applications against denial of service attacks and other types of security threats. Other enhancements include centralized management of multiple devices and improved visibility that allows customers to monitor and record the performance of applications and users.

Feature Modules

Many of the basic network functions our products perform are embedded as standard features in TMOS and available to our customers at no extra cost. These features include:

Advanced Client Authentication: Reduces costs and frees up server cycles by eliminating the need to manage and enforce authentication individually across applications.

Advanced Routing: Allows our products to manage the routing information used by traffic traversing networks and to share that information with other devices.

Fast Cache: Improves server and application performance by eliminating the need for servers to handle repeated requests for identical content.

Intelligent Compression: Reduces the volume of outgoing traffic as necessary to optimize transmission to individual users.

IPv6 Gateway: Provides complete translation and load-balancing between v4 and v6 networks, and directs traffic across mixed IPv6 and IPv4 devices.

L7 Rate Shaping: Reserves bandwidth for higher priority applications to ensure that low-priority traffic doesn t interfere with critical business applications.

Protocol Security: Prevents security attacks directed at HTTP, SMTP and FTP servers.

SSL Acceleration: Frees up valuable space on physical and virtual servers by offloading compute-intensive SSL encryption and decryption. Basic SSL Acceleration is included with every product. Depending on the hardware platform, customers can purchase up to 200,000 transactions per second of incremental performance.

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 application 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 hardware product. The following software modules are currently available on all BIG-IP and VIPRION products except BIG-IP 1600:

Local Traffic Manager (LTM): LTM, which provides intelligent load-balancing and traffic management, is standard on all BIG-IP appliances and VIPRION chassis-based systems. As a strategic point of control between servers 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

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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.

Access Policy Manager (APM): APM provides secure, granular, context-aware control of access to applications while simplifying authentication, authorization, and accounting (AAA) management. An optional endpoint security service validates client devices 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 applications and servers with centralized visibility of their authorization infrastructure. APM s Visual Policy Editor makes it easy to create individual and group access policies for many different identities, locations, and web authentication environments. APM also provides dynamic access control by creating access control lists based on user identity, IP address, and attributes such as group membership pulled from standard directory services.

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.

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.

WAN Optimization Manager (WOM): WOM integrates application delivery with WAN optimization technologies, enabling traditional acceleration functions, such as SSL offloading, compression, caching, and traffic prioritization, to combine with optimization technologies like symmetric adaptive compression and application quality of service. As the foundation for site-to-site communication, iSessions, a basic feature of TMOS, allows any two BIG-IP devices to be deployed symmetrically, creating a secure site-to-site connection, improving transfer rates and bandwidth usage, and offloading applications for more efficient data center to data center WAN communication.

WebAccelerator: WebAccelerator speeds web transactions by optimizing individual network object requests, connections, and end-to-end transactions from the browser through to databases. WebAccelerator enhances web application performance from any location, speeding up interactive performance, improving download times, utilizing bandwidth more efficiently, and dramatically reducing the cost and response time of delivering Web-enabled applications to distributed users where it is not possible to deploy an end-point device. Devices running WebAccelerator can also be placed at key remote locations to provide acceleration to end-users above and beyond TCP optimizations and HTTP compression.

Message Security: Reputation-based, perimeter anti-spam solution that extends security for message applications to the edge of the corporate network and eliminates unwanted e-mail.

Virtual ADCs

All our product modules are also available as virtual editions (software only versions) of BIG-IP (referred to as BIG-IP VEs), designed to run on standard servers and to supplement our hardware products in hybrid environments that utilize both our hardware and software based solutions. BIG-IP VEs also 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.

Hardware

All of our purpose-built hardware platforms are designed to enhance the performance of our software. Currently we offer two lines of ADN products: our BIG-IP family of ADCs; and our scalable, chassis-based VIPRION ADCs. Both BIG-IP and VIPRION run TMOS and support all of our product software modules. We

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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 Application Delivery Controllers

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. Our current family of BIG-IP appliances includes BIG-IP 1600, BIG-IP 3600, BIG-IP 3900, BIG-IP 6900, BIG-IP 8900, BIG-IP 8950, and BIG-IP 11050.

VIPRION Application Delivery Controllers

Currently we offer two products in our line of chassis-based application delivery controllers. VIPRION 4480 and VIPRION 2400 both consist of a chassis with slots for one to four blades, each equipped with two dual-core processors. 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.

Our high-end VIPRION application delivery controller was introduced in January 2008. Since then, new blades introduced in January 2010 and April 2012 each doubled the overall performance of the platform, enabling our current VIPRION 4480 to handle up to ten million Layer 7 requests per second.

VIPRION 2400, introduced in June 2011, was designed to make the VIPRION architecture available to customers who want the features and benefits of the platform but do not require the top-end performance of VIPRION 4480. A VIPRION 2400 chassis with one blade has a retail price comparable to the mid-range of our BIG-IP product family, and a fully-loaded VIPRION 2400 (chassis with four blades) can handle up to 4 million Layer 7 requests per second.

Both VIPRION products support all the features, functions and capabilities of TMOS Version 11, including clustered multiprocessing (CMP), virtual clustered multiprocessing (vCMP), and device service clustering (DSC).

Specialty Appliances

Access Policy Manager

BIG-IP 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 1600 is a flexible, high-performance access and security solution that provides unified global access to business-critical applications and networks. APM consolidates remote access, web access management, VDI, and other resources in a single policy control point that provides easy-to-manage access policies. BIG-IP APM is also the first remote access solution to deliver full support for both IPv4 and IPv6.

Edge Gateway

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

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

Enterprise Manager

Enterprise Manager provides a single, centralized management console for our application delivery controllers. Enterprise Manager allows customers with dozens or hundreds of our products to discover and view those products in a single window, and to upgrade or modify the software on those products simultaneously. This lowers the cost and simplifies the task of deploying, managing and maintaining our products and reduces the likelihood of error when blanket changes are implemented.

Enterprise Manager is available on three hardware platforms Enterprise Manager 4000, Enterprise Manager 3000, and Enterprise Manager 500 and as a virtual edition.

Traffix Signaling Delivery Controller

In February 2012, F5 completed the acquisition of Traffix Systems, a pioneer and industry leader in Diameter signaling and routing. 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 industry s transition to 4G/LTE networks. The Traffix Signaling Delivery Controller (SDC) is a single platform consolidating Traffix 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. Traffix SDC solutions include interoperability of legacy and next-generation networks, mobile and fixed elements, and all third-party vendors. As a single Diameter platform fully compliant with 3GPP standards, the Traffix SDC enables operators to save up to 70% on OPEX and CAPEX and benefit from higher mobile data performance and an optimized experience for subscribers.

Data Solutions

F5 s data solutions products address many of the problems associated with managing today s rapidly expanding file storage infrastructure. The ARX product family is a series of high performance, enterprise-class, intelligent file virtualization devices that simplify the management of file storage environments and lower total storage costs by automating data management tasks and eliminating the disruption associated with storage management operations.

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

To enable our customers to take advantage of inexpensive cloud storage alternatives, we offer ARX Cloud Extender, a software solution that works in concert with the automated storage tiering capabilities of ARX to extend the file storage infrastructure seamlessly from the data center to the cloud.

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.

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Our principal software engineering team is located in our headquarters in Seattle, Washington. Product development for FirePass, APM, WOM and WebAccelerator is located in San Jose, California. ASM and Traffix SDC product development is located in Tel Aviv, Israel. ARX product development is located in Lowell, Massachusetts. 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, 2012, 2011 and 2010, we had research and product development expenses of $177.4 million, $138.9 million, and $118.3 million, respectively.

Customers

Our customers include a wide variety of enterprise customers and service providers among Fortune 1000 and Business Week Global 1000 companies, including those in technology, telecommunications, financial services, transportation, education, manufacturing and healthcare, along with government customers. In fiscal year 2012, sales outside of the Americas represented 42.4% 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 2012 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.

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 these distributors and VARs.

Our agreements with these channel partners are not exclusive and do not prevent them from selling competitive products. These agreements typically have terms of one year with no obligation to renew, and typically do not provide for exclusive sales territories or minimum purchase requirements.

For fiscal year 2012, sales to two of our worldwide distributors, Avnet Technology Solutions and Ingram Micro, Inc. represented 17.1% and 13.8% of our total revenues, respectively. Our agreements with these distributors are standard, non-exclusive distribution agreements that renew automatically on an annual basis and can be terminated by either party with 30 days prior written notice. The agreements grant Avnet Technology Solutions and Ingram Micro, Inc. the right to distribute our products to resellers in North America and certain other territories internationally, with no minimum purchase requirements.

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Systems integrators. We also market our products through strategic relationships with systems integrators, including Dell Services, HP Enterprise Services and IBM Global Services, who include our products as core components of application or network-based solutions they deploy for their customers. In most cases, systems integrators do not directly purchase our products for resale to their customers. Instead they typically recommend our products as part of broader solutions, such as enterprise resource planning (ERP) or customer relationship management (CRM) solutions that incorporate our products for high availability and enhanced performance.

Marketing

Our marketing strategy is driven by the belief that our continued success depends on our ability to understand and anticipate the dynamic needs of our addressable markets and to develop valuable solutions that meet those needs. In line with this belief, our marketing organization works directly with customers, partners and our product development teams to identify and create innovative solutions to further enhance our leadership position. In addition, our business development team, which is a component of our marketing organization, closely monitors technology companies in adjacent and complementary markets for opportunities to acquire or partner with those whose solutions are complementary to ours and could enable us to expand our addressable market.

Another key component of our marketing strategy is to develop and expand our iControl partnerships. Working closely with our partners, we have developed customizable solutions templates called iApps that help ensure the successful deployment and delivery of their applications over the network. These solution templates have been integrated into TMOS Version 11 and allow customers to configure our products quickly and easily to optimize the performance of specific applications from major software vendors such as Microsoft, Oracle, VMware, and others.

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. 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. At the end of fiscal year 2012, DevCentral had more than 111,000 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 2012 and 2011, we had product backlog of approximately $38.8 million and $40.9 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

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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. Our technical support team also offers seminars and training classes for customers on the configuration and use of products, including local and wide area network system administration and management. In addition, 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.

As part of our maintenance service, we 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.

Manufacturing

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

Flextronics manufactures our ADC product line, and Sanmina-SCI manufactures our ARX product line. The subcontracting activity at Flextronics and Sanmina-SCI encompasses prototype builds, full production and direct fulfillment. Our contract manufacturers perform 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. Each of the contract manufacturers procures components in volumes consistent with our forecast, necessary to assemble the products and tests the products 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 delivery at a designated shipment 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 platforms 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

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which we believe are readily available from other suppliers. However, several components used in the assembly of our products are purchased from a single or limited source.

During fiscal year 2010, we transitioned certain sub-assembly and testing processes of our BIG-IP products from Flextronics s facilities in Milpitas, California, to the Flextronics facility in ZhuHai, China. All sub-assemblies are configured and final tested at Flextronics s Milpitas, California for distribution to our 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 and other functions normally associated with application delivery, our suite of integrated product modules has expanded our addressable market into security, WAN optimization, policy management, and Diameter signaling, where we compete with a growing number of companies not included among traditional ADC vendors. The ability to create custom network services using iRules 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., Cisco Systems, Inc., Citrix Systems, Inc., Radware Ltd., and a number of smaller competitors: A10 Networks, Array Networks, Inc., Barracuda Networks, Inc., and Riverbed Technology, which recently acquired Zeus Technology Ltd.

In related ADC markets we compete with the following:

- Cisco, Juniper Networks and Checkpoint Systems, in the network firewall market;
- Juniper in the secure remote access market;
- Imperva and Citrix in the web application firewall market;
- Riverbed Technology and Silver Peak Systems in the WAN optimization market; and
- Tekelec and Acme Packet in the Diameter signaling market.

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 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 124 patents in the United States, 11 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

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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 licenses generally renew automatically on an annual basis. We believe that alternative technologies for these licenses are available both domestically and internationally.

Employees

As of September 30, 2012, we had 3,029 full-time employees, including 774 in product development, 1,278 in sales and marketing, 654 in professional services and technical support and 323 in 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 21, 2012:

Name	Age	Position
John McAdam	61	President, Chief Executive Officer and Director
Jeffrey A. Christianson	55	Executive Vice President and General Counsel
Edward J. Eames	54	Executive Vice President of Business Operations
David Feringa	50	Executive Vice President of Worldwide Sales
Dan Matte	46	Executive Vice President of Marketing and Business Development
Andy Reinland	48	Executive Vice President and Chief Financial Officer
Manuel F. Rivelo	48	Executive Vice President of Security and Strategic Solutions
John Rodriguez	52	Senior Vice President and Corporate Compliance Officer
Karl Triebes	45	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 us, 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.

