

# F5 NETWORKS INC

## FORM S-1

(Securities Registration Statement)

Filed 4/7/1999

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Industry	Computer Networks
Sector	Technology
Fiscal Year	09/30

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM S-1

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

### F5 NETWORKS, INC.

(Exact name of registrant as specified in its charter)

WASHINGTON	3570	91-1714307
(State or other jurisdiction	(Primary Standard Industrial	(I.R.S. Employer
of	Classification Code Number)	Identification
incorporation or organization)		Number)

**200 FIRST AVENUE WEST, SUITE 500**  
**SEATTLE, WASHINGTON 98119**  
(206) 505-0800

(Address, including zip code, and telephone number, including area code, of  
registrant's principal executive offices)

**JEFFREY S. HUSSEY**  
**PRESIDENT, CHIEF EXECUTIVE OFFICER AND CHAIRMAN OF THE BOARD**  
**F5 NETWORKS, INC.**  
**200 FIRST AVENUE WEST, SUITE 500**  
**SEATTLE, WASHINGTON 98119**  
(206) 505-0800

(Name, address, including zip code, and telephone number, including area code,  
of agent for service)

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#### APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:

As soon as practicable after the Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. //

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. //

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the

Securities Act registration statement number of the earlier effective registration statement number for the same offering. //

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. //

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. //

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (1)	AMOUNT OF REGISTRATION FEE
Common Stock, no par value.....	\$40,000,000	\$11,120

(1) Estimated solely for the purpose of calculating the amount of the registration fee in accordance with Rule 457(o) under the Securities Act of 1933, as amended.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT THAT SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

\_\_\_\_\_

\_\_\_\_\_

SUBJECT TO COMPLETION, DATED APRIL 7, 1999 THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED.

UNDERWRITERS MAY NOT CONFIRM SALES OF THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BECOMES EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING OFFERS TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

PROSPECTUS

SHARES

[LOGO]

COMMON STOCK

This is an initial public offering of common stock by F5 Networks, Inc. Of the shares of common stock being sold in this offering, shares are being sold by F5 and shares are being sold by the selling shareholder. F5 will not receive any of the proceeds from the sale of shares by the selling shareholder.

The estimated initial public offering price will be between \$ and \$ per share.

There is currently no public market for the common stock. We have applied to list our shares of common stock for quotation on the Nasdaq National Market under the symbol "FFIV."

	PER SHARE	TOTAL
Initial public offering price.....	\$	\$
Underwriting discounts and commissions.....	\$	\$
Proceeds to F5, before expenses.....	\$	\$
Proceeds to the selling shareholder, before expenses.....	\$	\$

Certain shareholders have granted the underwriters an option for a period of 30 days to purchase up to additional shares of common stock.

INVESTING IN THE COMMON STOCK INVOLVES A HIGH DEGREE OF RISK.  
SEE "RISK FACTORS" BEGINNING ON PAGE 7.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

HAMBRECHT & QUIST

BANCBOSTON ROBERTSON STEPHENS  
DAIN RAUSCHER WESSELS

A DIVISION OF DAIN RAUSCHER INCORPORATED

, 1999

## **EDGAR Artwork Descriptions**

### **Inside Front Cover of Prospectus:**

Caption 1:  
Internet Quality Control

Caption 2:  
Availability  
Performance  
Manageability

Graphic depicting F5 Networks logo surrounded by names and logos of its current products and product under development:

Upper left hand quadrant caption:  
BIG/ip logo and name

Upper right hand quadrant caption:  
3DNS logo and name

Lower left hand quadrant caption:  
Global/SITE logo with caption "under development" underneath

Lower right hand quadrant caption:  
see/IT logo and name

F5 Networks logo

### **Inside Gatefold:**

Upper left hand corner:

F5 Networks logo

Title: Availability, performance and control for mission-critical Internet sites

Graphic depicting the role of the BIG/ip Controller, 3DNS Controller, see/IT Network Management Console and global/SITE Controller in an organization's Internet-based environment. In the graphic, an organization's Internet and file servers are shown in multiple locations (Seattle, New York, London and Tokyo) with the F5 products placed between the Internet servers and the organization's routers. Dashed lines illustrate the interaction of the F5 products within the organizations's network.

Caption 1- upper left hand corner:  
BIG/ip Controller name and logo  
An intelligent load balancer for local area networks

Caption 2 - upper right hand corner  
3DNS Controller name and logo  
An intelligent load balancer for wide area networks

Caption 3 - lower right hand corner  
See/IT Network Management Console name and logo A traffic analysis and network management software application for BIG/ip and 3DNS

Caption 4 - lower left hand corner:  
Global/SITE Controller name and logo with caption "Under Development" underneath  
File replication and synchronization controller for managing content across geographically dispersed Internet sites

### **Inside Back Cover:**

F5 Networks logo with the following words underneath:

F5 Networks, Inc. provides integrated Internet traffic management solutions designed to improve the availability and performance of mission-critical Internet-based servers and applications

**Page 36:**

Illustration of redundant BIG/ip Controllers sitting between an organization's server array and network

**Page 37:**

Illustration of 3DNS Controllers at multiple locations showing the interaction of 3DNS with BIG/ip and an organization's network

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Information contained on F5's Web site does not constitute part of this prospectus.

BIG/ip-Registered Trademark- and the F5 logo are registered United States trademarks of F5. This prospectus also contains trademarks and tradenames of other companies.



## PROSPECTUS SUMMARY

THIS SUMMARY HIGHLIGHTS SELECTED INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS. THIS SUMMARY MAY NOT CONTAIN ALL OF THE INFORMATION THAT YOU SHOULD CONSIDER BEFORE INVESTING IN OUR COMMON STOCK. YOU SHOULD READ THE ENTIRE PROSPECTUS CAREFULLY, INCLUDING "RISK FACTORS" AND THE FINANCIAL STATEMENTS, BEFORE MAKING AN INVESTMENT DECISION.

### F5 NETWORKS

F5 is a leading provider of integrated Internet traffic management solutions designed to improve the availability and performance of mission-critical Internet-based servers and applications. Our proprietary software-based solutions monitor and manage local and geographically dispersed servers and intelligently direct traffic to the server best able to handle a user's request. Our products are designed to ensure fault-tolerance and provide timely responses to user requests and data flow. Our BIG/ip-Registered Trademark- and 3DNS-TM- Controllers, when combined with our see/IT-TM- Network Management Console, help organizations optimize their network server availability and performance and cost-effectively manage their Internet infrastructure. Our solutions are used by organizations who rely on the Internet as a fundamental component of their business. Our customers include Internet service providers, such as Exodus Communications, PSINet, MCI WorldCom, e-commerce companies and many other organizations that employ high-traffic Internet sites. Since shipping our first product in July 1997, we have sold our products to over 290 end-customers.

The Internet has emerged as a critical commerce and communications platform for businesses and consumers worldwide. The growing use of the Internet is causing the complexity and volume of Internet traffic to increase dramatically. According to the United States Department of Commerce, Internet traffic doubles every 100 days. The widespread proliferation in the use and importance of the Internet has strained many organizations' network infrastructures. In response to dramatic increases in Internet use and traffic, organizations are expanding server capacity and are deploying redundant servers. According to IBM, servers are being connected to the Internet at a rate of 53,000 per month. While additional and redundant servers help address the rapidly increasing traffic, they also increase an organization's need for sophisticated Internet traffic management tools to manage the availability and performance of its servers and applications.

We believe that our products deliver Internet quality control by providing the following key benefits:

- **HIGH SYSTEM AVAILABILITY.** Our products provide fault-tolerance by quickly detecting server, application and network failures and directing traffic to functioning servers and applications.
- **INCREASED PERFORMANCE.** Our products intelligently direct user requests to the server with the fastest response time by monitoring server and application response time and verifying content.
- **COST-EFFECTIVE SCALABILITY.** Our products help optimize existing server capacity and allow the transparent addition of servers into an existing network.
- **EASIER NETWORK MANAGEABILITY.** Our products collect information that can be used to facilitate network management and planning from a central location.
- **ENHANCED NETWORK CONTROL.** Our products enable organizations to prioritize and manage network traffic based on user-defined criteria to meet their specific needs.

We plan to continue expanding our suite of products to provide complete, integrated Internet traffic management solutions that further optimize the availability and performance of network servers and applications. For example, we are currently developing our global/SITE-TM- Controller to ensure data integrity by automatically synchronizing content across local and geographically dispersed network servers. We also plan to continue investing significant resources to expand our direct sales force and further develop our indirect sales channels through leading industry resellers, original equipment manufacturers, systems integrators, Internet service providers and other channel partners. Finally, we intend to continue investing in our professional services group in order to provide the installation, training and support services required to help our customers optimize their use of our Internet traffic management solutions.

Our headquarters are located at 200 First Avenue West, Suite 500, Seattle, Washington 98119, our telephone number is (206) 505-0800 and our Web site address is [www.F5.com](http://www.F5.com).

## THE OFFERING

Common stock offered by F5.....	shares
Common stock offered by the selling shareholder.....	shares
Common stock to be outstanding after this offering.....	shares (1)
Use of proceeds.....	For working capital and general corporate purposes. See "Use of Proceeds."
Nasdaq National Market symbol.....	FFIV

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(1) The number of shares of common stock to be outstanding after this offering is based on the number of shares outstanding as of March 1, 1999 and does not include the following:

- 2,594,418 shares subject to options outstanding as of March 1, 1999 with a weighted average exercise price of \$0.66 per share;
  - 3,082,052 additional shares that could be issued under our stock plans, including 2,600,000 shares reserved for issuance under our stock plans but subject to shareholder approval; and
  - 2,212,500 shares that could be issued upon exercise of warrants outstanding as of March 1, 1999 with a weighted average exercise price of \$0.75 per share.
- 

ALL INFORMATION IN THIS PROSPECTUS RELATING TO OUTSTANDING SHARES OF F5 COMMON STOCK AND OPTIONS OR WARRANTS TO PURCHASE F5 COMMON STOCK IS BASED UPON INFORMATION AS OF MARCH 1, 1999. PRO FORMA INFORMATION GIVES EFFECT TO THE CONVERSION OF ALL OUTSTANDING SHARES OF F5 PREFERRED STOCK AS OF THE CLOSING OF THIS OFFERING. UNLESS OTHERWISE INDICATED, THE INFORMATION THROUGHOUT THIS PROSPECTUS DOES NOT TAKE INTO ACCOUNT THE POSSIBLE ISSUANCE OF ADDITIONAL SHARES OF COMMON STOCK TO THE UNDERWRITERS PURSUANT TO THEIR OVER-ALLOTMENT OPTION.