Jeffrey A. Christianson has served as our Executive Vice President and General Counsel of the Company since December 2006. From February 2000 to July 2006, Mr. Christianson was Sr. Vice President and General Counsel of Western Wireless Corporation, a wireless service provider. From March 1996 to January 2000, Mr. Christianson served as Sr. Vice President of Business Development, General Counsel and Corporate Secretary at Wizards of the Coast, Inc., a game and software company. From September 1992 to March 1996, he served as General Counsel and Secretary of Heart Technology, Inc., a medical device company. From September 1990 to September 1992, he was Vice-President and General Counsel of Spider Staging Corporation and Vice President of Administration and Corporate Counsel for Flow International Corporation after its acquisition of Spider Staging Corporation. Mr. Christianson holds a B.A. from Whitman College and a J.D. from the University of Washington, and serves on the Board of Overseers of Whitman College and the Board of Directors of the Humane Society for Seattle/King County.

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

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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. He joined F5 Networks 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.

Dan Matte has served as our Executive Vice President of Marketing since June 2004, and as Vice President of Product Marketing and Management from March 2002 through May 2004. He served as our Senior Director of Product Marketing and Management from February 2001 through February 2002. From March 1999 to February 2001, Mr. Matte served as our Director of Product Management. Mr. Matte joined F5 in February 1997. He holds a Bachelor of Commerce from Queens s University and an MBA from the University of British Columbia.

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. From October 2005 to October 2012, Mr. Reinland served as our Executive Vice President and Chief Finance Office. 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. Rivelo has served as Executive Vice President of Security and Strategic Solutions at F5 Networks since October 2011. Prior to joining F5, Mr. Rivelo served as Senior Vice President Engineering Operations and Systems for Cisco Systems, Inc. During his 19-year career at Cisco, Rivelo 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. Rivelo 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.

John Rodriguez has served as our Senior Vice President and Corporate Compliance Office since October 2012. He served as Executive Vice President, Chief Accounting Officer and principal financial officer from October 2005 to October 2012. Mr. Rodriguez joined F5 in 2001 as Corporate Controller and served as our Vice President and Corporate Controller from January 2004 to October 2005. Prior to F5, Mr. Rodriguez was Vice President and Chief Financial Officer of CyberSafe, a security solutions company, and Senior Director of Finance and Operations at Mosaix, which was acquired by Lucent Technologies. Mr. Rodriguez started his career in public accounting. Mr. Rodriguez holds a B.A. in Business from the University of Washington.

Karl Triebes has served as our Executive Vice President of Product Development and Chief Technical Officer since August 2004. Prior to joining us, 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.

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In January 2012, the positions held by executive officers Christianson, Eames, Matte, Reinland, Rivelo, Rodriguez and Triebes were changed from Senior Vice President to Executive Vice President. The Executive Vice President terms of office for each of these executives identified above includes their respective terms of office as Senior Vice President.

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.

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;

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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 application delivery networking and file virtualization markets are characterized by rapid technological change, frequent new product introductions, changes in customer requirements and evolving industry standards. 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, 2012, we derived approximately 98.6% of our net product revenues, or approximately 58.6% 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.

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We may not be able to compete effectively in the emerging application delivery networking and file virtualization markets

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., Cisco Systems, Inc., Citrix Systems, Inc., Radware Ltd. and A10 Networks. In the adjacent WAN Optimization Controller market, we compete with Blue Coat Systems, Inc., Cisco, Citrix, Juniper Networks, Inc. and Riverbed Technology, Inc. In the file virtualization market, we compete with EMC Corporation. 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 has evolved into more of 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 corporations 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

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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

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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.

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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, two worldwide distributors of our products accounted for 30.9% of our total net revenue for fiscal year 2012. Two worldwide distributors of our products accounted for 28.8% of our total net revenue for fiscal year 2011. 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;

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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 information technology (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.

Adverse general economic conditions or reduced information technology spending may adversely impact our business

A substantial portion of our business depends on the demand for information technology by large enterprise customers and service providers, 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. The purchase of our products is often discretionary and may involve a significant commitment of capital and other resources. Continued weak economic conditions or a reduction in information technology spending even if economic conditions improve would likely result in longer sales cycles and reduced product sales, each of which would adversely impact our business, results of operations and financial condition.

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. These risks include risks related to recessionary economic cycles or protracted slowdowns in economies outside the United States, foreign currency exchange rates, managing foreign sales offices, regulatory, political or economic conditions in specific countries, military conflict or terrorist activities, changes in laws and tariffs, inadequate protection of intellectual property rights in foreign countries, foreign regulatory requirements and natural disasters. 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, although to date we generally have not done so. To the extent that we may enter into customer contracts in the future that include non-standard terms related to payment, warranties, or performance obligations, our operating results may be adversely impacted. All of these factors could have a material adverse effect on our business. We intend to continue expanding into

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international markets. Sales outside of the Americas represented 42.4% and 41.2% of our net revenues for the fiscal years ended September 30, 2012 and 2011, respectively.

Changes in governmental regulations could negatively affect our revenues

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.

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

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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 sales and marketing, operations, product development and professional services personnel

Our success depends to a significant degree upon the continued contributions of our key management, product development, sales, marketing and finance personnel, many of whom may be difficult to replace. 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 professional services, customer support and sales personnel. Competition for qualified 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, fire, a flood, or 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

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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. During 2008, we entered into two separate sublease agreements to sublease approximately 112,500 square feet of this building. We amended both subleases in 2012, which adjusted the respective rentable square feet and sublease term for each subtenant. Both subleases will now expire in 2018.

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, San Jose, California, Lowell, Massachusetts, Israel, and Russia and for our sales and support personnel in Florida, Georgia, Illinois, New York, Tennessee, Washington D.C., Argentina, Australia, Brazil, Canada, China, Denmark, France, Germany, Hong Kong, India, Indonesia, Italy, Japan, Malaysia, Mexico, Netherlands, New Zealand, the Philippines, Saudi Arabia, Singapore, South Africa, South Korea, Spain, Sweden, Thailand, Turkey, the United Arab Emirates, the United Kingdom and Vietnam. 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 may in the future be party to litigation arising in the ordinary course of business, including claims that we allegedly infringe upon third-party intellectual property rights. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

Item 4. ***Mine Safety Disclosures***

Not applicable.

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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 2012		Fiscal Year 2011	
	High	Low	High	Low
First Quarter	$ 117.30	$ 69.60	$ 143.75	$ 89.05
Second Quarter	$ 136.46	$ 99.60	$ 145.76	$ 91.10
Third Quarter	$ 139.46	$ 92.09	$ 114.90	$ 92.03
Fourth Quarter	$ 111.58	$ 88.30	$ 119.69	$ 69.01

The last reported sales price of our common stock on the Nasdaq Global Select Market on November 15, 2012 was $87.71.

As of November 15, 2012, there were approximately 68 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 2012

We did not sell any unregistered shares of our common stock during the fiscal year 2012.

Issuer Purchases of Equity Securities

On October 25, 2011, we announced that our Board of Directors authorized an additional $200 million for our common stock share repurchase program. This new authorization is incremental to the existing $400 million program, initially approved in October 2010 and expanded in August 2011. 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 15, 2012, we had repurchased and retired 9,327,774 shares at an average price of $67.63 per share and we had $168.7 million remaining to purchase shares as part of our repurchase programs.

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Shares repurchased and retired as of November 15, 2012 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, 2011 October 31, 2011		$		$ 366,038
November 1, 2011 November 30, 2011	179,000	$ 106.05	179,000	$ 347,049
December 1, 2011 December 31, 2011	141,100	$ 109.69	141,100	$ 331,566
January 1, 2012 January 31, 2012	58,706	$ 121.49	58,706	$ 324,431
February 1, 2012 February 29, 2012	227,400	$ 124.54	227,400	$ 296,103
March 1, 2012 March 31, 2012	118,000	$ 125.72	118,000	$ 281,263
April 1, 2012 April 30, 2012		$		$ 281,263
May 1, 2012 May 31, 2012	332,000	$ 121.79	332,000	$ 240,820
June 1, 2012 June 30, 2012	93,088	$ 102.64	93,088	$ 231,263
July 1, 2012 July 31, 2012	43,500	$ 91.65	43,500	$ 227,275
August 1, 2012 August 31, 2012	237,831	$ 98.70	237,831	$ 203,793
September 1, 2012 September 30, 2012	232,418	$ 96.91	232,418	$ 181,263
October 1, 2012 October 31, 2012		$		$ 181,263
November 1, 2012 November 15, 2012	145,400	$ 86.29	145,400	$ 168,712

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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, 2007, and ending September 30, 2012.

Comparison of Cumulative Total Return

On Investment Since September 30, 2007*

The Company s closing stock price on September 28, 2012, the last trading day of the Company s 2012 fiscal year, was $104.64 per share.

* Assumes that $100 was invested September 30, 2007 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.

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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, 2012 and 2011 and the consolidated statement of operations data for the years ended September 30, 2012, 2011 and 2010 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, 2010, 2009 and 2008 and the consolidated statement of operations for the years ended September 30, 2009 and 2008 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,				
	2012	2011	2010	2009	2008
	(In thousands, except per share data)				
Consolidated Statement of Operations Data					
Net revenues					
Products	$ 818,555	$ 721,975	$ 561,142	$ 406,529	$ 452,929
Services	558,692	429,859	320,830	246,550	197,244
Total	1,377,247	1,151,834	881,972	653,079	650,173
Cost of net revenues					
Products	137,102	129,325	113,834	95,209	102,400
Services	99,066	78,679	58,118	47,517	46,618
Total	236,168	208,004	171,952	142,726	149,018
Gross profit	1,141,079	943,830	710,020	510,353	501,155
Operating expenses					
Sales and marketing	445,595	370,735	293,201	225,193	237,175
Research and development	177,406	138,910	118,314	103,664	103,394
General and administrative	91,775	83,523	68,503	55,243	56,001
Loss on facility exit and sublease(1)					5,271
Restructuring charges(2)				4,329	
Total	714,776	593,168	480,018	388,429	401,841
Income from operations	426,303	350,662	230,002	121,924	99,314
Other income, net	5,911	10,089	7,625	9,724	18,950
Income before income taxes	432,214	360,751	237,627	131,648	118,264
Provision for income taxes	157,028	119,354	86,474	40,113	43,933
Net income	$ 275,186	$ 241,397	$ 151,153	$ 91,535	$ 74,331
Net income per share basic	$ 3.48	$ 2.99	$ 1.90	$ 1.16	$ 0.90
Weighted average shares basic	79,135	80,658	79,609	78,842	82,290
Net income per share diluted	$ 3.45	$ 2.96	$ 1.86	$ 1.14	$ 0.89
Weighted average shares diluted	79,780	81,482	81,049	80,073	83,428

Consolidated Balance Sheet Data					
Cash, cash equivalents, and short-term investments	$ 532,151	$ 542,550	$ 428,496	$ 317,128	$ 190,186
Restricted cash(3)	179	162	195	2,729	2,748
Long-term investments	662,803	470,203	433,570	257,294	261,086
Total assets	1,911,201	1,568,549	1,362,192	1,068,645	939,223
Long-term liabilities	115,772	90,806	71,409	46,611	34,143
Total shareholders equity	1,329,400	1,105,436	1,003,698	799,020	718,259

(1) Loss on facility exit and sublease expense represents a charge related to the closure of our office space in Bellevue, Washington and the consolidation of our corporate headquarters in Seattle, Washington.

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(2) Restructuring charges represent the expense related to the consolidation of facilities, accelerated depreciation on tenant improvements, and a reduction in workforce that took place in the second quarter of fiscal 2009 as part of a comprehensive restructuring program.
(3) 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 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 appliances consisting of software and hardware and services that help companies efficiently and securely manage the delivery, optimization and security of application and data traffic on Internet-based networks, and to optimize the performance and utilization of data storage infrastructure and other network resources. 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; BIG-IP Local Traffic Manager, BIG-IP Global Traffic Manager, BIG-IP Link Controller, BIG-IP Application Security Manager, BIG-IP Edge Gateway, BIG-IP WAN Optimization module, BIG-IP Access Policy Manager, and WebAccelerator; FirePass SSL VPN appliance; and our ARX file virtualization products. 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

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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 increase in cash and investments for fiscal year 2012 was primarily due to cash provided by operating activities of $495.4 million. This increase was partially offset by $184.8 million of cash used to repurchase outstanding common stock under our share repurchase program in fiscal year 2012. Going forward, we believe the primary driver of cash flows will be net income from operations. On February 22, 2012, we acquired all of the capital stock of Traffix Communication Systems Ltd. (Traffix Systems) for cash of $133.7 million. Capital expenditures of $29.9 million for fiscal year 2012 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 2012 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 2012 was 46.