PLEASE SEE "CAPITALIZATION" FOR A MORE COMPLETE DISCUSSION REGARDING THE OUTSTANDING SHARES OF F5 COMMON STOCK AND OPTIONS OR WARRANTS TO PURCHASE F5 COMMON STOCK AND OTHER RELATED MATTERS.

**SUMMARY FINANCIAL INFORMATION**  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	PERIOD FROM FEBRUARY 26, 1996 (INCEPTION) TO SEPTEMBER 30, 1996	FISCAL YEAR ENDED SEPTEMBER 30,		THREE MONTHS ENDED DECEMBER 31,	
		1997	1998	1997	1998
</					

				DECEMBER 31, 1998	
				ACTUAL	AS ADJUSTED (2)
				(UNAUDITED)	
BALANCE SHEET DATA:					
Cash and cash equivalents.....			\$ 4,458		\$
Working capital.....			4,869		
Total assets.....			9,037		
Shareholders' equity.....			5,930		

(1) See Note 2 of notes to financial statements for an explanation of the determination of the number of shares used in computing per share data.

(2) Adjusted to reflect the sale by F5 of shares of common stock at an assumed initial public offering price of \$ per share and the application of the estimated net proceeds after deducting estimated underwriting discounts and commissions and our estimated offering expenses. See "Use of Proceeds" and "Capitalization."

## **RISK FACTORS**

YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS AND ALL OTHER INFORMATION CONTAINED IN THIS PROSPECTUS BEFORE PURCHASING OUR COMMON STOCK. INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. ANY OF THE FOLLOWING RISKS MAY SERIOUSLY HARM OUR BUSINESS AND RESULTS OF OPERATIONS AND MAY RESULT IN A COMPLETE LOSS OF YOUR INVESTMENT.

### **WE HAVE A LIMITED OPERATING HISTORY AND ARE SUBJECT TO RISKS FREQUENTLY ENCOUNTERED BY EARLY STAGE COMPANIES.**

We were founded in February 1996 and have a limited operating history, which makes an evaluation of our prospects difficult. In addition, the revenues and income potential of our business and market are unproven. An investor in our common stock must consider the challenges, expenses and difficulties we face as an early stage company in a new and rapidly evolving market. These challenges include our:

- substantial dependence on sales of our BIG/ip-Registered Trademark- Controller;
- dependence on the growth of the new and evolving market for Internet traffic management solutions;
- need to expand our customer base in a highly competitive market;
- need to build upon our current technology platform and offer a complete Internet traffic management solution by developing new products, including the development of our global/SITE-TM- Controller;
- need to compete effectively;
- need to manage expanding operations, obtain additional office and manufacturing space, integrate our new management team, hire additional personnel and manage growth in international markets;
- need to establish and maintain relationships with resellers, original equipment manufacturers, systems integrators, Internet service providers and other channel partners;
- need to establish and maintain strategic relationships in order to have access to key technologies and customers;
- need to expand our sales and professional services organizations; and
- dependence on key personnel.

We may not be successful in meeting any of these challenges, and the failure to do so will seriously harm our business and results of operations. In addition, because of our limited operating history we have limited insight into trends that may emerge and affect our business.

### **OUR QUARTERLY OPERATING RESULTS ARE VOLATILE AND FUTURE OPERATING RESULTS REMAIN UNCERTAIN.**

Our quarterly operating results have varied significantly in the past and will vary significantly in the future. Operating results vary depending on a number of factors, many of which are substantially outside of our control, including:

- the size, timing and contractual terms of orders for our products, especially large orders from some of our customers;
- our limited order backlog, which makes revenues in any quarter substantially dependent on orders booked and delivered in that quarter;
- the markets in which we operate, which may not develop as rapidly as we anticipate;

- our ability to enter into new international markets as well as sell our products to governmental entities;
- the unpredictability of our sales cycle;
- our ability to market and sell new products, such as our see/IT-TM- Network Management Console, develop new products, such as global/SITE, and introduce enhancements on a timely basis;
- the uncertain timing and level of market acceptance for our existing products, our products under development and new products or product enhancements introduced by us or by our competitors;
- the effectiveness of resellers, original equipment manufacturers, systems integrators, Internet service providers or other channel partners in selling BIG/ip, 3DNS-TM- and see/IT and our future products such as global/SITE;
- changes in pricing by us or our competitors;
- unfavorable changes in the prices of the components we purchase or license;
- our ability to attain and maintain production volumes and quality levels for our products;
- the mix of products sold and the mix of sales channels through which they are sold;
- changes in information systems resource allocation by our customers due to their operating budget cycles;
- our uncertain ability to manage costs given the variability in our quarterly revenues;
- seasonality in sales of our products;
- rapid technological changes in our markets;
- deferrals of customer orders in anticipation of new products or product enhancements introduced by us or by our competitors;
- personnel changes; and
- general economic factors.

As a result of the foregoing factors, our future operating results are difficult to predict. In particular, we anticipate that the size of customer orders may increase as we continue to focus on larger business accounts and sales to governmental entities. 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 significant portion 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. Furthermore, we base our decisions regarding our operating expenses on anticipated revenue trends, and our expense levels are relatively fixed. Consequently, if revenue levels fall below our expectations, our net income (loss) will decrease (increase) because only a small portion of our expenses vary with our revenues. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

We believe that period-to-period comparisons of our results of operations are not meaningful and should not be relied upon as indicators of future performance. Our operating results will likely be below the expectations of securities analysts and investors in some future quarter or quarters. Our failure to meet such expectations will likely seriously harm the market price of our common stock.

#### **WE HAVE INCURRED LOSSES AND WE EXPECT SIGNIFICANT FUTURE OPERATING EXPENSES AND LOSSES.**

We have experienced operating losses in each quarterly and annual period since inception. We incurred net losses of \$330,000 for the period from February 26, 1996, inception, to September 30, 1996,

\$1.5 million for the year ended September 30, 1997 and \$3.7 million for the year ended September 30, 1998. As of December 31, 1998, we had an accumulated deficit of \$7.7 million, and we expect to incur significant losses in the future.

We intend to substantially increase our operating expenses in fiscal 1999 and beyond as we:

- enter new markets for our products and services;
- introduce new products and product enhancements;
- increase our sales and marketing activities, including expanding our direct sales force and our indirect sales channels both domestically and internationally;
- hire additional product development personnel;
- implement new and upgraded information and financial systems, procedures and controls as well as hire additional general and administrative personnel; and
- broaden our customer support and professional services capabilities.

As a result, we will need to generate significant increases in our quarterly net revenues to achieve and maintain profitability. Although our net revenues have grown in recent quarters, we may not be able to sustain these growth rates or achieve or sustain profitability, particularly because increased operating expenses will be incurred before we realize any net revenues from these expenses. Our failure to achieve and sustain profitability will seriously harm our business and results of operations. See "Selected Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### **OUR SUCCESS DEPENDS ON SALES OF OUR BIG/IP CONTROLLER.**

We currently derive, and expect to continue to derive, a substantial portion of our net revenues from sales of BIG/ip. Implementation of our strategy depends upon BIG/ip being able to solve critical network availability and performance problems of our customers. If BIG/ip is unable to solve these problems for our customers, its attractiveness will be diminished. A decline in the price of, or demand for, BIG/ip or our failure to achieve broad market acceptance of BIG/ip, will seriously harm our business and results of operations. We cannot predict the lifecycle of BIG/ip for several reasons, including:

- the recent emergence of the market for Internet traffic management solutions;
- the uncertain timing and level of acceptance of our BIG/ip product enhancements;
- the risk of technological changes that may make BIG/ip obsolete; and
- future competition.

#### **OUR SUCCESS DEPENDS ON OUR ABILITY TO DEVELOP NEW PRODUCTS AND FEATURES AND ADAPT TO RAPID TECHNOLOGICAL CHANGE.**

The Internet traffic management market is characterized by rapid technological change, frequent new product introductions, changes in customer requirements and evolving industry standards. We are currently developing new product features and in the future we expect to expand our operations by promoting new and complementary products and services. In addition, our objective of providing complete Internet traffic management solutions will require us to develop and introduce new technologies and to offer functionality that we do not currently provide. Any development of these new products and technologies will require significant research and development resources and will involve many challenges. We may not be able to expand our product offerings or develop a complete Internet traffic management solution in a cost-effective or timely manner or at all. In the past, we have experienced delays in new product releases, and we may experience similar delays in the future. If we fail to deploy new product releases on a timely basis, our business and results of operations may be seriously harmed. Furthermore, if

we are unable to expand our product offerings to provide a complete Internet traffic management solution, our business and future operations may be harmed significantly. In addition, such efforts may fail to increase market acceptance of our products or other Internet traffic management solutions, and the Internet traffic management market may not ultimately prove to be a sustainable market. If we were to incur delays in the introduction of new product features, or if these features do not provide the benefits expected or do not achieve widespread market acceptance, our business and results of operations will be seriously harmed. See "Business--Product Development."

### **THE MARKET FOR INTERNET TRAFFIC MANAGEMENT SOLUTIONS IS HIGHLY COMPETITIVE.**

Our markets are new, rapidly evolving and highly competitive, and we expect such competition to persist and intensify in the future. Our principal competitors in the Internet traffic management market are Cisco Systems, Inc. as well as a number of other public and private companies that offer load balancing and other network management products. We expect to continue to face additional competition as new participants enter the Internet traffic management market. We also compete with other providers of hardware and software who offer partial solutions to network infrastructure problems, including network-caching companies, clustering software providers, hardware server manufacturers and other networking companies. Alternatively, larger companies with significant resources, brand recognition and sales channels may form alliances with or acquire competing Internet traffic management solutions and emerge as significant competitors. In addition, potential competitors may bundle their products or incorporate an Internet traffic management component into existing products in a manner that discourages users from purchasing our products. Potential customers may also choose to purchase additional servers instead of our products.

Many of our competitors have longer operating histories and significantly greater financial, technical, marketing and other resources than we do. Many of these companies have more extensive customer bases and broader customer relationships that could be leveraged, including relationships with many of our current and potential customers. In addition, our competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements than we do. These companies also have significantly more established customer support and professional services organizations and more extensive direct sales forces and direct and indirect sales channels than we do. In addition, these companies may adopt aggressive pricing policies to gain market share. As a result, we may not be able to maintain a competitive position against current or future competitors. Our failure to maintain and enhance our competitive position within the market may seriously harm our business and results of operations.

### **CONTINUED RAPID GROWTH MAY STRAIN OUR OPERATIONS.**

Since the introduction of our product line, we have experienced a period of rapid growth and expansion which has placed, and continues to place, a significant strain on all of our resources. From September 30, 1997 to March 1, 1999, the number of our employees increased from 20 to 123. We expect our anticipated growth and expansion to continue to strain our management, operational and financial resources. In addition, our management team has limited experience working together. Our Chief Technical Officer joined us in April 1998, and our Chief Financial Officer joined us in March 1999. There can be no assurance that our management team will be able to work effectively together to manage our organization as a public company.

To accommodate this anticipated growth, we will be required to:

- improve existing and implement new and upgraded information and financial systems, procedures and controls;
- hire, train and manage additional qualified personnel; and
- effectively manage multiple relationships with our customers, suppliers and other third parties.

We may not be able to install adequate control systems in an efficient and timely manner, and our current or planned information systems, procedures and controls may be inadequate to support our future operations. The difficulties associated with installing and implementing new systems, procedures and controls may place a significant burden on our management and our internal resources. In addition, as we grow internationally, we will have to expand our worldwide operations and enhance our communications infrastructure. Any delay in the implementation of such new or enhanced systems, procedures or controls, or any disruption in the transition to such new or enhanced systems, procedures or controls, may seriously harm our ability to accurately forecast sales demand, manage our product inventory and record and report financial and management information on a timely and accurate basis. Our inability to manage growth effectively may seriously harm our business and results of operations.

**WE INTEND TO EXPAND OUR INTERNATIONAL OPERATIONS AND MAY ENCOUNTER A NUMBER OF FACTORS ASSOCIATED WITH INTERNATIONAL OPERATIONS THAT MAY SERIOUSLY HARM OUR BUSINESS AND RESULTS OF OPERATIONS.**

International sales represented approximately 6.6% of our net revenues for the year ended September 30, 1997, 3.5% for the year ended September 30, 1998 and 2.3% for the quarter ended December 31, 1998. We currently have sales personnel in the United Kingdom and in Germany and intend to expand the scope of our international operations. If we are unable to expand our international operations successfully and in a timely manner, our business and results of operations may be seriously harmed. Our continued growth will require further expansion of our international operations in selected countries in the European and Asia Pacific markets. We have only limited experience in marketing, selling and supporting our products internationally. Such expansion may be more difficult or take longer than we anticipate, and we may not be able to successfully market, sell, deliver and support our products internationally.

Our international operations are, and any expanded international operations will be, subject to a variety of risks associated with conducting business internationally that may seriously harm our business and future operating results, including the following:

- import or export licensing requirements;
- potential adverse tax consequences;
- increases in tariffs, duties, price controls or other restrictions on foreign currencies or trade barriers imposed by foreign countries;
- difficulties in collecting accounts receivable;
- longer payment cycles;
- fluctuations in currency exchange rates;
- uncertainty relating to the European monetary conversion;
- reduced or limited protection of our intellectual property rights in some countries;
- seasonal reductions in business activity during the summer months in Europe and certain other parts of the world; and
- recessionary environments in foreign economies.

**WE DEPEND UPON OUR CURRENT THIRD-PARTY DISTRIBUTION RELATIONSHIPS AND NEED TO DEVELOP NEW RELATIONSHIPS.**

Our sales strategy requires that we establish multiple indirect sales channels in the United States and internationally through leading industry resellers, original equipment manufacturers, systems integrators, Internet service providers and other 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. One of our resellers, Exodus Communications, Inc., accounted for 14.9% of our net revenues for the three months ended December 31, 1998.

Typically, our agreements with our channel partners do not prevent these companies from selling products of other companies, including products that may compete with our products and generally do not contain minimum sales or marketing performance requirements. As a result, our channel partners may give higher priority to products of other companies, or to their own products, thus reducing their efforts to sell our products. These agreements generally are non-exclusive and are for one-year terms with no obligation of our channel partners to renew the agreements. Accordingly, while the loss of, or significant reduction in sales volume to, any of our current or future channel partners may seriously harm our business and results of operations, a significant increase in sales through these channels may negatively impact our gross profit.

In order to support and develop leads for our indirect sales channels, we also plan to expand our field sales and customer support staff significantly. We cannot assure you that this internal expansion will be successfully completed, that the cost of this expansion will not exceed the net revenues generated or that our expanded sales and support staff will be able to compete successfully against the significantly more extensive and well-funded sales and marketing operations of many of our current or potential competitors. Our inability to effectively establish our indirect sales channels or manage the expansion of our sales and support staff will seriously harm our business and results of operations.

#### **WE NEED TO EXPAND OUR MARKETING AND SALES, PROFESSIONAL SERVICES AND CUSTOMER SUPPORT CAPABILITIES TO INCREASE MARKET ACCEPTANCE OF OUR PRODUCTS.**

Our products and services require a sophisticated marketing and sales effort targeted at several levels within a prospective customer's organization. We have recently expanded our sales force and plan to hire additional sales personnel. Competition for qualified sales personnel is intense, and we might not be able to hire the kind and number of sales personnel we are targeting. Our inability to retain and hire qualified sales personnel may seriously harm our business and results of operations.

We currently have a small professional services and customer support organization and will need to increase our staff to support new customers and the expanding needs of existing customers. The installation of Internet traffic management solutions, the integration of these solutions into existing networks and the ongoing support can be complex. Accordingly, we need highly-trained professional services and customer support personnel. Hiring professional services and customer support personnel is very competitive in our industry due to the limited number of people available with the necessary technical skills and understanding of our products. Our inability to attract, train or retain the number of highly qualified professional services and customer support personnel that our business needs may seriously harm our business and results of operations.

#### **WE ARE DEPENDENT ON CERTAIN KEY PERSONNEL AND ON OUR ABILITY TO HIRE ADDITIONAL QUALIFIED PERSONNEL.**

Our success depends to a significant degree upon the continued contributions of our key management, product development, sales and marketing and finance personnel, many of whom will be difficult to replace. In particular, we rely on our President and Chief Executive Officer, Jeffrey Hussey. The loss of Mr. Hussey's services would seriously harm our business and results of operations. We do not have employment contracts with any of our key personnel.

We believe our future success will also depend in large part upon our ability to attract and retain highly skilled managerial, product development, sales and marketing and finance personnel. Competition for such personnel is intense, especially in the Seattle area, and there can be no assurance that we will be successful in attracting and retaining such personnel. The loss of the services of any of our key personnel, the inability to attract or retain qualified personnel in the future or delays in hiring required personnel,

particularly engineers and sales and marketing personnel, may seriously harm our business and results of operations.

#### **WE HAVE AN UNPREDICTABLE SALES CYCLE.**

We are unable to predict our sales cycle because we have limited experience selling our products. Sales of BIG/ip, 3DNS and see/IT require us to educate potential customers on their use and benefits. The sale of our products is also 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 us or our competitors. As a result, our products have an unpredictable sales cycle that contributes to the uncertainty of our future operating results.

#### **COMPETITIVE PRESSURES MAY CAUSE THE AVERAGE SELLING PRICES OF OUR PRODUCTS TO DECREASE, WHICH MAY NEGATIVELY IMPACT GROSS PROFITS.**

We anticipate 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 seriously 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.

#### **WE ARE DEPENDENT ON CONTRACT MANUFACTURERS AND NEED TO EXPAND OUR MANUFACTURING OPERATIONS.**

We rely on third party contract manufacturers to assemble our products, which use industry-standard hardware components. We currently subcontract substantially all of our assembly to two companies, which assemble BIG/ip and 3DNS for us, and we have experienced delays in shipments from these contract manufacturers in the past. In the future, we may experience similar or other problems, such as inferior quality and insufficient quantity of product, any of which may seriously harm our business and results of operations. There can be no assurance that we will be able to maintain adequate levels of product inventory, effectively manage our contract manufacturers or that these manufacturers will meet our future requirements for timely delivery of our products of sufficient quality and quantity. We intend to introduce new products and product enhancements, which will require that we rapidly achieve volume production by coordinating our efforts with those of our suppliers and contract manufacturers. The inability of our contract manufacturers to provide us with adequate supplies of our products or the loss of one or more of our contract manufacturers may cause a delay in our ability to fulfill orders while we obtain a replacement manufacturer and may seriously harm our business and results of operations.

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

**WE CURRENTLY PURCHASE SEVERAL KEY COMPONENTS USED IN THE MANUFACTURE OF OUR INTERNET TRAFFIC MANAGEMENT PRODUCTS FROM LIMITED SOURCES.**

We currently purchase several key hardware components used in the assembly of our products from limited sources. Generally, purchase commitments with our suppliers are on a purchase order basis. 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, will seriously harm our business and results of operations. In addition, qualifying additional suppliers can be time-consuming and expensive and may increase the likelihood of errors.