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.

In certain regions where we do not have the ability to reasonably estimate returns, we defer revenue on sales to our distributors until they have received information from the channel partner indicating that the product has been sold to the end-user customer. Payment terms to domestic customers are generally net 30 days to net 45

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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.

Whenever product, training services and post-contract customer support (PCS) elements are sold together, a portion of the sales price is allocated to each element based on their respective fair values as determined when the individual elements are sold separately. Revenue from the sale of products is 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, we recognize revenue when such rights of return lapse. Revenues for 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.

In October 2009, the Financial Accounting Standards Board (FASB) amended the accounting standards for revenue recognition to remove from the scope of industry-specific software revenue recognition guidance any tangible products containing software components and non-software components that operate together to deliver the products essential functionality. In addition, the FASB amended the accounting standards for certain multiple element revenue arrangements to:

- Provide updated guidance on whether multiple elements exist, how the elements in an arrangement should be separated, and how the arrangement consideration should be allocated to the separate elements;

- Require an entity to allocate arrangement consideration to each element based on a selling price 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; and

- Eliminate the use of the residual method and require an entity to allocate arrangement consideration using the selling price hierarchy.

The majority of our products are hardware appliances that contain software essential to the overall functionality of the products. Accordingly, we no longer recognize revenue on sales of these products in accordance with the industry-specific software revenue recognition guidance.

For all transactions entered into prior to the first quarter of fiscal year 2011 and for sales of nonessential and stand-alone software after October 1, 2010, we allocate revenue for arrangements with multiple elements based on the 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 certain elements is not available, revenue is recognized on the residual method based on the fair value of undelivered elements. If evidence of the 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.

For transactions entered into subsequent to the adoption of the amended revenue recognition standards that are multiple-element arrangements, the arrangement consideration is allocated to each element based on the relative selling prices of all of the elements in the arrangement using the fair value hierarchy in the amended revenue recognition guidance.

Consistent with the methodology used under the previous accounting guidance, we establish VSOE for our products, training services, PCS and consulting services based on the sales price charged for each element when

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

We use historical sales transactions to determine whether VSOE can be established for each of the elements. In most instances, VSOE is the sales price of actual standalone (unbundled) transactions within the past 12 month period that are priced within a reasonable range, which we have determined to be plus or minus 15% of the median sales price of each respective price list.

VSOE of PCS is based on standalone sales since we do not provide stated renewal rates to our customers. In accordance with our PCS pricing practice (supported by standalone renewal sales), renewal contracts are priced as a percentage of the undiscounted product list price. The PCS renewal percentages may vary, depending on the type and length of PCS purchased. We offer standard and premium PCS, and the term generally ranges from one to three years. We employ a bell-shaped-curve approach in evaluating VSOE of fair value of PCS. Under this approach, we consider VSOE of the fair value of PCS to exist when a substantial majority of our standalone PCS sales fall within a narrow range of pricing.

We are typically not able to determine TPE for our products or services. TPE is 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 our 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 the selling price of our non-software elements 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 are generally not able to establish VSOE for non-software product sales. Under software revenue recognition guidance, these product sales were accounted for utilizing the residual method. With the adoption of the new revenue recognition guidance, we have been able to establish BESP for non-software product sales through the list price, less a discount deemed appropriate to maintain a reasonable gross margin. Management regularly reviews the gross margin information. 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 have established and regularly validate the VSOE of fair value and BESP for elements in our multiple element arrangements. We account for taxes collected from customers and remitted to governmental authorities on a net basis and excluded 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

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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 $95.3 million and $89.7 million of stock-based compensation expense for the years ended September 30, 2012 and 2011, respectively. As of September 30, 2012, there was $134.9 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 2012, the estimated forfeiture rate for grants awarded to our executive officers and Board of Directors was approximately 6% and the estimated forfeiture rate for grants awarded to all other employees was approximately 9%. 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 October 25, 2011, we announced that our Board of Directors authorized an additional $200 million for our common stock share repurchase program. This new authorization is incremental to the existing $400 million program, initially approved in October 2010 and expanded in August 2011. 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 15, 2012, we had repurchased and retired 9,327,774 shares at an average price of $67.63 per share and we had $168.7 million remaining to purchase shares as part of our repurchase programs.

Goodwill and intangible assets. We have goodwill and intangible assets on our balance sheet related to acquisitions. Intangible assets are carried and reported at acquisition cost, net of accumulated amortization subsequent to acquisition. Intangible assets are amortized over the estimated useful lives, which generally range from three to five years. Intangible assets are reviewed for impairment whenever events or circumstances

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indicate impairment might exist. Projected undiscounted net cash flows expected to be derived from the use of those assets are compared to the respective net carrying amounts to determine whether any impairment exists. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

The determination of the net carrying value of goodwill and intangible assets and the extent to which, if any, there is impairment are dependent on material estimates and judgments on our part, including the useful life over which the intangible assets are to be amortized, and the estimates of the value of future net cash flows, which are based upon further estimates of future revenues, expenses and operating margins. We review our goodwill annually for impairment in the second fiscal quarter, or whenever events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable. We first perform a qualitative assessment to determine whether further impairment testing is necessary. If we believe, as a result of our qualitative assessment, that it is more-likely-than-not (i.e. greater than 50% chance) that the fair value of a reporting unit is less than its carrying amount, a 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 a 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. For our annual goodwill impairment analysis, we operate under one reporting unit and the fair value of the reporting unit is based on the Company s enterprise value. In March 2012, 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. Additionally, we considered potential impairment indicators at September 30, 2012 and noted no indicators of impairment.

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.

Our investments also include auction rate securities (ARS) that are classified as available-for-sale. ARS are reported at fair market value with the related unrealized gains and losses included in accumulated other comprehensive income or loss in stockholders equity. We believe these investments may remain illiquid for longer than twelve months and as a result, we have classified these investments as long-term as of September 30, 2012. We used the income approach to determine the fair value of our ARS using a discounted cash flow analysis. The assumptions we used in preparing the discounted cash flow model include estimates for interest rates; estimates for discount rates using yields of comparable traded instruments adjusted for illiquidity and other risk factors, amount of cash flows and expected holding periods for the ARS.

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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,		
	2012	2011	2010
	(in thousands, except percentages)		
Net Revenues			
Products	$ 818,555	$ 721,975	$ 561,142
Services	558,692	429,859	320,830
Total	$ 1,377,247	$ 1,151,834	$ 881,972
Percentage of net revenues			
Products	59.4%	62.7%	63.6%
Services	40.6	37.3	36.4
Total	100.0%	100.0%	100.0%

Net Revenues. Total net revenues increased 19.6% in fiscal year 2012 from fiscal year 2011, compared to an increase of 30.6% in fiscal year 2011 from the prior year. Overall revenue growth for the year ended September 30, 2012 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, including application security products. International revenues represented 47.1%, 45.5% and 45.4% of net revenues in fiscal years 2012, 2011 and 2010, 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 13.4% in fiscal year 2012 from fiscal year 2011, compared to an increase of 28.7% in fiscal year 2011 from the prior year. The increase of $96.6 million in net product sales for fiscal year 2012 was primarily due to growth in the volume of product sales of our ADN products. The increase of $160.8 million in net product sales for fiscal year 2011 was also primarily due to growth in the volume of product sales of our ADN products. Sales of our ADN products represented 98.6%, 97.4% and 97.2% of total product revenues in fiscal years 2012, 2011 and 2010, respectively.

Net service revenues increased 30.0% in fiscal year 2012 from fiscal year 2011, compared to an increase of 34.0% in fiscal year 2011 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.

Avnet Technology Solutions, one of our worldwide distributors, accounted for 17.1%, 18.1% and 14.5% of our total net revenues in fiscal years 2012, 2011 and 2010, respectively. Ingram Micro, Inc., another worldwide distributor, accounted for 13.8% and 10.7% of our total net revenues in fiscal year 2012 and 2011, respectively. Tech Data, another worldwide distributor, accounted for 10.2% of our total net revenues in fiscal year 2010. Avnet Technology Solutions and Ingram Micro, Inc. accounted for 13.4% and 12.0% of our accounts receivable as of September 30, 2012, respectively. Avnet Technology Solutions and Ingram Micro, Inc. accounted for 15.0% and 14.5% of our accounts receivable as of September 30, 2011, respectively. No other distributors accounted for more than 10% of total net revenue or receivables.

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	Years Ended September 30,		
	2012	2011	2010
	(in thousands, except percentages)		
Cost of net revenues and Gross Margin			
Products	$ 137,102	$ 129,325	$ 113,834
Services	99,066	78,679	58,118
Total	236,168	208,004	171,952
Gross profit	$ 1,141,079	$ 943,830	$ 710,020
Percentage of net revenues and Gross Margin (as a percentage of related net revenue)			
Products	16.7%	17.9%	20.3%
Services	17.7	18.3	18.1
Total	17.1	18.1	19.5
Gross profit	82.9%	81.9%	80.5%

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 $137.1 million in fiscal year 2012, up 6.0% from the prior year, primarily due to a higher volume of units shipped. The increase in cost of net product revenues for fiscal year 2012 was partially offset by a reduction in warranty expense of $3.5 million from the prior year. Cost of net product revenues increased to $129.3 million in fiscal year 2011 from $113.8 million in fiscal year 2010. The year over year increase was primarily due to a higher volume of units shipped along with an increase in warranty expense.

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 decreased to 17.7% in fiscal year 2012 compared to 18.3% in fiscal year 2011, primarily due to the scalability of our existing customer support infrastructure and increased revenue from maintenance contracts. Cost of net service revenues as a percentage of net service revenues in fiscal year 2011 remained relatively consistent with the prior year at 18.3%. Professional services headcount at the end of fiscal year 2012 increased to 654 from 528 at the end of fiscal year 2011 and 421 at the end of fiscal year 2010. In addition, cost of net service revenues included stock-based compensation expense of $10.9 million, $7.8 million and $6.0 million for fiscal years 2012, 2011 and 2010, respectively.

	Years Ended September 30,		
	2012	2011	2010
	(in thousands, except percentages)		
Operating expenses			
Sales and marketing	$ 445,595	$ 370,735	$ 293,201
Research and development	177,406	138,910	118,314
General and administrative	91,775	83,523	68,503
Total	$ 714,776	$ 593,168	$ 480,018
Operating expenses (as a percentage of net revenue)			
Sales and marketing	32.3%	32.2%	33.2%
Research and development	12.9	12.1	13.4
General and administrative	6.7	7.2	7.8
Total	51.9%	51.5%	54.4%

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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 20.2% in fiscal year 2012 from the prior year, as compared to a year over year increase of 26.4% in fiscal year 2011. The increase in sales and marketing expense for fiscal year 2012 was primarily due to increases in commissions and personnel costs of $58.9 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 2012 over the prior year. In fiscal year 2011, the increase in sales and marketing expense was also primarily due to increases in commissions and personnel costs of $45.4 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 2011 over the prior year. The increase in sales and marketing expense for fiscal year 2011 was also due to an increase of $14.5 million in marketing promotions and initiatives aimed at promoting our brand and creating market awareness of our technology and our products. Sales and marketing headcount at the end of fiscal 2012 increased to 1,278 from 1,080 at the end of fiscal 2011 and 856 at the end of fiscal 2010. Sales and marketing expense included stock-based compensation expense of $37.0 million, $34.7 million and $27.3 million for fiscal years 2012, 2011 and 2010, 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 27.7% in fiscal year 2012, compared to the prior year. The increase in research and development expense for fiscal year 2012 was primarily due to increased personnel costs of $25.5 million. In addition, research and development expense included a year over year increase in computer equipment and software costs of $4.4 million to support the development of new and improved products. In fiscal year 2011, research and development expense increased 17.4%, compared to the prior year. The increase in research and development expense for fiscal year 2011 was primarily due to increased personnel costs of $14.0 million. In addition, research and development expense included a year over year increase in computer equipment and software costs of $1.5 million to support the development of new and improved products. Research and development headcount at the end of fiscal 2012 increased to 774 from 610 at the end of fiscal 2011 and 509 at the end of fiscal 2010. Research and development expense included stock-based compensation expense of $27.9 million, $23.3 million and $19.4 million for fiscal years 2012, 2011 and 2010, 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 9.9% in fiscal year 2012, compared to the prior year. The increase in general and administrative expense for fiscal year 2012 was primarily due to an increase in personnel costs of $5.5 million, compared to the prior year. In addition, fees paid to outside consultants for legal, accounting and information technology services increased $2.3 million for fiscal year 2012 compared to the prior year. In fiscal year 2011, general and administrative expense increased 21.9% compared to the prior year. The increase in general and administrative expense for fiscal year 2011 was primarily due to an increase in personnel costs of $5.3 million, compared to the prior year. In addition, fees paid to outside consultants for legal, accounting and information technology services increased $4.2 million for fiscal year 2011 compared to the prior year. General and administrative headcount at the end of fiscal 2012 increased to 323 from 270 at the end of fiscal 2011 and 226 at the end of fiscal 2010. General and administrative expense included stock-based compensation expense of $19.6 million, $22.4 million and $17.0 million for fiscal years 2012, 2011 and 2010, respectively.