Lead times for materials and hardware components used in our products vary significantly and depend on factors such as the specific supplier terms and demand for a component at a given time. If orders do not match forecasts, excess or inadequate supplies of certain materials, including components manufactured by our subcontractors, may seriously harm our business and results of operations. From time to time we have experienced shortages and allocations of certain hardware components. We are likely to encounter shortages and delays in obtaining hardware components in the future. These shortages and delays may seriously harm our business and results of operations.

**UNDETECTED SOFTWARE OR HARDWARE ERRORS MAY SERIOUSLY HARM OUR BUSINESS AND RESULTS OF OPERATIONS.**

Internet traffic management products frequently contain undetected software or hardware errors when first introduced or as new versions are released. We have experienced such errors in the past in connection with new products and product upgrades. We expect that such errors 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. 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 seriously 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 hardware and software errors, 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 such problems may seriously harm our business and results of operations.

**WE MAY NOT ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY AND OUR PRODUCTS MAY INFRINGE ON THE INTELLECTUAL PROPERTY RIGHTS OF THIRD PARTIES.**

We rely on a combination of copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We currently do not have any issued patents or any patent applications pending for any of our technology.

We also enter into confidentiality or license agreements with our employees, consultants and corporate partners, and control access to and distribution of our software, documentation and other proprietary information. 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. In addition, we have not entered into non-competition agreements with several of our former employees.

From time to time, third parties may assert patent, copyright, trademark and other intellectual property rights claims or initiate litigation against us or our contract manufacturers, suppliers or customers

with respect to existing or future products. Although we have not been party to any claims alleging infringement of intellectual property rights, we cannot assure you that we will not be subject to such claims in the future. We may in the future initiate claims or litigation against third parties for infringement of our proprietary rights to determine the scope and validity of our proprietary rights or those of our competitors. Any such claims, with or without merit, may be time-consuming, result in costly litigation and diversion of technical and management personnel or, in the case of claims against us, require us to cease using infringing technology, develop non-infringing technology or enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on acceptable terms, if at all. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or license the infringed or similar technology on a timely basis, our business and results of operations may be seriously harmed.

**OUR FAILURE AND THE FAILURE OF OUR KEY SUPPLIERS, MANUFACTURERS AND CUSTOMERS TO BE YEAR 2000 COMPLIANT MAY NEGATIVELY IMPACT OUR BUSINESS AND RESULTS OF OPERATIONS.**

As is true for most companies, the Year 2000 computer issue creates a significant risk for us. If systems do not correctly recognize date information when the year changes to 2000, there may be serious harm to our operations. This risk exists in at least four areas:

- potential warranty or other claims arising from our products;
- systems we use to run our business;
- systems used by our suppliers and contract manufacturers; and
- the potential reduced spending by other companies on Internet traffic management solutions as a result of significant information systems spending on Year 2000 remediation or to limit additional changes to their systems during the current year.

We are currently evaluating our exposure in all of these areas.

Although we believe our products are Year 2000 compliant, we cannot anticipate all customer situations and we may see an increase in warranty and other claims as a result of the Year 2000 transition. In addition, litigation regarding Year 2000 compliance issues is expected to escalate. For these reasons, the impact of customer claims may seriously harm our business and results of operations.

We are also in the process of conducting an inventory and evaluation of the information systems used to run our business. We plan to replace or upgrade systems which are identified as non-compliant. For the Year 2000 non-compliance issues identified to date, the cost of remediation is not expected to exceed \$50,000. However, if implementation of replacement systems is delayed, or if significant new non-compliance issues are identified, our business and results of operations may be seriously harmed.

We are in the process of contacting our critical suppliers and contract manufacturers to determine whether their operations and the products and services they provide are Year 2000 compliant. The failure of our suppliers and contract manufacturers to be Year 2000 compliant may seriously harm our business and results of operations.

Virtually all businesses face Year 2000 compliance issues and may require significant hardware and software upgrades or modifications to their computer systems and applications. Companies owning and operating such systems may plan to devote a substantial portion of their information systems' spending to fund such upgrades and modifications and divert spending away from Internet traffic management solutions to change their computer systems later this year as the Year 2000 approaches. Such changes in customers' spending patterns may seriously harm our business and results of operations.

## **OUR PRODUCTS ARE SUBJECT TO UNITED STATES EXPORT LAWS.**

The encryption technology contained in our products is subject to United States export controls. Such export controls limit our ability to distribute certain encrypted products outside of the United States. While we take precautions against unlawful exportation, such exportation inadvertently may have occurred in the past or may occur from time to time in the future, subjecting us to potential liability and serious harm. In addition, future legislation or regulation may further limit levels of encryption technology that can be included in our products. For example, recent proposals at the federal level call for domestic controls on encryption products and related services. Such new regulation would alter the design, production, distribution, and use of our products, and could reduce demand for our products.

In addition, foreign governments have import and domestic use laws and regulations already in place that may restrict the type of encryption software that is permitted for distribution in their countries. As a consequence of such export, import and use controls, we have developed and marketed both domestic and international versions of BIG/ip, with the version for the United States market having encryption and the version for export to international markets having no encryption. We may also have to develop and market both domestic and international versions of 3DNS, global/SITE and other products and product enhancements that contain encryption software or sell products with a lower level of encryption than our customers desire. As a result, we may incur additional costs associated with the duplication of effort and expense in research, development, manufacturing, and distribution of different versions of products and enhancements. In addition, we may lose sales from customers who wish to have the same level of encryption security throughout their organization or be subject to potential liability or other serious harm if the alteration of our products causes them to perform at a level below their intended level. We may also encounter difficulties competing with non-United States producers of products with higher levels of encryption, who may both import their products into the United States and sell products overseas. Any such export or import restrictions, legislation, regulation or unlawful exportation or importation may seriously harm our business and results of operations.

## **RISKS ASSOCIATED WITH POTENTIAL ACQUISITIONS.**

We may make investments in complementary companies, products or technologies. If we buy a company, we may have difficulty in assimilating that company's personnel and operations. In addition, the key personnel of the acquired company may decide not to work for us. If we make other types of acquisitions, we may have difficulty in assimilating the acquired technology or products into our operations. These difficulties may disrupt our ongoing business, distract our management and employees and increase our expenses. Furthermore, we may have to incur debt or issue equity securities to pay for any future acquisitions, the issuance of which may be dilutive to our current shareholders.

## **OUR FUTURE CAPITAL NEEDS ARE UNCERTAIN.**

We expect that the net proceeds from this offering, cash from operations and borrowings available under our credit facility will be sufficient to meet our working capital and capital expenditure needs for at least the next twelve months. After that, we may need to raise additional funds, and additional financing may not be available on favorable terms, if at all. Further, if we issue additional equity securities, shareholders may experience dilution, and the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If we cannot raise funds, if needed, on acceptable terms, we may not be able to develop new products or enhance our existing products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements. This may seriously harm our business and results of operations. See "Use of Proceeds," "Dilution" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

## **WE ARE SIGNIFICANTLY CONTROLLED BY EXISTING SHAREHOLDERS.**

On completion of this offering, executive officers, directors and their affiliates and 5% shareholders will beneficially own, in the aggregate, approximately % of our outstanding common stock. As a result, these shareholders will be able to exercise significant control over all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions, which may have the effect of delaying or preventing a third party from acquiring control over us. See "Principal and Selling Shareholder."

## **NEW INVESTORS IN OUR COMMON STOCK WILL EXPERIENCE IMMEDIATE AND SUBSTANTIAL DILUTION.**

The initial public offering price is substantially higher than the book value per share of our common stock. Investors purchasing common stock in this offering will, therefore, incur immediate dilution of \$ in net tangible book value per share of common stock. Investors will incur additional dilution upon the exercise of outstanding stock options and warrants.

## **NO PUBLIC MARKET FOR OUR COMMON STOCK CURRENTLY EXISTS AND OUR STOCK PRICE MAY FLUCTUATE AFTER THIS OFFERING.**

Prior to this offering, you could not buy or sell our common stock on a public market. An active public market for our common stock may not develop or be sustained after this offering. Although the initial public offering price will be determined based on several factors, the market price for our common stock will vary from the initial offering price after this offering. See "Underwriting." The market price of our common stock may fluctuate significantly in response to a number of factors, some of which are beyond our control, including:

- quarterly variations in operating results;
- changes in financial estimates by securities analysts;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- additions or departures of key personnel;
- any future sales by us of common stock or other securities; and
- stock market price and volume fluctuations, which are particularly common among securities of high technology companies.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation may result in substantial costs and divert management's attention and resources, which may seriously harm our business and results of operations.

## **WE HAVE IMPLEMENTED CERTAIN ANTI-TAKEOVER PROVISIONS.**

Certain provisions of our articles of incorporation and bylaws, as well as provisions of Washington law, may make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders. See "Description of Capital Stock."

## **SUBSTANTIAL SALES OF SHARES MAY IMPACT THE MARKET PRICE OF OUR COMMON STOCK.**

If our shareholders sell substantial amounts of our common stock, including shares issued upon the exercise of outstanding options and warrants, the market price of our common stock may fall. Such sales might also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. After completion of this offering, we will have outstanding

shares of common stock, assuming no exercise of outstanding options or warrants after March 1, 1999 and no exercise of the underwriters' over-allotment option. The shares eligible for sale in the public market are as follows:

DAYS AFTER DATE OF THIS PROSPECTUS	SHARES ELIGIBLE FOR SALE	COMMENT
-----	-----	-----
Upon effectiveness.....		Shares sold in the offering
90 days.....		Shares salable under Rule 144 that are not subject to the lock-up
180 days.....		Lock-up released: shares salable under Rules 144 and 701

See "Shares Eligible for Future Sale" and "Underwriting."

#### **WE WILL HAVE BROAD DISCRETION AS TO THE USE OF THE OFFERING PROCEEDS.**

The majority of the net proceeds of this offering are not allocated for specific uses and our management can spend most of the proceeds from this offering in ways with which the shareholders may not agree. We cannot predict that the proceeds will be invested to yield a favorable return. See "Use of Proceeds."

#### **WE DO NOT INTEND TO PAY DIVIDENDS.**

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain any future earnings for funding growth and, therefore, do not expect to pay any dividends in the foreseeable future.

#### **FORWARD LOOKING STATEMENTS**

Certain statements under the captions "Prospectus Summary," "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," and elsewhere in this prospectus are "forward-looking statements." These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in the prospectus that are not historical facts. When used in this prospectus, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors discussed under "Risk Factors."

## **USE OF PROCEEDS**

F5 will receive net proceeds of \$ from the sale of shares of common stock at an assumed initial public offering price of \$ per share after deducting estimated underwriting commissions and discounts of \$ and estimated expenses of \$ . We will not receive any proceeds from the sale of common stock by the selling shareholder.

The principal purpose of this offering is to create a public market for the common stock of F5. We intend to use the proceeds of this offering for working capital and general corporate purposes. We may also use some of the proceeds for strategic acquisitions of products and technologies that will complement or extend our existing Internet traffic management solutions, although we are not currently planning any of these transactions. Pending such uses, we intend to invest the net proceeds of the initial public offering in investment grade interest-bearing securities.

## **DIVIDEND POLICY**

F5 has never declared or paid any cash dividends on shares of its common stock. We intend to retain any future earnings for future growth and do not anticipate paying any cash dividends in the foreseeable future.



## CAPITALIZATION

The following table sets forth the capitalization of F5 as of December 31, 1998 (1) on an actual basis, (2) on a pro forma basis, after giving effect to the conversion of all outstanding shares of preferred stock into common stock and the one share dividend paid on each share of common stock on January 27, 1999 and (3) on a pro forma basis as adjusted to reflect, our receipt of the estimated net proceeds from the sale of shares of common stock offered by us at an assumed initial public offering price of \$ per share and the filing of our amended articles of incorporation upon the closing of this offering.

The capitalization information set forth in the table below is qualified by, and should be read in conjunction with, the more detailed financial statements and notes of F5 appearing elsewhere in this prospectus.

DECEMBER 31, 1998			
	ACTUAL	PRO FORMA (1)	PRO FORMA AS ADJUSTED
	(IN THOUSANDS) (UNAUDITED)		
Shareholders' equity:			
Preferred stock: no par value, 10,000,000 shares authorized, 2,944,688 shares issued and outstanding, actual; 10,000,000 shares authorized, no shares issued and outstanding, pro forma and pro forma as adjusted.....	\$ 11,885	\$	\$
Common stock: no par value, 50,000,000 shares authorized, 6,358,500 issued and outstanding, actual; 50,000,000 shares authorized, 14,472,876 shares issued and outstanding, pro forma; and 100,000,000 shares authorized, shares issued and outstanding, pro forma as adjusted.....	4,355	16,240	
Unearned compensation.....	(2,656)	(2,656)	
Accumulated deficit.....	(7,654)	(7,654)	
Total shareholders' equity and capitalization.....	\$ 5,930	\$ 5,930	\$

(1) Pro forma reflects the conversion upon the closing of this offering of each outstanding share of preferred stock into common stock as follows:

	OUTSTANDING	AS CONVERTED
Series A preferred stock.....	400,000	2,400,000
Series B preferred stock.....	1,250,000	2,500,000
Series C preferred stock.....	156,250	937,500
Series D preferred stock.....	1,138,438	2,276,876

This capitalization table excludes the following shares:

- 2,265,940 shares subject to options outstanding as of December 31, 1998 with a weighted average exercise price of \$0.45 per share;
- 3,421,310 additional shares that could be issued under our stock plans, including 2,600,000 shares reserved for issuance under our stock plans but subject to shareholder approval; and
- 2,200,000 shares that could be issued upon exercise of warrants outstanding as of December 31, 1998 with a weighted average exercisable price of \$0.71.

## DILUTION

F5's pro forma net tangible book value as of December 31, 1998 was \$5.9 million, or approximately \$0.40 per share, after giving effect to the conversion of all outstanding preferred stock into common stock on a pro forma basis. Pro forma net tangible book value per share represents the amount of our total tangible assets less total liabilities, divided by the number of shares of our common stock outstanding on a pro forma basis. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the net tangible book value per share of common stock immediately after the completion of this offering. After giving effect to the sale of the shares of common stock offered by us hereby at an assumed initial public offering price of \$ per share and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book value at December 31, 1998 would have been \$ million, or approximately \$ per share. This represents an immediate increase in pro forma net tangible book value of \$ per share to existing shareholders and an immediate dilution in net tangible book value of \$ per share to new investors of common stock in this offering. The following table illustrates this dilution on a per share basis:

Assumed initial public offering price per share.....		\$
Pro forma net tangible book value per share as of December 31, 1998.....	\$ 0.40	
Increase in net tangible book value per share attributable to new investors.....		
	-----	
Pro forma net tangible book value per share after this offering.....		-----
Dilution in net tangible book value per share to new investors.....		\$
		-----
		-----

The following table sets forth, on a pro forma basis as of December 31, 1998, after giving effect to the conversion of all outstanding preferred stock into common stock, the difference between the number of shares of common stock purchased from us, the total cash consideration paid and the average price per share paid by existing holders of common stock and by the new investors, before deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, at an assumed initial public offering price of \$ per share.

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing shareholders.....	14,472,876	%	\$12,609,000	%	\$ 0.87
New investors.....					
	-----	-----	-----	-----	-----
Total.....		100.0%	\$	100.0%	\$
	-----	-----	-----	-----	-----
	-----	-----	-----	-----	-----

The foregoing tables assume no exercise of the underwriters' over-allotment option and exclude the following: 2,265,940 shares subject to options outstanding as of December 31, 1998 with a weighted average exercise price of \$0.45 per share; 3,421,310 additional shares that could be issued under our stock plans, including 2,600,000 shares reserved for issuance under our stock plans but subject to shareholder approval; and 2,200,000 shares that could be issued upon exercise of warrants outstanding as of December 31, 1998 with a weighted average exercisable price of \$0.71. To the extent that any shares are issued upon exercise of outstanding options or warrants or reserved for future issuance under our stock plans, there will be further dilution to new investors. See "Management--Incentive Stock Plans" and "Description of Capital Stock."

Sales by the selling shareholder in this offering will reduce the number of shares of common stock held by existing shareholders to , or approximately % ( shares, or approximately %, if the underwriters' over-allotment option is exercised in full) of the total number of shares of common stock outstanding upon the closing of this offering and will increase the number of shares held by new public investors to , or approximately % ( shares, or approximately % if the underwriters' over-allotment option is exercised in full) of the total number of shares of common stock outstanding after this offering. See "Principal and Selling Shareholder."

## SELECTED FINANCIAL DATA

The selected statement of operations data for the period February 26, 1996, inception, to September 30, 1996, and for the years ended September 30, 1997 and 1998 and the balance sheet data at September 30, 1997 and 1998 are derived from the financial statements of F5, which have been audited by PricewaterhouseCoopers LLP, independent accountants, and included elsewhere in this prospectus. The financial data as of and for the periods ended December 31, 1997 and 1998 are unaudited, but have been prepared on a basis consistent with the audited financial statements of F5 and the notes thereto and include all adjustments (constituting only normal recurring adjustments) which F5 considered necessary for a fair presentation of the information. The results of operations for the three months ended December 31, 1998 are not necessarily indicative of results to be expected for the year or for any future periods. The data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and the notes thereto included elsewhere in this prospectus (in thousands, except per share data).

	PERIOD FROM FEBRUARY 26, 1996 (INCEPTION) TO SEPTEMBER 1996	FISCAL YEAR ENDED  SEPTEMBER 30,		THREE MONTHS ENDED  DECEMBER 31,	
		----- 1997	1998 -----	----- 1997	1998 -----
		-----	-----	-----	-----
				(UNAUDITED)	
STATEMENT OF OPERATIONS DATA:					
Net revenues.....	\$ 2	\$ 229	\$ 4,889	\$ 842	\$ 2,695
Cost of net revenues.....	1	71	1,405	210	820
	-----	-----	-----	-----	-----
Gross profit.....	1	158	3,484	632	1,875
	-----	-----	-----	-----	-----
Operating expenses:					
Sales and marketing.....	62	565	3,881	555	2,216
Research and development.....	103	569	1,810	194	1,020
General and administrative.....	180	383	1,041	202	525
Amortization of unearned compensation.....	4	69	420	31	368
	-----	-----	-----	-----	-----
Total operating expenses.....	349	1,586	7,152	982	4,129
Loss from operations.....	(348)	(1,428)	(3,668)	(350)	(2,254)
Interest income (expense), net.....	18	(28)	(4)	(23)	58
	-----	-----	-----	-----	-----
Net loss.....	\$ (330)	\$ (1,456)	\$ (3,672)	\$ (373)	\$ (2,196)
	-----	-----	-----	-----	-----
Net loss per share--basic and diluted.....	\$ (0.06)	\$ (0.24)	\$ (0.60)	\$ (0.06)	\$ (0.36)
	-----	-----	-----	-----	-----
Weighted average shares--basic and diluted.....	5,932	6,000	6,086	6,294	6,047
	-----	-----	-----	-----	-----
Pro forma net loss per share (unaudited):					
Net loss per share--basic and diluted.....			\$ (0.26)		\$ (0.16)
			-----		-----
			-----		-----
Weighted average shares--basic and diluted.....			14,201		14,162
			-----		-----

	SEPTEMBER 30,			DECEMBER 31,
	1996	1997	1998	1998
				(UNAUDITED)
BALANCE SHEET DATA:				
Cash and cash equivalents.....	\$ 624	\$ 143	\$ 6,206	\$ 4,458
Working capital (deficit).....	617	(317)	6,763	4,869
Total assets.....	817	919	9,432	9,037
Long-term obligations.....	29	216	--	--
Shareholders' equity (deficit).....	737	(231)	7,608	5,930

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

THE FOLLOWING MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS SHOULD BE READ IN CONJUNCTION WITH OUR FINANCIAL STATEMENTS AND NOTES. OUR DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS BASED UPON CURRENT EXPECTATIONS THAT INVOLVE RISKS AND UNCERTAINTIES, SUCH AS OUR PLANS, OBJECTIVES, EXPECTATIONS AND INTENTIONS. OUR ACTUAL RESULTS AND THE TIMING OF CERTAIN EVENTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS, INCLUDING THOSE SET FORTH UNDER "RISK FACTORS," "BUSINESS" AND ELSEWHERE IN THIS PROSPECTUS.