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	Years Ended September 30,		
	2012	2011	2010
	(in thousands, except percentages)\		
Other income and income taxes			
Income from operations	$ 426,303	$ 350,662	$ 230,002
Other income, net	5,911	10,089	7,625
Income before income taxes	432,214	360,751	237,627
Provision for income taxes	157,028	119,354	86,474
Net income	$ 275,186	$ 241,397	$ 151,153
Other income and income taxes (as percentage of net revenue)			
Income from operations	31.0%	30.4%	26.1%
Other income, net	0.4	0.9	0.8
Income before income taxes	31.4	31.3	26.9
Provision for income taxes	11.4	10.4	9.8
Net income	20.0%	20.9%	17.1%

Other Income, Net. Other income, net, consists primarily of interest income and foreign currency transaction gains and losses. Other income, net decreased 41.4% in fiscal year 2012, as compared to fiscal year 2011 and increased 32.3% in fiscal year 2011, as compared to fiscal year 2010. Interest income was $6.9 million, $8.1 million and $8.1 million for fiscal years 2012, 2011 and 2010, respectively. The decrease in other income, net for fiscal year 2012 as compared to fiscal year 2011 was primarily due to a reduction in interest income of $1.2 million and foreign currency transaction losses of $2.4 million. The increase in other income, net for fiscal year 2011 as compared to fiscal year 2010 was primarily due to a one-time charge of $1.5 million related to a legal settlement in fiscal year 2010 that was not incurred in fiscal year 2011. In addition, foreign currency transaction gains increased by $1.0 million in fiscal year 2011, compared to the prior year.

Provision for Income Taxes. We recorded a 36.3% provision for income taxes for fiscal year 2012 compared to 33.1% in fiscal year 2011 and 36.4% in fiscal year 2010. The increase in the effective tax rate from fiscal year 2011 to fiscal year 2012 was primarily due to the expiration of the United States federal credit for Increasing Research Activities at December 31, 2011 and an increase in nondeductible stock-based compensation attributable to foreign based employees.

At September 30, 2012, there have been no material valuation allowances established on any of our deferred tax assets in any of the jurisdictions in which we operate because we believe that these assets are more likely than not to be realized. In making these determinations we have considered projected future taxable income and ongoing prudent and feasible tax planning strategies in assessing the appropriateness of a valuation allowance. Our net deferred tax assets as of fiscal year end 2012, 2011 and 2010 were $45.8 million, $43.2 million, and $46.6 million, respectively. Our worldwide effective tax rate may fluctuate based on a number of factors, including variations in projected taxable income in our various geographic locations in which we operate, changes in the valuation of our net deferred tax assets, the tax effects of stock-based compensation, 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.

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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,		
	2012	2011	2010
		(in thousands)	
Liquidity and Capital Resources			
Cash and cash equivalents and investments	$ 1,194,954	$ 1,012,753	$ 862,066
Cash provided by operating activities	495,437	416,938	313,612
Cash used in investing activities	(352,279)	(139,719)	(238,223)
Cash used in financing activities	(149,231)	(226,664)	(16,798)

Cash and cash equivalents, short-term investments and long-term investments totaled $1,195.0 million as of September 30, 2012 compared to $1,012.8 million as of September 30, 2011, representing an increase of $182.2 million. The increase was primarily due to cash provided by operating activities of $495.4 million for fiscal year 2012, compared to $416.9 million for fiscal year 2011, which was partially offset by $184.8 million of additional cash required for the repurchase of outstanding common stock under our share repurchase program in fiscal 2012, and $128.3 million for the acquisition of Traffix Systems. In fiscal year 2011, the increase was primarily due to cash provided by operating activities of $416.9 million, compared to $313.6 million for fiscal year 2010, which was partially offset by $271.5 million of additional cash required for the repurchase of outstanding common stock under our share repurchase program in fiscal 2011.

Cash provided by operating activities during fiscal year 2012 was $495.4 million compared to $416.9 million in fiscal year 2011 and $313.6 million in fiscal year 2010. 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 used in investing activities during fiscal year 2012 was $352.3 million compared to $139.7 million in fiscal year 2011 and $238.2 million in fiscal year 2010. 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 partially offset by the sale and maturity of investments, and $128.3 million for the acquisition of Traffix Systems. Cash used in investing activities for fiscal year 2011 was primarily the result of the purchase of investments and capital expenditures related to maintaining our operations worldwide partially offset by the sale and maturity of investments. Cash used in investing activities for fiscal year 2010 was primarily the result of the purchase of investments and capital expenditures related to maintaining our operations worldwide partially offset by the sale and maturity of investments.

Cash used in financing activities was $149.2 million for fiscal year 2012, compared to $226.7 million for fiscal year 2011 and $16.8 million for fiscal year 2010. Cash used in financing activities for fiscal year 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. Cash used in financing activities for fiscal year 2011 included $271.5 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 $21.2 million and excess tax benefits related to share-based compensation of $23.6 million. Cash used in financing activities for fiscal 2010 included $75.0 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 $31.7 million and excess tax benefits related to share-based compensation of $26.5 million.

Based on our current operating and capital expenditure forecasts, we believe that our existing cash and investment balances, excluding ARS, 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

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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, 2012:

	Payment Obligations by Year						
	2013	2014	2015	2016	2017	Thereafter	Total
	(in thousands)						
Operating leases	$ 19,336	$ 18,154	$ 16,427	$ 15,779	$ 15,913	$ 54,434	$ 140,043
Purchase obligations	16,187						16,187
Total	$ 35,523	$ 18,154	$ 16,427	$ 15,779	$ 15,913	$ 54,434	$ 156,230

We lease our facilities under operating leases that expire at various dates through 2023.

We adopted the provisions of FASB Interpretation No. 48, Accounting for Income Taxes on October 1, 2007. As of September 30, 2012, we had approximately $5.8 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 May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* (ASU 2011-04), which amends current fair value measurement and disclosure guidance to converge with International Financial Reporting Standards (IFRS) and provides increased transparency around valuation inputs and investment categorization. We adopted ASU 2011-04 in the second quarter of fiscal 2012. The adoption of ASU 2011-04 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income, Presentation of Comprehensive Income* (ASU 2011-05), which eliminates the option of presenting other comprehensive income as part of the statement of changes in stockholders equity and instead requires the entity to present other comprehensive income as either a single statement of comprehensive income combined with net income or as two separate but continuous statements. The amendments in this standard are to be applied retrospectively and are effective for fiscal years, and interim periods within those years beginning after December 15, 2011. We will adopt ASU 2011-05 in the first quarter of fiscal 2013 and do not expect the adoption of this standard to have an impact on our consolidated financial statements.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12), which defers the changes in ASU 2011-05 that relate to the presentation of reclassification adjustments to other comprehensive income. No other requirements in ASU 2011-05 are affected by this deferral. Similar to ASU 2011-05, we will adopt ASU 2011-12 in the first quarter of fiscal 2013 and do not expect the adoption of this standard to have an impact on our consolidated financial statements.

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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 $7.3 million in our interest income for the fiscal year 2012.

	Three Months or Less	Three Months to One Year	Maturing in Greater Than One Year	Total	Fair Value
			(in thousands, except for percentages)		
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 rates			0.7%		
September 30, 2011					
Included in cash and cash equivalents	$ 33,740	$	$	$ 33,740	$ 33,740
Weighted average interest rate	0.1%				
Included in short-term investments	$ 133,713	$ 192,053	$	$ 325,766	$ 325,766
Weighted average interest rates	0.9%	0.9%			
Included in long-term investments	$	$	$ 470,203	$ 470,203	$ 470,203
Weighted average interest rates			0.9%		
September 30, 2010					
Included in cash and cash equivalents	$ 26,987	$	$	$ 26,987	$ 26,987
Weighted average interest rate	0.1%				
Included in short-term investments	$ 43,970	$ 215,772	$	$ 259,742	$ 259,742
Weighted average interest rates	1.4%	1.6%			
Included in long-term investments	$	$	$ 433,570	$ 433,570	$ 433,570
Weighted average interest rates			1.4%		

At September 30, 2012, the fair value of our AAA/A- (or equivalent) rated municipal ARS was approximately $4.8 million. ARS are collateralized long-term debt instruments that provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined intervals, typically every 7, 28 or 35 days. Based on our expected operating cash flows and our other sources of cash, we do not believe that any reduction in liquidity of our municipal ARS will have a material impact on our overall ability to meet our liquidity needs. We have no intent to sell, won t be required to sell, and believe we will hold these securities until recovery. We believe certain of these available-for-sale investments may remain illiquid for longer than twelve months and as a result, we have classified $5.0 million (par value) of securities as long-term as of September 30, 2012.

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, 2012 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.

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Item 8. ***Financial Statements and Supplementary Data***

F5 NETWORKS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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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, shareholders equity and comprehensive income and cash flows present fairly, in all material respects, the financial position of F5 Networks, Inc. and its subsidiaries at September 30, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2012 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, 2012, based on criteria established in *Internal Control Integrated Framework* 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 consolidated 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.

PricewaterhouseCoopers LLP

Seattle, WA

November 21, 2012

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F5 NETWORKS, INC.

CONSOLIDATED BALANCE SHEETS

	September 30, 2012	2011
	(In thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 211,181	$ 216,784
Short-term investments	320,970	325,766
Accounts receivable, net of allowances of $3,254 and $2,898	185,172	165,676
Inventories	17,410	17,149
Deferred tax assets	10,362	8,391
Other current assets	30,986	29,907
Total current assets	776,081	763,673
Property and equipment, net	59,604	47,998
Long-term investments	662,803	470,203
Deferred tax assets	35,478	34,762
Goodwill	348,239	234,691
Other assets, net	28,996	17,222
Total assets	$ 1,911,201	$ 1,568,549
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 27,026	$ 33,525
Accrued liabilities	86,409	67,902
Deferred revenue	352,594	270,880
Total current liabilities	466,029	372,307
Other long-term liabilities	21,078	18,388
Deferred revenue, long-term	94,694	72,418
Total long-term liabilities	115,772	90,806
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, 78,715 and 79,145 shares issued and outstanding	326,922	380,737
Accumulated other comprehensive loss	(3,829)	(6,422)
Retained earnings	1,006,307	731,121
Total shareholders equity	1,329,400	1,105,436
Total liabilities and shareholders equity	$ 1,911,201	$ 1,568,549

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

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F5 NETWORKS, INC.