### **OVERVIEW**

F5 is a leading provider of integrated Internet traffic management solutions designed to improve the availability and performance of mission-critical Internet-based servers and applications. We were incorporated on February 26, 1996 and began operations in April 1996. During the period from February 26, 1996 through September 30, 1996, we were a development stage enterprise and had no product revenues. Our operating activities during this period related primarily to developing our initial product, recruiting personnel, building our corporate infrastructure and raising capital.

In July 1997, we released our first version of our BIG/ip-Registered Trademark- Controller, and began to expand our operations. We increased our investment in research and development, marketing programs, domestic and international sales channels, customer support and services and our general and administrative infrastructure. Since June 30, 1997, we have:

- hired more than 100 employees;
- hired sales representatives in six domestic locations;
- hired professional services and customer support personnel in five domestic locations;
- released several upgrades to BIG/ip;
- released two new products, our 3DNS-TM- Controller and our see/IT-TM- Network Management Console;
- engaged sales representatives in the European and Asia Pacific markets; and
- established a distributor relationship with one international reseller.

Our net revenues grew from \$229,000 for the year ended September 30, 1997 to \$4.9 million for the year ended September 30, 1998 and were \$2.7 million for the three months ended December 31, 1998. To date, we have derived substantially all of our net revenues from sales of BIG/ip.

Net revenues derived from customers located outside of the United States were \$15,000 in 1997, \$172,000 in 1998 and \$61,000 for the quarter ended December 31, 1998. We plan to expand our international operations significantly, particularly in selected countries in the European and Asia Pacific markets, because we believe international markets represent a significant growth opportunity. The expansion of our international operations will be subject to a variety of risks that could significantly harm our business and results of operations.

Customers who purchase BIG/ip or 3DNS receive installation services and an initial customer support contract, typically covering a 12-month period. Customers may also purchase additional services, which are customarily billed at fixed rates, plus out-of-pocket expenses. We generally combine the software license, installation and customer support elements of our products into a package with a single price. We allocate a portion of the sales price to each element of the bundled package based on their respective fair values when the individual elements are sold separately. Revenues from the license of software are recognized when the product has been shipped and the customer is obligated to pay for the product. Installation

revenue is recognized when the product has been installed at the customer's site. Revenues for customer support are recognized on a straight-line basis over the initial service contract term. Estimated sales returns are based on historical experience by product and are recorded at the time revenues are recognized.

We have incurred losses since our inception, and as of December 31, 1998, had an accumulated deficit of \$7.7 million. Our success in growing net revenues depends on increasing our customer base and expanding our product line as well as continued growth of the emerging Internet traffic management market. Accordingly, we intend to continue to invest heavily in sales and marketing, promotion of the F5 brand, customer service and support, research and development, operating infrastructure and general and administrative staff to support our growth. As a result of these investments, we expect that our operating expenses will increase significantly and that we will continue to incur substantial operating losses for the foreseeable future. To achieve and maintain profitability we will need to increase our net revenues significantly. Although we have experienced rapid growth in net revenues in recent periods, we may not be able to sustain these growth rates or achieve or sustain profitability.

We have recorded a total of \$3.5 million of unearned compensation costs since our inception through December 31, 1998. These charges represent the difference between the exercise price and the deemed fair value of certain stock options granted to our employees and outside directors. These options generally vest over a four-year period. We are amortizing these costs over the vesting period of the options and have recorded unearned compensation of \$69,000 and \$420,000 for the years ended September 30, 1997 and 1998, respectively, and \$31,000 and \$368,000 for the three months ended December 31, 1997 and 1998, respectively.

We expect to record additional unearned compensation costs of approximately \$2.6 million for stock options granted subsequent to December 31, 1998. We expect to recognize amortization expense related to unearned compensation of approximately \$2.4 million, \$1.8 million, \$934,000 and \$395,000 in the years ended September 30, 1999, 2000, 2001 and 2002, respectively. We cannot guarantee, however, that we will not accrue additional unearned compensation costs in the future or that our current estimate of these costs will prove accurate, either of which events could seriously harm our business and results of operations.

We expense our research and development costs as incurred except for certain software development costs. Software development costs incurred in connection with product development are charged to research and development expense until technological feasibility is established. After that, until the product is released for sale, such software development costs are capitalized. These costs are then amortized over the estimated economic life of the products, generally two years.

Through December 31, 1998, we capitalized a total of \$201,000 of software development costs. We amortized \$4,000 and \$79,000 of these costs during the years ended September 30, 1997 and 1998, respectively, and \$8,000 and \$26,000 for the three months ended December 31, 1997 and December 31, 1998 respectively.

In view of the rapidly changing nature of our business and our limited operating history, we believe that period-to-period comparisons of net revenues and operating results are not necessarily meaningful and should not be relied upon as indications of future performance. This is particularly true of companies such as ours that operate in new and rapidly evolving markets.

## RESULTS OF OPERATIONS

The following table sets forth certain financial data as a percentage of total net revenues for the periods indicated. Data for the period from inception, February 26, 1996, to September 30, 1996, are not presented because we did not have product revenues during that period. Further, the amounts for the period from February 26, 1996 through September 30, 1996 are not comparable to the amounts for the year ended September 30, 1997 due to different lengths of the respective periods and the rapid acceleration of our activities and related expenses throughout the 1997 period.

	YEAR ENDED SEPTEMBER 30,		THREE MONTHS ENDED DECEMBER 31,	
	1997	1998	1997	1998
	(UNAUDITED)			
STATEMENT OF OPERATIONS DATA:				
Net revenues.....	100.0%	100.0%	100.0%	100.0%
Cost of net revenues.....	31.0	28.7	24.9	30.4
Gross margin.....	69.0	71.3	75.1	69.6
Operating expenses:				
Sales and marketing.....	246.8	79.4	65.9	82.2
Research and development.....	248.5	37.0	23.0	37.8
General and administrative.....	167.2	21.3	24.0	19.5
Amortization of unearned compensation.....	30.1	8.6	3.7	13.7
Total operating expenses.....	692.6	146.3	116.6	153.2
Loss from operations.....	(623.6)	(75.0)	(41.5)	(83.6)
Interest income (expense), net.....	(12.2)	(0.1)	(2.8)	2.1
Net loss.....	(635.8)%	(75.1)%	(44.3)%	(81.5)%

### THREE MONTHS ENDED DECEMBER 31, 1997 AND 1998 (UNAUDITED)

**NET REVENUES.** Net revenues increased by 220.7% from \$842,000 for the three months ended December 31, 1997 to \$2.7 million for the three months ended December 31, 1998. One of our resellers, Exodus Communications, accounted for approximately 14.9% of our net revenues for the three months ended December 31, 1998. This increase in net revenues resulted primarily from an increase in the quantity of our products shipped due to increased market acceptance, growth of our customer base through our direct and indirect sales channels, repeat business from our existing customers, and to a lesser extent, introduction of new products. As our net revenue base increases, we do not believe we can sustain the historical percentage growth rates of net revenues.

**COST OF NET REVENUES.** Cost of net revenues consists primarily of out-sourced hardware components and manufacturing, fees for third-party software products integrated into our products, personnel and an allocation of our facilities and depreciation expenses. Cost of net revenues increased by 290.5% from \$210,000 for the three months ended December 31, 1997 to \$820,000 for the three months ended December 31, 1998. This increase was due to the increased number of products shipped and to increases in personnel costs associated with product installation.

Cost of net revenues as a percentage of net revenues was 24.9% for the three months ended December 31, 1997 as compared to 30.4% for the three months ended December 31, 1998. This increase in cost of net revenues as a percentage of net revenues was due primarily to an increase in the percentage of total net revenues generated from resellers who buy our products for lower average prices than our direct sales prices resulting in lower gross profit margins. We anticipate that gross margins may decrease

in the future to the extent we experience price erosion or due to an increase in the percent of total net revenues generated from channel partners. This decrease may be offset to the extent we license software versions of our products that have higher gross margins.

**SALES AND MARKETING.** Our sales and marketing expenses consist primarily of salaries, commissions and related benefits of our sales and marketing staff, costs of our marketing programs, including public relations, advertising and trade shows and an allocation of our facilities and depreciation expenses. Sales and marketing expenses increased by 296.4%, from \$555,000 for the three months ended December 31, 1997 to \$2.2 million for the three months ended December 31, 1998. This increase was due primarily to an increase in sales and marketing and professional services personnel from 15 to 49, increased advertising and promotional activities, expansion of our other marketing programs and an increase in total sales compensation. We expect to increase sales and marketing expenses in order to grow net revenues and expand our brand awareness.

**RESEARCH AND DEVELOPMENT.** Our research and development expenses consist primarily of salaries and related benefits for our product development personnel and an allocation of our facilities and depreciation expenses. Research and development expenses increased by 415.5%, from \$194,000 for the three months ended December 31, 1997 to \$1.0 million for the three months ended December 31, 1998. This increase was due primarily to an increase in product development personnel from 10 to 34. Our future success is dependent in large part on the continued enhancement of our current products and our ability to develop new, technologically advanced products that meet the needs of our customers. We expect research and development expenses to increase in future periods.

**GENERAL AND ADMINISTRATIVE.** Our general and administrative expenses consist primarily of salaries, benefits and related costs of our executive, finance, human resource and legal personnel, third-party professional service fees and an allocation of our facilities and depreciation expenses. General and administrative expenses increased by 159.9% from \$202,000 for the three months ended December 31, 1997 to \$525,000 for the three months ended December 31, 1998. This increase was due primarily to an increase in general and administrative personnel from 5 to 21. We expect general and administrative expenses to increase as we expand our staff, further develop our internal information systems and incur costs associated with being a publicly-held company.

**UNEARNED COMPENSATION.** We recorded unearned compensation charges of \$31,000 and \$368,000 for the three months ended December 31, 1997 and 1998, respectively. See Note 8 of notes to our financial statements.

**INTEREST INCOME (EXPENSE), NET.** Interest income consists of earnings on our cash and cash equivalent balances offset by interest expense associated with debt obligations. Net interest expense was \$23,000 for the three months ended December 31, 1997 compared to net interest income of \$58,000 for the three months ended December 31, 1998. This increase was due primarily to increased interest earned on cash and cash equivalents received from the sale of preferred stock in August 1998.

**INCOME TAXES.** There was no provision for federal or state income taxes for any period as we have incurred operating losses since inception. As of September 30, 1998, we had approximately \$4.6 million of net operating loss carryforwards for federal income tax purposes. Utilization of the net operating loss carryforwards may be subject to annual limitations due to the ownership change limitations contained in the Internal Revenue Code of 1986 and similar state provisions. Annual limitations may result in the expiration of the net operating losses before we can utilize them. The federal net operating loss carryforwards will expire at various dates beginning in 2011 through 2018 if we do not use them. See Note 5 of notes to our financial statements.

## **YEARS ENDED SEPTEMBER 30, 1997 AND 1998**

**NET REVENUES.** Net revenues increased by 2,039.7% from \$229,000 for the year ended September 30, 1997 to \$4.9 million for the year ended September 30, 1998. This increase in net revenues resulted primarily from an increase in the quantity of our products shipped due to increased market acceptance of our products, introduction of enhanced versions of BIG/ip, growth of our customer base and repeat business from our existing customer base.

**COST OF NET REVENUES.** Cost of net revenues increased by 1,871.8% from \$71,000 in 1997 to \$1.4 million in 1998. This increase was due primarily to the increase in volume of shipments of our products sold. Cost of net revenues as a percentage of net revenues decreased from 31.0% in 1997 to 28.7% in 1998 due to a decrease in direct product cost. This decrease was partially offset by a higher percentage of sales by resellers and net revenues from services, which have lower gross profit margins than net revenues derived from direct product sales.

**SALES AND MARKETING.** Our sales and marketing expenses increased by 590.3%, from \$565,000 in 1997 to \$3.9 million in 1998. This increase was due primarily to investing in our sales and marketing infrastructure, both domestically and internationally. These investments included an increase in our sales and marketing and professional services personnel from 7 to 37, recruiting fees, travel expenses, and related facility and equipment costs as well as increased marketing activities, including advertising, trade shows and other promotional expenses. Sales and marketing expenses decreased from 246.8% of net revenues in 1997 to 79.4% of net revenues in 1998. This percentage decrease was due primarily to our net revenues growing faster than our sales and marketing expenses.

**RESEARCH AND DEVELOPMENT.** Our research and development expenses increased by 216.3% from \$569,000 in 1997 to \$1.8 million in 1998. This increase was due primarily to an increase in our software engineers and other technical staff from 9 to 27. Research and development expenses decreased from 248.5% of our net revenues in 1997 to 37.0% of our net revenues in 1998. This percentage decrease was due primarily to our net revenues growing faster than our research and development expenses.

**GENERAL AND ADMINISTRATIVE.** Our general and administrative expenses increased by 161.1% from \$383,000 in 1997 to \$1.0 million in 1998. This increase was due primarily to an increase in general and administrative personnel from 4 to 16. General and administrative costs decreased from 167.2% of our net revenues in 1997 to 21.3% of our net revenues in 1998. This percentage decrease was due primarily to our net revenues growing faster than our general and administrative expenses.

**INTEREST INCOME (EXPENSE), NET.** Net interest expense was \$28,000 in 1997 compared to net interest expense of \$4,000 in 1998. This decrease was due primarily to increased interest earned on cash and cash equivalents received from the sale of our preferred stock in August 1998.



## QUARTERLY RESULTS OF OPERATIONS

The following tables present our unaudited quarterly results of operations for the six quarters ended December 31, 1998 in dollars and as a percentage of net revenues. You should read the following tables in conjunction with our financial statements and related notes contained elsewhere in this prospectus. We have prepared this unaudited information on the same basis as the audited financial statements. These tables include all adjustments, consisting only of normal recurring adjustments that we consider necessary for a fair presentation of our operating results for the quarters presented. You should not draw any conclusions about our future results from the results of operations for any quarter.

	THREE MONTHS ENDED					
	SEPT. 30, 1997	DEC. 31, 1997	MARCH 31, 1998	JUNE 30, 1998	SEPT. 30, 1998	DEC. 31, 1998
	(IN THOUSANDS) (UNAUDITED)					
Net revenues.....	\$ 166	\$ 842	\$ 995	\$ 1,144	\$ 1,908	\$ 2,695
Cost of net revenues.....	55	210	249	406	540	820
Gross profit.....	111	632	746	738	1,368	1,875
Operating expenses:						
Sales and marketing.....	203	555	787	1,097	1,442	2,216
Research and development.....	210	194	340	525	751	1,020
General and administrative.....	110	202	236	252	351	525
Amortization of unearned compensation.....	69	31	60	114	215	368
Total operating expenses.....	592	982	1,423	1,988	2,759	4,129
Loss from operations.....	(481)	(350)	(677)	(1,250)	(1,391)	(2,254)
Interest income (expense), net.....	(26)	(23)	4	(2)	17	58
Net loss.....	\$(507)	\$(373)	\$( 673)	\$(1,252)	\$(1,374)	\$(2,196)

	THREE MONTHS ENDED					
	SEPT. 30, 1997	DEC. 31, 1997	MARCH 31, 1998	JUNE 30, 1998	SEPT. 30, 1998	DEC. 31, 1998
	(IN THOUSANDS) (UNAUDITED)					
Net revenues.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of net revenues.....	33.1	24.9	25.0	35.5	28.3	30.4
Gross margin.....	66.9	75.1	75.0	64.5	71.7	69.6
Operating expenses:						
Sales and marketing.....	122.3	65.9	79.1	95.9	75.5	82.2
Research and development.....	126.5	23.0	34.2	45.9	39.4	37.8
General and administrative.....	66.3	24.0	23.7	22.0	18.4	19.5
Amortization of unearned compensation.....	41.5	3.7	6.0	10.0	11.3	13.7
Total operating expenses.....	356.6	116.6	143.0	173.8	144.6	153.2
Loss from operations.....	(289.7)	(41.5)	(68.0)	(109.3)	(72.9)	(83.6)
Interest income (expense), net.....	(15.7)	(2.8)	0.4	(0.1)	0.9	2.1
Net loss.....	(305.4)%	(44.3)%	(67.6)%	(109.4)%	(72.0)%	(81.5)%

Our quarterly operating results have fluctuated significantly and we expect that future operating results will be subject to similar fluctuations for a variety of factors, many of which are substantially

outside our control. See "Risk Factors--Our quarterly operating results are volatile and future operating results remain uncertain."

## **LIQUIDITY AND CAPITAL RESOURCES**

Since our inception, we have financed our operations primarily through private placements of our preferred stock. Through December 31, 1998, gross proceeds from private placements of preferred stock totaled approximately \$11.9 million. To a lesser extent, we have financed our operations through equipment financing and traditional lines of credit.

As of December 31, 1998, we had cash and cash equivalents of \$4.5 million, an increase of \$3.8 million from cash and cash equivalents held as of December 31, 1997. This increase was due primarily to the sale of our preferred stock, which raised approximately \$9.1 million, offset by cash used in operating activities and purchases of property and equipment.

We have a \$2.0 million working capital revolving line of credit with a lender that is collateralized by our accounts receivable and bears interest at the lender's prime rate plus one-half percent. This facility allows us to borrow up to the lesser of 75% of our eligible accounts receivable or \$2.0 million. The agreement under which the line of credit was established contains certain covenants, including a provision requiring us to maintain specific financial ratios. As of December 31, 1998, there were no outstanding borrowings under this line of credit. We also had a capital equipment line with a lender for \$100,000. Borrowings under this capital equipment line bear interest at the bank's prime rate plus 1.5 percent. The agreement requires that we maintain certain financial ratios and levels of tangible net worth, profitability and liquidity. This line expired in August 1998 and was never utilized.

Cash used in our operating activities was \$1.4 million in 1997, \$3.4 million in 1998 and \$1.6 million for the three months ended December 31, 1998. These cash outflows resulted from operating losses as well as in accounts receivable, prepaid expenses and other current assets and were partially offset by increases in accounts payable, accrued liabilities and deferred revenues.

Net cash used in investing activities since our inception through December 31, 1998 is approximately \$1.5 million, substantially all of which was used for the purchase of property and equipment. We expect capital expenditures to increase in the second half of 1999 due to the costs of expansion and expenditures for information systems and test equipment.

As of December 31, 1998, our principal commitment consisted of obligations outstanding under operating leases. In March 1999, we agreed to lease approximately 20,000 square feet in a facility located in Seattle, Washington, for a term of 60 months. The annual cost of this lease is approximately \$397,000, subject to annual adjustments. Although we have no other material commitments, we anticipate a substantial increase in our capital expenditures and lease commitments consistent with anticipated growth in our operations, infrastructure and personnel. In the future we may also require a larger inventory of products in order to provide better availability to customers and achieve purchasing efficiencies.

We intend to substantially increase our operating expenses in 1999 and beyond as we:

- enter new markets for our products and services;
- introduce new products and product enhancements;
- increase our sales and marketing activities and expand our direct sales force and indirect sales channels both domestically and internationally;
- hire additional product development personnel;
- implement new and upgraded information and financial systems; and
- broaden our customer support and professional services capabilities.