CONSOLIDATED INCOME STATEMENTS

	Years Ended September 30,		
	2012	2011	2010
	(In thousands, except per share data)		
Net revenues			
Products	$ 818,555	$ 721,975	$ 561,142
Services	558,692	429,859	320,830
Total	1,377,247	1,151,834	881,972
Cost of net revenues			
Products	137,102	129,325	113,834
Services	99,066	78,679	58,118
Total	236,168	208,004	171,952
Gross profit	1,141,079	943,830	710,020
Operating expenses			
Sales and marketing	445,595	370,735	293,201
Research and development	177,406	138,910	118,314
General and administrative	91,775	83,523	68,503
Total	714,776	593,168	480,018
Income from operations	426,303	350,662	230,002
Other income, net	5,911	10,089	7,625
Income before income taxes	432,214	360,751	237,627
Provision for income taxes	157,028	119,354	86,474
Net income	$ 275,186	$ 241,397	$ 151,153
Net income per share basic	$ 3.48	$ 2.99	$ 1.90
Weighted average shares basic	79,135	80,658	79,609
Net income per share diluted	$ 3.45	$ 2.96	$ 1.86
Weighted average shares diluted	79,780	81,482	81,049

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

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F5 NETWORKS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND

COMPREHENSIVE INCOME

	Common Stock		Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Total Shareholders Equity
	Shares	Amount	(In thousands)		
Balance, September 30, 2009	78,325	$ 462,786	$ (2,337)	$ 338,571	$ 799,020
Exercise of employee stock options	911	17,618			17,618
Issuance of stock under employee stock purchase plan	458	13,936			13,936
Issuance of restricted stock	1,849				
Repurchase of common stock	(1,188)	(75,000)			(75,000)
Tax benefit from employee stock transactions		27,102			27,102
Stock-based compensation		70,773			70,773
Comprehensive income:					
Net income				151,153	
Foreign currency translation adjustment			(771)		
Unrealized loss on securities, net of tax			(133)		
Comprehensive income					150,249
Balance, September 30, 2010	80,355	$ 517,215	$ (3,241)	$ 489,724	$ 1,003,698
Exercise of employee stock options	150	2,293			2,293
Issuance of stock under employee stock purchase plan	257	18,932			18,932
Issuance of restricted stock	1,370				
Repurchase of common stock	(2,987)	(271,526)			(271,526)
Tax benefit from employee stock transactions		24,076			24,076
Stock-based compensation		89,747			89,747
Comprehensive income:					
Net income				241,397	
Foreign currency translation adjustment			(2,366)		
Unrealized loss on securities, net of tax			(815)		
Comprehensive income					238,216
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
Comprehensive income:					
Net income				275,186	
Foreign currency translation adjustment			295		
Unrealized gain on securities, net of tax			2,298		
Comprehensive income					277,779

Balance, September 30, 2012	78,715	$ 326,922	$ (3,829)	$ 1,006,307	$ 1,329,400

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

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F5 NETWORKS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended September 30,		
	2012	2011	2010
		(In thousands)	
Operating activities			
Net income	$ 275,186	$ 241,397	$ 151,153
Adjustments to reconcile net income to net cash provided by operating activities:			
Realized loss (gain) on disposition of assets and investments	546	(163)	(125)
Stock-based compensation	95,348	89,747	70,773
Provisions for doubtful accounts and sales returns	1,572	982	1,206
Depreciation and amortization	35,139	20,887	23,833
Deferred income taxes	(4,293)	4,487	8,243
Gain on auction rate securities put option			(1,491)
Loss on trading auction rate securities			1,491
Changes in operating assets and liabilities, net of amounts acquired:			
Accounts receivable	(20,207)	(54,526)	(6,365)
Inventories	(262)	1,666	(4,996)
Other current assets	(998)	8,000	(17,064)
Other assets	(134)	81	(1,466)
Accounts payable and accrued liabilities	9,953	20,476	12,157
Deferred revenue	103,587	83,904	76,263
Net cash provided by operating activities	495,437	416,938	313,612
Investing activities			
Purchases of investments	(1,059,853)	(979,597)	(877,003)
Maturities of investments	784,601	795,142	603,825
Sales of investments	81,444	80,877	45,050
(Increase) decrease in restricted cash	(19)	19	2,530
Acquisition of intangible assets	(250)	(5,715)	
Acquisition of businesses, net of cash acquired	(128,335)		
Purchases of property and equipment	(29,867)	(30,445)	(12,625)
Net cash used in investing activities	(352,279)	(139,719)	(238,223)
Financing activities			
Excess tax benefit from stock-based compensation	10,371	23,623	26,532
Proceeds from the exercise of stock options and purchases of stock under employee stock purchase plan	25,174	21,239	31,670
Repurchase of common stock	(184,776)	(271,526)	(75,000)
Net cash used in financing activities	(149,231)	(226,664)	(16,798)
Net (decrease) increase in cash and cash equivalents	(6,073)	50,555	58,591
Effect of exchange rate changes on cash and cash equivalents	470	(2,525)	(674)
Cash and cash equivalents, beginning of year	216,784	168,754	110,837
Cash and cash equivalents, end of year	$ 211,181	$ 216,784	$ 168,754
Supplemental Information			
Cash paid for taxes	$ 145,874	$ 84,753	$ 67,120

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

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F5 NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The Company

F5 Networks, Inc. (the Company) provides products and services to help companies manage their Internet Protocol (IP) traffic and file storage infrastructure efficiently and securely. The Company s application delivery networking products improve the performance, availability and security of applications on Internet-based networks. Internet traffic between network-based applications and clients passes through these devices where the content is inspected to ensure that it is safe and modified as necessary to ensure that it is delivered securely and in a way that optimizes the performance of both the network and the applications. The Company s storage virtualization products simplify and reduce the cost of managing files and file storage devices, and ensure fast, secure, easy access to files for users and applications. With the purchase of Traffix Communication Systems Ltd. (Traffix Systems) in February 2012, the Company acquired a line of Diameter signaling products that enable full connectivity, enhanced scalability, and comprehensive control for telecommunications operators. These products enable operators to control their signaling networks effectively in the migration to next-generation networks and in future expansion of their subscriber bases and service portfolios. The Company also offers a broad range of services that include consulting, training, 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.

Reclassifications

Certain prior year amounts, specifically relating to cash flows in connection with the disposition of investments, have been reclassified from maturities of investments to sales of investments to conform to the current year presentation in the Consolidated Statement of Cash Flows. There was no change to the net cash used in investing activities as a result of this reclassification.

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.

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Investments

The Company classifies its investment securities as available-for-sale. Investment securities, consisting of certificates of deposit, corporate and municipal bonds and notes and United States government and agency 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, 2012, Avnet Technology Solutions and Ingram Micro, Inc. accounted for 13.4% and 12.0% of the Company s accounts receivable, respectively. At September 30, 2011, Avnet Technology Solutions and Ingram Micro, Inc. accounted for 15.0% and 14.5% of the Company s accounts receivable, respectively .

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,	
	2012	**2011**
Finished goods	$ 13,565	$ 12,917
Raw materials	3,845	4,232
	$ 17,410	$ 17,149

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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,	
	2012	2011
Computer equipment	$ 95,987	$ 77,899
Office furniture and equipment	12,335	11,243
Leasehold improvements	43,957	41,344
	152,279	130,486
Accumulated depreciation and amortization	(92,675)	(82,488)
	$ 59,604	$ 47,998

Depreciation and amortization expense totaled approximately $19.0 million, $16.6 million, and $17.8 million for the fiscal years ended September 30, 2012, 2011 and 2010, 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, and goodwill is written down when impaired. Goodwill was recorded in connection with the acquisition of 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. The Company performs its annual goodwill impairment test during the second fiscal quarter.

In September 2011, the FASB approved changes to the goodwill impairment guidance which are intended to reduce the cost and complexity of the annual impairment test. The changes provide entities the option to perform a qualitative assessment to determine whether further impairment testing is necessary. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not (i.e. greater than 50% chance) that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test will be required. Otherwise, no further testing will be required.

The revised guidance includes examples of events and circumstances that might indicate that a reporting unit s fair value is less than its carrying amount. These 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.

The changes are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. However, earlier adoption is permitted. The Company opted to early adopt this guidance for its annual goodwill impairment test performed in the second quarter of fiscal 2012.

If it is determined, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the provisions of authoritative guidance require that the

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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. For its annual goodwill impairment analysis, the Company operates under one reporting unit and determines the fair value of its reporting unit based on the Company s enterprise value. In March 2012, 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, 2012 and noted no indicators of impairment.

Other Assets

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

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 2012, 2011 and 2010. Amortization expense related to capitalized software development was immaterial for fiscal years 2012, 2011, and 2010.

Acquired and developed technology and customer relationship assets are recorded at cost and amortized over their estimated useful lives of five years. The estimated useful life of these assets is assessed and evaluated for reasonableness periodically. Acquired technology of $14.9 million in fiscal 2012, $15.0 million in fiscal 2007 and $8.0 million in fiscal 2006 was recorded in connection with the acquisitions of Traffix Systems, Acopia and Swan Labs, respectively. Amortization expense related to acquired technology, which is charged to cost of product revenues, totaled $5.3 million, $3.1 million and $4.6 million during the fiscal years 2012, 2011 and 2010, respectively.

Amortization expense of all other intangible assets, including customer relationships, patents and trademarks was not material during the fiscal years 2012, 2011 and 2010.

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, 2012.

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.

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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.

In certain regions where the Company does not have the ability to reasonably estimate returns, the Company defers revenue on sales to its distributors until they have received information from the channel partner indicating that the product has been sold to the end-user customer. 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.

Whenever product, training services and post-contract customer support (PCS) elements are sold together, a portion of the sales price is allocated to each element based on their respective fair values as determined when the individual elements are sold separately. Revenue from the sale of products is 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, it recognizes revenue when such rights of return lapse. Revenues for 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.

In October 2009, the Financial Accounting Standards Board (FASB) amended the accounting standards for revenue recognition to remove from the scope of industry-specific software revenue recognition guidance any tangible products containing software components and non-software components that operate together to deliver the products essential functionality. In addition, the FASB amended the accounting standards for certain multiple element revenue arrangements to:

Provide updated guidance on whether multiple elements exist, how the elements in an arrangement should be separated, and how the arrangement consideration should be allocated to the separate elements;

Require an entity to allocate arrangement consideration to each element based on a selling price 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; and

Eliminate the use of the residual method and require an entity to allocate arrangement consideration using the selling price hierarchy.

The majority of the Company s products are hardware appliances which contain software essential to the overall functionality of the products. Accordingly, the Company no longer recognizes revenue on sales of these products in accordance with the industry-specific software revenue recognition guidance.

For all transactions entered into prior to the first quarter of fiscal year 2011 and for sales of nonessential and stand-alone software after October 1, 2010, the Company allocates revenue for arrangements with multiple elements based on the 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

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the relative fair values of those elements. The fair value of an element must be based on VSOE. Where fair value of certain elements is not available, revenue is recognized on the residual method based on the fair value of undelivered elements. If evidence of the 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.

For transactions entered into subsequent to the adoption of the amended revenue recognition standards that are multiple-element arrangements, the arrangement consideration is allocated to each element based on the relative selling prices of all of the elements in the arrangement using the fair value hierarchy in the amended revenue recognition guidance.

Consistent with the methodology used under the previous accounting guidance, the Company establishes VSOE for its products, training services, PCS and consulting 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 believes that the fair value of its consulting services is represented by the billable consulting rate per hour, based on the rates they charge customers when they purchase standalone 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 uses historical sales transactions to determine whether VSOE can be established for each of the elements. In most instances, VSOE is the sales price of actual standalone (unbundled) transactions within the past 12 month period that are priced within a reasonable range, which the Company has determined to be plus or minus 15% of the median sales price of each respective price list.

VSOE of PCS is based on standalone sales since the Company does not provide stated renewal rates to its customers. In accordance with the Company s PCS pricing practice (supported by standalone renewal sales), renewal contracts are priced as a percentage of the undiscounted product list price. The PCS renewal percentages may vary, depending on the type and length of PCS purchased. The Company offers standard and premium PCS, and the term generally ranges from one to three years. The Company employs a bell-shaped-curve approach in evaluating VSOE of fair value of PCS. Under this approach, the Company considers VSOE of the fair value of PCS to exist when a substantial majority of its standalone PCS sales fall within a narrow range of pricing.

The Company is typically not able to determine TPE for its products or services. TPE is 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 the selling price of its non-software elements using VSOE or TPE, the Company uses BESP in its allocation of arrangement consideration. The objective of BESP 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 is generally not able to establish VSOE for non-software product sales. Under software revenue recognition guidance, these product sales were accounted for utilizing the residual method. With the adoption of the new revenue recognition guidance, the Company has been able to establish BESP for non-software product sales through the list price, less a discount deemed appropriate to maintain a reasonable gross margin. Management regularly reviews the gross margin information. 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.

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The Company has established and regularly validates the VSOE of fair value and BESP 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 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, 2012, 2011 and 2010 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 $1.8 million, $2.2 million and $2.1 million in advertising costs during the fiscal years 2012, 2011 and 2010, 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 new guidance also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures.

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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. and Traffix Communication Systems, 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 a separate component of accumulated other comprehensive income (loss) in shareholders equity.

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, 2012, 2011 and 2010.

Segments

Management has determined that the Company was organized as, and operated in, one reportable operating segment for fiscal year 2012 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 $95.3 million, $89.7 million and $70.8 million of stock-based compensation expense for the fiscal years ended September 30, 2012, 2011 and 2010, respectively. As of September 30, 2012, there was $134.9 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). Pursuant to the Company s annual equity awards program, the Company s Compensation Committee approved 789,225 RSUs to non-executive employees on July 30, 2012 and 290,415 RSUs to executive officers on October 30, 2012. 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 year 2012 were assumed as part of the acquisition of Traffix Systems in the second fiscal quarter. No stock options were granted in fiscal years 2011 and 2010. 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,		
	2012	2011	2010
Risk-free interest rate	0.14%	0.10%	0.25%
Expected dividend			
Expected term	0.5 years	0.5 years	0.5 years
Expected volatility	45.20%	53.87%	41.04%

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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% and the estimated forfeiture rate for grants awarded to all other employees was approximately 9% in fiscal 2012. 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 2011, as part of the annual review of executive compensation, the Compensation Committee of the Board of Directors approved a change in the grant date for the Company s annual equity awards program for the executive officers from August 1 to November 1 (or, if such day is not a business day, on the following business day). As a result of this change in the annual grant date, a proposal from the Compensation Committee s outside independent compensation consultant to revise the list of peer group data in recognition of the Company s strong revenue growth and new positioning as part of the S&P 500 index, and the Compensation Committee s belief in the importance of the Company s ability to retain its key employees, the Company granted 82,968 RSUs to certain current executive officers in November 2011. 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-sixth of the RSU grant, or a portion thereof, was subject to the Company achieving specified quarterly revenue and EBITDA goals during fiscal year 2012. In each case, 50% of the quarterly performance stock grant is based on achieving at least 80% of the quarterly revenue goal and the other 50% 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 33.33% of this annual equity awards RSU grant shall be subject to quarterly performance based vesting for fiscal years 2013 and 2014 (16.66% 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 August 2011, the Company granted 170,390 RSUs to certain current executive officers as part of the annual equity awards program. Fifty percent of the aggregate number of RSUs granted as part of the annual equity awards program vest in equal quarterly increments over three years, until such portion of the grant is fully vested on August 1, 2014. One-sixth of the annual equity awards RSU grant, or a portion thereof, was subject to the Company achieving specified quarterly revenue and EBITDA goals during the period beginning in the fourth quarter of fiscal year 2011 through the third quarter of fiscal year 2012. In each case, 50% of the quarterly performance stock grant is based on achieving at least 80% of the quarterly revenue goal and the other 50% 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 33.33% of this annual equity awards RSU grant shall be subject to performance based vesting for each of the four quarter periods beginning with the fourth quarters of fiscal years 2012 and 2013 (16.66% in each period). The Compensation Committee of the Board of Directors will set applicable performance targets and vesting formulas for each of these periods.

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In August 2010, the Company granted 181,334 and 83,000 RSUs to certain current executive officers as part of the annual equity and retention awards programs, respectively. Fifty percent of the aggregate number of RSUs granted as part of the annual equity awards program vest in equal quarterly increments over three years, until such portion of the grant is fully vested on August 1, 2013. One-sixth of the annual equity awards RSU grant, or a portion thereof, was subject to the Company achieving specified quarterly revenue and EBITDA goals during the period beginning in the fourth quarter of fiscal year 2010 through the third quarter of fiscal year 2011. In each case, 50% of the quarterly performance stock grant is based on achieving at least 80% of the quarterly revenue goal and the other 50% 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 33.33% of this annual equity awards RSU grant shall be subject to performance based vesting for each of the four quarter periods beginning with the fourth quarters of fiscal years 2011 and 2012 (16.66% in each period). The Compensation Committee of the Board of Directors will set applicable performance targets and vesting formulas for each of these periods. All RSUs granted as part of the retention awards program fully vest on August 1, 2013.

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 October 25, 2011, the Company announced that its Board of Directors authorized an additional $200 million for its common stock share repurchase program. This new authorization is incremental to the existing $400 million program, initially approved in October 2010 and expanded in August 2011. 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 15, 2012, the Company had repurchased and retired 9,327,774 shares at an average price of $67.63 per share and the Company had $168.7 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,		
	2012	2011	2010
Numerator			
Net income	$ 275,186	$ 241,397	$ 151,153
Denominator			
Weighted average shares outstanding basic	79,135	80,658	79,609
Dilutive effect of common shares from stock options and restricted stock units	645	824	1,440
Weighted average shares outstanding diluted	79,780	81,482	81,049
Basic net income per share	$ 3.48	$ 2.99	$ 1.90
Diluted net income per share	$ 3.45	$ 2.96	$ 1.86

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An immaterial amount of common shares potentially issuable from stock options for the years ended September 30, 2012, 2011 and 2010 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 May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* (ASU 2011-04), which amends current fair value measurement and disclosure guidance to converge with International Financial Reporting Standards (IFRS) and provides increased transparency around valuation inputs and investment categorization. The Company adopted ASU 2011-04 in the second quarter of fiscal 2012. The adoption of ASU 2011-04 did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income, Presentation of Comprehensive Income* (ASU 2011-05), which eliminates the option of presenting other comprehensive income as part of the statement of changes in stockholders equity and instead requires the entity to present other comprehensive income as either a single statement of comprehensive income combined with net income or as two separate but continuous statements. The amendments in this standard are to be applied retrospectively and are effective for fiscal years, and interim periods within those years beginning after December 15, 2011. The Company will adopt ASU 2011-05 in the first quarter of fiscal 2013 and does not expect the adoption of this standard to have an impact on its consolidated financial statements.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12), which defers the changes in ASU 2011-05 that relate to the presentation of reclassification adjustments to other comprehensive income. No other requirements in ASU 2011-05 are affected by this deferral. Similar to ASU 2011-05, the Company will adopt ASU 2011-12 in the first quarter of fiscal 2013 and does not expect the adoption of this standard to have an 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.

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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 and U.S. government agency 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, 2012, were as follows (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at September 30, 2012
Cash equivalents	$ 35,658	$	$	$ 35,658
Short-term investments				
Available-for-sale securities certificates of deposit		3,533		3,533
Available-for-sale securities corporate bonds and notes		193,990		193,990
Available-for-sale securities municipal bonds and notes		63,422		63,422
Available-for-sale securities U.S. government agency securities		60,025		60,025
Long-term investments				
Available-for-sale securities corporate bonds and notes		229,441		229,441
Available-for-sale securities municipal bonds and notes		30,307		30,307
Available-for-sale securities U.S. government securities		4,995		4,995
Available-for-sale securities U.S. government agency securities		393,310		393,310
Available-for-sale securities auction rate securities			4,750	4,750
Total	$ 35,658	$ 979,023	$ 4,750	$ 1,019,431

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The Company s financial assets measured at fair value on a recurring basis subject to the disclosure requirements at September 30, 2011, were as follows (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at September 30, 2011
Cash equivalents	$ 33,740	$	$	$ 33,740
Short-term investments				
Available-for-sale securities corporate bonds and notes		137,156		137,156
Available-for-sale securities municipal bonds and notes		82,715		82,715
Available-for-sale securities U.S. government securities		799		799
Available-for-sale securities U.S. government agency securities		105,096		105,096
Long-term investments				
Available-for-sale securities corporate bonds and notes		141,150		141,150
Available-for-sale securities municipal bonds and notes		30,714		30,714
Available-for-sale securities U.S. government agency securities		285,329		285,329
Available-for-sale securities auction rate securities			13,010	13,010
Total	$ 33,740	$ 782,959	$ 13,010	$ 829,709

Due to the auction failures of the Company s auction rate securities (ARS) that began in the second quarter of fiscal year 2008, there are still no quoted prices in active markets for similar assets as of September 30, 2012. Therefore, the Company has classified its ARS as level 3 financial assets. 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):

	2012	2011
Balance, beginning of period	$ 13,010	$ 16,043
Total gains realized or unrealized:		
Included in other comprehensive income	1,740	967
Settlements	(10,000)	(4,000)
Balance, end of period	$ 4,750	$ 13,010
Unrealized gains attributable to assets still held as of the end of the period	112	314

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. Level 3 investment securities primarily include certain ARS for which there was a decrease in the observation of market pricing. At September 30, 2012, the values of these securities were estimated primarily using discounted cash flow analysis that incorporated transaction details such as contractual terms, maturity, timing and amount of future cash flows, as well as assumptions about liquidity and credit valuation adjustments of marketplace participants at September 30, 2012. Significant fluctuations in any of these

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inputs in isolation would result in changes in the fair value of the Company s ARS, but due to the balance at September 30, 2012, any change would not be material to the consolidated financial statements.

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, 2012, 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, 2012	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$ 3,528	$ 5	$	$ 3,533
Corporate bonds and notes	193,548	482	(40)	193,990
Municipal bonds and notes	63,371	61	(10)	63,422
U.S. government agency securities	60,010	15		60,025
	$ 320,457	$ 563	$ (50)	$ 320,970

September 30, 2011	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds and notes	$ 137,087	$ 251	$ (182)	$ 137,156
Municipal bonds and notes	82,687	62	(34)	82,715
U.S. government securities	799			799
U.S. government agency securities	105,050	55	(9)	105,096
	$ 325,623	$ 368	$ (225)	$ 325,766

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

September 30, 2012	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds and notes	$ 228,438	$ 1,063	$ (60)	$ 229,441
Municipal bonds and notes	30,177	138	(8)	30,307
Auction rate securities	5,000		(250)	4,750
U.S. government securities	4,983	12		4,995
U.S. government agency securities	392,959	389	(38)	393,310
	$ 661,557	$ 1,602	$ (356)	$ 662,803

September 30, 2011	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds and notes	$ 141,315	$ 415	$ (580)	$ 141,150
Municipal bonds and notes	30,575	151	(12)	30,714
Auction rate securities	15,000		(1,990)	13,010
U.S. government agency securities	285,334	164	(169)	285,329
	$ 472,224	$ 730	$ (2,751)	$ 470,203

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The amortized cost and fair value of fixed maturities at September 30, 2012, by contractual years-to-maturity, are presented below (in thousands):

	Cost or Amortized Cost	Fair Value
One year or less	$ 320,457	$ 320,970
Over one year	661,557	662,803
	$ 982,014	$ 983,773

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, 2012 (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
September 30, 2012	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate bonds and notes	$ 57,946	$ (98)	$ 3,510	$ (2)	$ 61,456	$ (100)
Municipal bonds and notes	16,310	(18)			16,310	(18)
Auction rate securities			4,750	(250)	4,750	(250)
U.S. government agency securities	80,898	(38)			80,898	(38)
Total	$ 155,154	$ (154)	$ 8,260	$ (252)	$ 163,414	$ (406)

The Company invests in securities that are rated investment grade or better. The unrealized losses on investments for fiscal year 2012 were primarily caused by reductions in the values of the ARS due to the illiquid markets and were partially offset by unrealized gains related to interest rate decreases.

ARS are variable-rate debt securities. The Company limits its investments in ARS to securities that carry an AAA/A- (or equivalent) rating from recognized rating agencies and limits the amount of credit exposure to any one issuer. At the time of the Company s initial investment and at the date of this report, all ARS were in compliance with the Company s investment policy. In the past, the auction process allowed investors to obtain immediate liquidity if so desired by selling the securities at their face amounts. Liquidity for these securities has historically been provided by an auction process that resets interest rates on these investments on average every 7-35 days. However, as has been reported in the financial press, the disruptions in the credit markets adversely affected the auction market for these types of securities.

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 2012 Acquisition of Traffix Communication Systems Ltd.

On February 22, 2012, the Company acquired all issued and outstanding shares of Traffix Communication Systems Ltd. and subsidiaries (Traffix Systems), a privately held Israeli corporation headquartered in Hod HaSharon, Israel for $133.7 million in cash. Direct transaction costs associated with the acquisition were approximately $0.8 million and were expensed in the second quarter of fiscal 2012. Traffix Systems provides

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Diameter signaling products for telecommunications service providers. The Company expects to advance its competitive advantage in the worldwide marketplace by leveraging Traffix System s signaling processing technology and general expertise and the Company s own data routing technology. As a result of the acquisition, the Company acquired all the assets of Traffix Systems, all property, equipment and other assets that Traffix Systems used in its business and assumed all the liabilities of Traffix Systems. The results of operations of Traffix Systems 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, 2012.

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

Assets acquired	
Cash	$ 5,388
Fair value of current assets	1,123
Property and equipment, net	406
Developed technology, customer relationships and other intangibles	17,624
Goodwill	113,210
Total assets acquired	$ 137,751
Liabilities assumed	
Accrued liabilities	$ (3,627)
Deferred revenue	(402)
Total liabilities assumed	(4,029)
Net assets acquired	$ 133,722

Of the total estimated purchase price, $14.9 million was allocated to developed technology, and $2.7 million to customer relationships and other intangibles. To determine the value of developed technology, the income approach was used, which included estimates and assumptions provided by Traffix Systems and Company management, which are considered those of a market participant. The income approach estimates the fair value of an asset based on its earnings and cash flow capacity. A combination of the income and cost approaches were used to determine the fair value of customer relationships and other intangibles. The cost approach requires an estimation of the costs required by a market participant to reproduce the asset. Goodwill generated from this transaction is primarily related to expected synergies of the technology and expanded opportunities within the telecommunications industry. The purchase price of Traffix is anticipated to be recovered for Israeli tax purposes through amortization deductions over a five year period beginning in the year after the year in which the acquisition was accomplished. The amortization of the purchase price for Israeli tax purposes is contingent upon receiving necessary rulings from the Israeli Office of Chief Scientist and the Israeli Tax Authority.

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 general and administrative expenses. The weighted average life of the amortizable intangible assets recognized from the Traffix acquisition was 5.7 years. The estimated useful lives for the acquired intangible assets were based on the expected future cash flows associated with the respective asset.

The fair value of replacement stock-based compensation awards issued by the Company attributable to precombination services was immaterial and has not been reflected in the consideration transferred.

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5. Balance Sheet Details

Other Assets

Other assets consist of the following (in thousands):

	September 30,	
	2012	2011
Acquired and developed technology and software development cost	$ 18,129	$ 8,520
Deposits and other	10,688	8,540
Restricted cash	179	162
	$ 28,996	$ 17,222

Amortization expense related to other assets was approximately $6.4 million, $4.3 million, and $6.0 million for the fiscal years ended September 30, 2012, 2011 and 2010, respectively.

Changes in the carrying amount of Goodwill during fiscal years 2012 and 2011 are summarized as follows (in thousands):

Balance, September 30, 2010	$ 234,700
Other	(9)
Balance, September 30, 2011	234,691
Acquisition of Traffix Systems	113,210
Other	338
Balance, September 30, 2012	$ 348,239

Intangible assets consist of the following (in thousands):

	2012			2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired and developed technology and software development cost	$ 54,240	$ (36,111)	$ 18,129	$ 39,109	$ (30,589)	$ 8,520
Customer relationships	5,379	(2,855)	2,524	2,699	(2,314)	385
Patents and trademarks	3,044	(2,464)	580	3,044	(2,214)	830
Trade names	263	(218)	45	200	(163)	37
Non-compete covenants	200	(200)		200	(200)	
	$ 63,126	$ (41,848)	$ 21,278	$ 45,252	$ (35,480)	$ 9,772

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

2013	$ 4,260

2014	4,174
2015	4,161
2016	4,161
2017	2,395
	$ 19,151

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Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	September 30,	
	2012	2011
Payroll and benefits	$ 61,720	$ 47,824
Sales and marketing	4,407	5,062
Income tax accruals	8,621	4,860
Other	11,661	10,156
	$ 86,409	$ 67,902

6. Income Taxes

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

	Years Ended September 30,		
	2012	2011	2010
United States	$ 421,346	$ 342,741	$ 225,698
International	10,868	18,010	11,929
	$ 432,214	$ 360,751	$ 237,627

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

	Years Ended September 30,		
	2012	2011	2010
Current			
U.S. federal	$ 147,774	$ 103,620	$ 79,802
State	10,733	7,397	4,722
Foreign	4,218	5,743	3,230
Total	162,725	116,760	87,754
Deferred			
U.S. federal	(7,320)	3,070	(2,049)
State	187	(144)	(1,091)
Foreign	1,436	(332)	1,860
Total	(5,697)	2,594	(1,280)
	$ 157,028	$ 119,354	$ 86,474

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

	Years Ended September 30,

	2012	2011	2010
Income tax provision at statutory rate	$ 151,275	$ 126,263	$ 83,170
State taxes, net of federal benefit	9,223	5,999	2,871
Impact of foreign income taxes	1,850	(892)	915
Research and development and other credits	(2,401)	(5,486)	(2,124)
Domestic manufacturing deduction	(13,657)	(9,844)	(3,766)
Impact of stock-based compensation	7,807	5,310	2,825
Other	2,931	(1,996)	2,583
	$ 157,028	$ 119,354	$ 86,474

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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, 2012	2011
Deferred tax assets		
Net operating loss carry-forwards	$ 1,366	$ 452
Allowance for doubtful accounts	1,106	898
Accrued compensation and benefits	6,371	4,879
Inventories and related reserves	1,223	1,564
Stock-based compensation	11,713	8,969
Deferred revenue	23,372	19,400
Other accruals and reserves	9,594	9,629
Depreciation		1,403
Tax credit carry-forwards	793	1,657
	55,538	48,851
Valuation allowance	(208)	
Deferred tax liabilities		
Purchased intangibles and other	(6,329)	(5,698)
Depreciation	(3,161)	
	(9,490)	(5,698)
Net deferred tax assets	$ 45,840	$ 43,153

At September 30, 2012, the Company had net operating loss carry-forwards of approximately $13.6 million, gross. All net operating loss carry-forwards relate to Traffix Communication Systems Ltd., an Israeli entity acquired by the Company during the second quarter of fiscal year 2012. These operating losses carry-forward indefinitely.

United States income and foreign withholding taxes have not been provided on approximately $24.3 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 increase in the effective tax rate from fiscal year 2011 to fiscal year 2012 was primarily due to an to the expiration of the United States federal credit for Increasing Research Activities at December 31, 2011 and an increase in nondeductible stock-based compensation attributable to foreign based employees.

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.

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The following table provides a reconciliation of the beginning and ending amount of unrecognized tax benefits in fiscal years 2012, 2011 and 2010:

	2012	2011	2010
Balance, beginning of period	$ 5,952	$ 6,568	$ 5,841
Gross (decreases) increases related to prior period tax positions	(201)	1,198	442
Gross increases related to current period tax positions	702	1,659	432
Decreases relating to settlements with tax authorities	(3)	(243)	
Reductions due to lapses of statute of limitations	(998)	(3,230)	(147)
Balance, end of period	$ 5,452	$ 5,952	$ 6,568

The Company recognizes interest and, if applicable, penalties (not included in the unrecognized tax benefits table above) for any uncertain tax positions. This interest and penalty expense will be a component of income tax expense. In the years ended September 30, 2012, 2011 and 2010 the Company accrued approximately $250,000, $283,000 and $390,000, respectively, of interest expense related to its liability for unrecognized tax benefits. No penalties were recognized in fiscal years 2012, 2011 and 2010 or accrued for at September 30, 2012, 2011 and 2010.

All unrecognized tax benefits, if recognized, would affect the effective tax rate. The Company does not anticipate that total unrecognized tax benefits will significantly change within the next twelve months.

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, 2008. Major jurisdictions where there are wholly owned subsidiaries of F5 Networks, Inc. which require income tax filings include the United Kingdom, Japan, Australia and Germany. The earliest periods open for review by these local taxing authorities are fiscal years 2010 for the United Kingdom and Japan, and 2007 for Australia and Germany. Within the next four fiscal quarters, the statute of limitations will begin to close on the fiscal years ended 2008 and 2009 tax returns filed in various states and the fiscal year ended 2009 federal income tax return.

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 10 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 2012 and 2011, the Company issued no stock options, stock purchase awards or stock bonuses under this plan. As of September 30, 2012, there were options to purchase 106,909 shares outstanding under the 1998 Plan.

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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, 2012 there were 1,436,347 shares available for awards under the Employee Stock Purchase Plan.

2000 Equity Incentive Plan. In July 2000, the Company adopted the 2000 Employee Equity Incentive Plan, or the 2000 Plan, which provided for discretionary grants of non-qualified stock options, stock purchase awards and stock bonuses for non-executive employees and other service providers. A total of 7,000,000 shares of common stock were reserved for issuance under the 2000 Plan. Upon certain changes in control of the Company, all outstanding and unvested options or stock awards under the 2000 Plan will vest at the rate of 50%, unless assumed or substituted by the acquiring entity. As of September 30, 2012, there were options to purchase 88,784 shares outstanding and no shares available for awards under the 2000 Plan. The Company terminated the 2000 Plan effective November 1, 2008 and no additional shares may be issued from the 2000 Plan.

Acquisition Related Incentive Plans. In July 2003, the Company adopted the uRoam Acquisition Equity Incentive Plan, or the uRoam Plan, in connection with the hiring of the former employees of uRoam, Inc. A total of 500,000 shares of common stock were reserved for issuance under the uRoam Plan. The plan provided for discretionary grants of non-qualified and incentive stock options, stock purchase awards and stock bonuses. The Company has not granted any stock purchase awards or stock bonuses under this plan. As of September 30, 2012 there were options to purchase 1,650 shares outstanding and no shares available for additional awards under the uRoam Plan.

In July 2004, the Company adopted the MagniFire Acquisition Equity Incentive Plan, or the MagniFire Plan, in connection with the hiring of the former employees of MagniFire Websystems, Inc. A total of 830,000 shares of common stock were reserved for issuance under the MagniFire Plan. The plan provided for discretionary grants of non-qualified and incentive stock options, stock purchase awards and stock bonuses. The Company has not granted any stock purchase awards or stock bonuses under this plan. As of September 30, 2012 there were options to purchase 2,690 shares outstanding and no shares available for additional awards under the MagniFire Plan.

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 2012, the Company issued no stock options or restricted stock units under the Acopia Plan. As of September 30, 2012, there were options to purchase 20,617 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

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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 2012, the Company issued no stock options and 53,358 restricted stock units under the Traffix Acquisition Plan. As of September 30, 2012, there were no stock options outstanding, 50,782 restricted stock units outstanding and no shares available for additional awards under 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 2012, the Company issued 74,347 stock options as part of such conversion under the Traffix Plan. As of September 30, 2012, there were options to purchase 63,824 shares outstanding and no shares available for additional awards under the Traffix Plan.

2005 Equity Incentive Plan. In December 2004, the Company adopted the 2005 Equity Incentive Plan, or the 2005 Plan, which provides for discretionary grants of non-statutory stock options and stock units for employees, including officers, and other service providers. A total of 12,400,000 shares of common stock have been reserved for issuance under the 2005 Plan. Upon certain changes in control of the Company, all outstanding and unvested options or stock awards under the 2005 Plan will vest at the rate of 50%, unless assumed or substituted by the acquiring entity. During the fiscal year 2012, the Company issued no stock options and 1,189,299 restricted stock units under the 2005 Plan. As of September 30, 2012, there were no options outstanding, 1,717,444 restricted stock units outstanding and 2,422,360 shares available for new awards under the 2005 Plan.

A majority of the restricted stock units granted in fiscal years 2012, 2011 and 2010 vest quarterly over a two-year period. The restricted stock units were granted during fiscal years 2012, 2011 and 2010 with a per-share weighted average fair value of $99.63, $94.99 and $86.32, respectively. The fair value of restricted stock vested during fiscal years 2012, 2011 and 2010 was $93.8 million, $145.0 million and $116.4 million, respectively.

A summary of restricted stock unit activity under the 2005 Plan is as follows:

	Outstanding Stock Units	Weighted Average Grant Date Fair Value
Balance, September 30, 2011	1,456,686	$ 44.40
Units granted	1,189,299	98.10
Units vested	(818,468)	112.74
Units cancelled	(110,073)	91.16
Balance, September 30, 2012	1,717,444	$ 46.02

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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, 2011	331,424	$ 12.66
Options granted	74,347	3.70
Options exercised	(119,834)	9.43
Options cancelled	(1,463)	2.51
Balance, September 30, 2012	284,474	$ 11.73

All stock options granted in fiscal year 2012 were assumed as part of the acquisition of Traffix Systems in the second fiscal quarter. No stock options were granted in fiscal years 2011 and 2010.

The total intrinsic value of options exercised during fiscal 2012, 2011 and 2010 was $13.2 million, $15.2 million and $36.6 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	284,474	3.24	$ 11.73	$ 26,431
Exercisable	229,715	1.90	$ 13.61	$ 20,910
Vested and expected to vest	278,541	3.12	$ 11.90	$ 25,833

(1) Aggregate intrinsic value represents the difference between the fair value of the Company s common stock underlying these options at September 30, 2012 and the related exercise prices.

As of September 30, 2012, equity based awards (including stock options and restricted stock units) are available for future issuance as follows:

	Awards Available for Grant
Balance, September 30, 2011	3,501,586
Granted	(1,317,004)
Cancelled	114,112
Additional shares reserved (terminated), net	123,666
Balance, September 30, 2012	2,422,360

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.

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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. During 2008, the Company entered into two separate sublease agreements to sublease approximately 112,500 square feet of this building. The Company amended both subleases in 2012, which adjusted the respective rentable square feet and sublease term for each subtenant. Both subleases will now expire in 2018.

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

	Gross Lease Payments	Sublease Income	Net Lease Payments
2013	19,336	4,219	15,117
2014	18,154	3,215	14,939
2015	16,427	1,460	14,967
2016	15,779	1,412	14,367
2017	15,913	1,450	14,463
Thereafter	54,434	1,861	52,573
	$ 140,043	$ 13,617	$ 126,426

Rent expense under non-cancelable operating leases amounted to approximately $21.6 million, $19.0 million, and $17.5 million for the fiscal years ended September 30, 2012, 2011, and 2010, 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, 2012, the Company s purchase obligations were $16.2 million.

Litigation

The Company 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 may in the future be party to litigation arising in the ordinary course of business, including claims that we allegedly infringe upon third-party intellectual property rights. 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, 2012, 2011, and 2010 were approximately $5.7 million, $4.7 million and $3.8 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. The Company does business in four main geographic

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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 and not allocated to any specific region. Therefore, geographic information is presented only for net revenue.

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

	Years Ended September 30,		
	2012	2011	2010
Americas:			
United States	$ 729,238	$ 627,806	$ 481,717
Other	64,144	49,062	35,552
Total Americas	793,382	676,868	517,269
EMEA	294,191	240,453	201,259
Japan	90,521	74,824	59,151
Asia Pacific	199,153	159,689	104,293
	$ 1,377,247	$ 1,151,834	$ 881,972

One worldwide distributor of the Company s products accounted for 17.1%, 18.1%, and 14.5% of total net revenues in fiscal years 2012, 2011, and 2010, respectively. Another worldwide distributor of the Company s products accounted for 13.8% and 10.7% of total net revenues in fiscal years 2012 and 2011, respectively. Another worldwide distributor of the Company s products accounted for 10.2% of total net revenue in fiscal year 2010. Two worldwide distributors accounted for 13.4% and 12.0% of the Company s accounts receivable as of September 30, 2012. Two worldwide distributors accounted for 15.0% and 14.5% of the Company s accounts receivable as of September 30, 2011. No other distributors accounted for more than 10% of total net revenue or receivables.

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11. Quarterly Results of Operations (Unaudited)

The following presents the Company s unaudited quarterly results of operations for the eight quarters ended September 30, 2012. 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, 2012	June 30, 2012	March 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011	March 31, 2011	Dec. 31, 2010
	(Unaudited and in thousands, except per share data)							
Net revenues								
Products	$ 209,718	$ 207,118	$ 205,165	$ 196,554	$ 197,446	$ 179,327	$ 173,710	$ 171,492
Services	152,841	145,516	134,457	125,878	117,169	111,386	103,862	97,442
Total	362,559	352,634	339,622	322,432	314,615	290,713	277,572	268,934
Cost of net revenues								
Products	35,752	34,482	33,668	33,200	34,485	31,803	31,423	31,614
Services	26,929	25,805	23,926	22,406	21,435	20,645	19,250	17,349
Total	62,681	60,287	57,594	55,606	55,920	52,448	50,673	48,963
Gross profit	299,878	292,347	282,028	266,826	258,695	238,265	226,899	219,971
Operating expenses								
Sales and marketing	116,298	112,064	110,995	106,238	100,945	93,633	89,332	86,825
Research and development	47,731	46,985	43,568	39,122	36,552	35,245	34,507	32,606
General and administrative	24,015	23,298	22,785	21,677	21,867	21,126	19,846	20,684
Total operating expenses	188,044	182,347	177,348	167,037	159,364	150,004	143,685	140,115
Income from operations	111,834	110,000	104,680	99,789	99,331	88,261	83,214	79,856
Other income, net	909	1,713	1,428	1,861	4,087	1,889	1,568	2,545
Income before income taxes	112,743	111,713	106,108	101,650	103,418	90,150	84,782	82,401
Provision for income taxes	45,026	39,377	37,467	35,158	35,808	27,601	29,207	26,738
Net income	$ 67,717	$ 72,336	$ 68,641	$ 66,492	$ 67,610	$ 62,549	$ 55,575	$ 55,663
Net income per share basic	$ 0.86	$ 0.91	$ 0.87	$ 0.84	$ 0.84	$ 0.77	$ 0.69	$ 0.69
Weighted average shares basic	78,980	79,135	79,156	79,272	80,317	80,866	80,809	80,644
Net income per share diluted	$ 0.85	$ 0.91	$ 0.86	$ 0.83	$ 0.84	$ 0.77	$ 0.68	$ 0.68
Weighted average shares diluted	79,425	79,655	79,775	79,822	80,766	81,497	81,622	81,648

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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, 2012 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, 2012.

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, 2012. 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*. 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, 2012.

The effectiveness of the Company s internal control over financial reporting as of September 30, 2012, 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.

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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, 2013 (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***

Equity Compensation Plan Information

The following table provides information as of September 30, 2012 with respect to the shares of Common Stock that may be issued under the Company s existing equity compensation plans.

Plan Category	Column A Number of securities to be issued upon exercise of outstanding options and rights	Column B Weighted-average exercise price of outstanding options and rights(3)	Column C Number of securities remaining available for future issuance under equity compensation plans (total securities authorized but unissued under the plans, less Column A)
Equity compensation plans approved by security holders(1)	1,824,353(2)	$ 13.13	3,858,707(4)
Equity compensation plans not approved by securityholders(5)	228,347	$ 10.88	
Total	2,052,700	$ 11.73	3,858,707

(1) Consists of the F5 Networks, Inc. Amended and Restated 1998 Equity Incentive Plan (the 1998 Equity Incentive Plan), and the F5 Networks, Inc. 2005 Equity Incentive Plan as Amended January 2009 (the 2005 Equity Incentive Plan). No additional options may be granted under the 1998 Equity Incentive Plan.

(2) Includes 106,909 shares issuable upon exercise of outstanding options granted under the 1998 Equity Incentive Plan and 1,717,444 shares issuable upon vesting of outstanding RSUs granted under the 2005 Equity Incentive Plan.

(3) The weighted-average exercise price does not take into account the shares issuable upon vesting of outstanding RSUs, which have no exercise price.
(4) Includes 1,436,347 shares reserved for issuance under the Employee Stock Purchase Plan.

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(5) Consists of the F5 Networks, Inc. 2000 Employee Equity Incentive Plan (the 2000 Equity Incentive Plan), F5 Networks, Inc. uRoam Acquisition Equity Incentive Plan (the uRoam Equity Incentive Plan), F5 Networks, Inc. MagniFire Acquisition Equity Incentive Plan (the MagniFire Equity Incentive Plan), F5 Networks, Inc. Assumed Acopia Networks Inc. 2001 Stock Incentive Plan (the Acopia 2001 Plan), F5 Networks, Inc. assumed Traffix Communication Systems Ltd. 2007 Israeli Employee Share Option Plan (the Traffix 2007 Plan) and F5 Networks, Inc. Traffix Acquisition Equity Incentive Plan (the Traffix Acquisition Plan). The material features of each of these equity compensation plans are set forth in Note 7 in our financial statements, Summary of Significant Accounting Policies Shareholders Equity included in our Annual Report to Shareholders on Form 10-K for the year ended September 30, 2012. As of the date of assumption of the Acopia 2001 Plan, there were options to purchase 426,821 shares outstanding under the Acopia 2001 Plan, with a weighted average exercise price of $18.94. The Company terminated the 2000 Equity Incentive Plan and the Acopia 2001 Plan effective November 1, 2008 and no additional shares may be issued from those Plans. In addition, no additional options or additional other equity awards may be granted under the uRoam Equity Incentive Plan, the MagniFire Equity Incentive Plan, the Traffix 2007 Plan or the Traffix Acquisition Plan.

The information required by Item 403 of Regulation S-K 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.

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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.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

F5 NETWORKS, INC.

By: /s/ JOHN MCADAM
John McAdam
Chief Executive Officer and President

Dated: November 21, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

	Signature	Title	Date
By:	/s/ JOHN MCADAM John McAdam	Chief Executive Officer, President, and Director (principal executive officer)	November 21, 2012
By:	/s/ ANDY REINLAND Andy Reinland	Executive Vice President, Chief Financial Officer (principal financial officer)	November 21, 2012
By:	/s/ A. GARY AMES A. Gary Ames	Director	November 21, 2012
By:	/s/ DEBORAH L. BEVIER Deborah L. Bevier	Director	November 21, 2012
By:	/s/ JONATHAN CHADWICK Jonathan Chadwick	Director	November 21, 2012
By:	/s/ ALAN J. HIGGINSON Alan J. Higginson	Director	November 21, 2012
By:	/s/ MICHAEL L. DREYER Michael L. Dreyer	Director	November 21, 2012

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EXHIBIT INDEX

Exhibit	Description
	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 V
	Merger, dated September 6, 2005, among the Registrant, Sparrow Acquisition Corp., Swan Labs Corporation and the other parties referred to therein.(2)
	Merger, dated August 6, 2007, among the Registrant, Checkmate Acquisition Corp., Acopia Networks, Inc. and Charles River Ventures, LLC.(18)
	Restated Articles of Incorporation of the Registrant(3)
	Bylaws of the Registrant(3)
	Restated Bylaws of F5 Networks, Inc.(22)
	stated Bylaws of F5 Networks, Inc.(23)
	ck Certificate(3)
	Office Lease Agreement dated April 3, 2000, between the Registrant and 401 Elliott West LLC(4)
	ted March 30, 2001 between the Registrant and Cell Therapeutics, Inc.(5)
	uity Incentive Plan(6) §
	n Agreement between the Registrant and each of its directors and certain of its officers(3) §
	Plan, as amended(7) §
	ment under the 1998 Equity Incentive Plan(3) §
	Directors Nonqualified Stock Option Plan(3) §
	ment under the Amended and Restated Directors Nonqualified Stock Option Plan(3) §
	1996 Stock Option Plan(3) §
	ment under the Amended and Restated 1996 Stock Option Plan(3) §
	irectors Stock Option Plan(3) §
	ment under 1999 Non-Employee Directors Stock Option Plan(3) §
	tion Agreement between John McAdam and the Registrant dated July 24, 2000(8) §
	Incentive Plan(9) §
	ment under the 2000 Equity Incentive Plan(10) §
	tion Agreement between M. Thomas Hull and the Registrant dated October 20, 2003(11) §
	Purchase Plan(27) §

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Exhibit Description

cquisition Equity Incentive Plan(13) §

d Stock Option Agreement between Karl Triebes and the Registrant dated August 16, 2004(13)

mpensation Plan for Executive Officers(13) §

Incentive Plan(14) §

tricted Stock Unit agreement under the 2005 Equity Incentive Plan (with acceleration upon change of control)(15) §

tricted Stock Unit agreement under the 2005 Equity Incentive Plan (no acceleration upon change of control)(15) §

to F5 Networks, Inc. 2005 Equity Incentive Plan Award Agreement, dated March 8, 2006, between the Registrant and John Rodriquez(16) §

to F5 Networks, Inc. 2005 Equity Incentive Plan Award Agreement, dated March 8, 2006, between the Registrant and Andy Reinland(16) §

Agreement with Selig Real Estate Holdings IIX, L.L.C. dated October 31, 2006(17)

ment to Sublease Agreement dated April 13, 2001 between the Registrant and Cell Therapeutics, Inc.(19)

endment to Sublease Agreement dated March 6, 2002 between the Registrant and Cell Therapeutics, Inc.(19)

dment to Sublease Agreement dated as of December 22, 2005 between the Registrant and Cell Therapeutics, Inc.(19)

copia Networks, Inc. 2001 Stock Incentive Plan(20) §

uisition Equity Incentive Plan(20) §

tricted Stock Unit Agreement under the Acopia Acquisition Equity Incentive Plan (with acceleration upon change of control)(21) §

tricted Stock Unit Agreement under the Acopia Acquisition Equity Incentive Plan (no acceleration upon change of control)(21) §

nge of Control Agreement between F5 Networks, Inc. and each of John McAdam, John Rodriguez, Karl Triebes, Edward J. Eames, Dan Matte and certain other exec

Incentive Plan, as amended January 2009(25)

tricted Stock Unit Agreement under the 2005 Equity Incentive Plan as amended (with acceleration upon change of control) as revised July 2009(26)

munication Systems Ltd. 2007 Israeli Employee Share Option Plan(28)

munication Systems Ltd. Acquisition Equity Incentive Plan(28)

of the Registrant

PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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Exhibit Number	Exhibit Description
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.

** XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or Prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

§ 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.