These operating expenses will consume a material amount of our cash resources, including a portion of the net proceeds of this offering. We expect that the net proceeds from this offering, cash from operations and borrowings available under our credit facility will be sufficient to meet our working capital and capital expenditure needs for at least the next twelve months. After that, we may need to raise additional funds, and additional financing may not be available on favorable terms, if at all. Further, if we issue additional equity securities, shareholders may experience dilution, and the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If we cannot raise funds, if needed, on acceptable terms, we may not be able to develop new products or enhance our existing products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements. This may seriously harm our business and results of operations.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

As of October 1, 1998 we adopted Financial Accounting Standards Board Statement No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and displaying comprehensive income and its components in a full set of general-purpose financial statements. We had no material components of comprehensive income. The adoption of this statement has had no impact on our financial position, shareholders' equity (deficit), results of operations or cash flows. Accordingly, our comprehensive loss for the three months ended December 31, 1998 is equal to our reported loss.

Additionally, the Financial Accounting Standards Board issued Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes standards for the way business enterprises report information in annual statements and interim financial reports regarding operating segments, products and services, geographic areas and major customers. This statement is effective for financial statements for fiscal years beginning after December 15, 1997. The adoption of this statement did not have a material impact on the way we report information in our financial statements.

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which establishes guidelines for the accounting for the costs of all computer software developed or obtained for internal use. We are required to adopt SOP 98-1 for the fiscal year beginning in October 1999. Our adoption of SOP 98-1 is not expected to have a material impact on our financial statements.

In June 1998, the Financial Accounting Standards Board issued Statement No. 133 of Financial Accounting Standards, "Accounting for Derivative Instruments and Hedging Activities." This statement requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as a part of a hedge transaction and, if it is, the type of hedge transaction. This statement is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. We do not use derivative instruments, therefore the adoption of this statement will not have any effect on our results of operations or financial position.

## **YEAR 2000 COMPLIANCE**

**BACKGROUND OF YEAR 2000 ISSUES.** Many currently installed computer and communications systems and software products are unable to distinguish 21(st) century dates from 20(th) century dates. This situation could result in system failures or miscalculations causing business disruptions. As a result, many companies' software and computer and communications systems may need to be upgraded or replaced to become Year 2000 compliant.

**OUR PRODUCT TESTING AND LICENSING.** We have tested all of our current products for Year 2000 compliance. We derived our testing method from our review and analysis of the Year 2000 testing practices of other software vendors, relevant industry Year 2000 compliance standards and the specific functionality

and operating environments of our products. The tests are run on all supported platforms for each current release of our product and include testing for date calculations and internal storage of date information with test numbers starting in 1999 and going beyond the Year 2000. Based on these tests, we believe our products to be Year 2000 compliant with respect to date calculations and internal storage of date information.

**CUSTOMER CLAIMS.** We may be subject to customer claims to the extent our products fail to operate properly as a result of the occurrence of the date January 1, 2000. In certain cases, liability may result to the extent our products are not able to store, display, calculate, compute and otherwise process date-related data. We could also be subject to claims based on the failure of our products to work with software or hardware from other vendors.

**INTERACTION OF OUR PRODUCTS WITH THIRD-PARTY SOFTWARE.** Our products contain, operate with and depend on third-party software. We have contacted the companies we license software from and each has made representations that the licensed software is Year 2000 compliant. However, we may not be able to verify this by independent testing. Our products also interact with external sources such as other software programs and operating systems that may not be Year 2000 compliant. Any interaction with third-party software that is not Year 2000 compliant could cause our products to fail to operate or to process date information properly.

**OUR INTERNAL SYSTEMS.** We are also in the process of conducting an inventory and evaluation of the information systems used to run our business. These systems include those related to product development, product delivery, customer service, internal and external communications, accounting and payroll, which we consider critical areas of our business. We are seeking vendor certification for all third-party systems and plan to develop a detailed risk assessment and action plan that will include testing of both critical systems and systems for which no certification has been obtained.

**COSTS OF ADDRESSING YEAR 2000 COMPLIANCE.** Based on our preliminary evaluations, we do not believe we will incur significant expenses or be required to invest heavily in computer system improvements to be Year 2000 compliant. We do not believe the cost of remediation for Year 2000 non-compliance issues identified to date will exceed \$50,000. However, significant uncertainty exists concerning the potential costs and effects associated with Year 2000 compliance. Any Year 2000 compliance problem experienced by us or our customers could decrease demand for our products which could seriously harm our business and results of operations.

## **BUSINESS**

THE FOLLOWING BUSINESS SECTION CONTAINS FORWARD-LOOKING STATEMENTS RELATING TO FUTURE EVENTS OR THE FUTURE FINANCIAL PERFORMANCE OF F5, WHICH INVOLVE RISKS AND UNCERTAINTIES. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS, INCLUDING THOSE SET FORTH UNDER "RISK FACTORS" AND ELSEWHERE IN THIS PROSPECTUS.

### **OVERVIEW**

F5 is a leading provider of integrated Internet traffic management solutions designed to improve the availability and performance of mission-critical Internet-based servers and applications. Our proprietary software-based solutions monitor and manage local and geographically dispersed servers and intelligently direct traffic to the server best able to handle a user's request. Our products are designed to ensure fault-tolerance and provide timely responses to user requests and data flow. Our BIG/ip-Registered Trademark- and 3DNS-TM- Controllers, when combined with our see/IT-TM- Network Management Console, help organizations optimize their network server availability and performance and cost-effectively manage their Internet infrastructure. Our solutions are used by organizations who rely on the Internet as a fundamental component of their business. Our customers include Internet service providers, such as Exodus Communications, PSINet, MCI WorldCom, e-commerce companies and many other organizations that employ high-traffic Internet sites. Since shipping our first product in July 1997, we have sold our products to over 290 end-customers.

### **INDUSTRY BACKGROUND**

The Internet has emerged as a critical commerce and communications platform for businesses and consumers worldwide. International Data Corporation estimates that there were 97 million Internet users at the end of 1998 and anticipates this number will grow to approximately 320 million by 2002. This dramatic growth in the number of Internet users coupled with the increased availability of powerful new tools and equipment that enable the development, processing and distribution of data across the Internet have led to a proliferation of Internet-based applications and services, such as e-commerce, e-mail, electronic file transfers and online interactive applications. At the same time that the number of users of, and uses for, the Internet has increased significantly, the complexity and volume of Internet traffic has increased dramatically. According to the United States Department of Commerce, Internet traffic doubles every 100 days.

As a result of the Internet's growing popularity and capabilities, numerous businesses have come to rely on it as a fundamental commerce and communications tool. For example, a growing number of organizations, such as Web hosting and e-commerce companies, rely primarily on the Internet to transact business. In addition, many businesses are using the Internet to deploy mission-critical business applications in browser-based intranet and extranet computing environments. Failure to deliver the expected availability and performance for these Internet-based applications can result in a significant cost to the organization.

This widespread proliferation in the use and importance of the Internet has strained many organizations' network infrastructures. In order to support the dramatic increases in Internet use and traffic, many organizations have aggressively expanded network server capacity. According to IBM, servers are being connected to the Internet at a rate of 53,000 per month. Network infrastructures are further strained by unpredictable traffic, the complexity of the network environment and the increased variety of data, including multimedia components and video clips. In this environment, organizations often deploy multiple servers in a group, or array, which contains individual application-specific servers or redundant servers that operate together as a virtual large server. Server arrays can reduce single points of failure and be a cost-effective way to increase the potential capacity of the system by providing the flexibility to add additional servers to the array as needed. The practice of geographically dispersing server arrays to improve fault-tolerance and direct traffic more efficiently is also a growing trend.

While additional servers, redundant server configurations and geographically dispersed server sites help address an organization's rapidly increasing traffic, they also increase the organization's need for sophisticated Internet traffic management tools to help manage the availability and performance of its servers and applications. For optimal server array performance, intelligent devices are required to direct traffic and synchronize content across local and geographically dispersed servers. These intelligent devices, or load balancers, identify which server, whether local or remote, is best able to handle user requests.

Most currently available Internet traffic management products are extensions to hardware-based routers, which lack the robust functionality required to support current mission-critical Internet-based servers and applications. These products are typically not designed to address application availability, nor do they meet the manageability and scalability required by organizations who depend on the Internet as a fundamental commerce and communications tool. As a result, we believe that traditional traffic management products do not adequately address the need to manage traffic flows and ensure the availability of mission-critical servers and applications in the rapidly changing Internet environment.

## **F5 SOLUTION**

We develop, market and support cost-effective, integrated Internet traffic management solutions designed to ensure that mission-critical Internet-based servers and applications are continuously available and perform reliably. Our proprietary software-based solutions monitor and manage locally and geographically dispersed servers and intelligently direct traffic to the server best able to handle the user request. We believe that our products deliver Internet quality control by providing the following key benefits:

**HIGH SYSTEM AVAILABILITY.** Our integrated suite of products works with servers deployed in a redundant server array over a local or wide area network to enhance network performance and reduce single points of failure. Our solutions continuously monitor network performance to enable real-time detection of server, application and content degradation or failure. Based on this information, our solutions automatically direct user requests to functioning servers and applications. Our products also enable network administrators to deploy new servers and take individual servers offline for routine maintenance without disrupting service to end users.

**INCREASED PERFORMANCE.** Our proprietary software-based solutions provide a significant performance improvement over other current approaches. Our solutions monitor server and application response time and verify content. This information is used to intelligently direct user requests to the server with the fastest response time. By intelligently allocating traffic throughout the network, our solutions reduce server overload conditions that may cause performance degradation.

**COST-EFFECTIVE SCALABILITY.** Our solutions enable more efficient utilization of existing server capacity by intelligently allocating traffic among servers. This capability allows organizations to optimize the capacity of existing servers and, as traffic volume dictates, cost-effectively expand server capacity through incremental additions of relatively low cost servers rather than upgrading to larger, more expensive servers. Our solutions can be used with multiple heterogeneous hardware platforms, allowing organizations to protect their investments in their legacy hardware installations as well as integrate of future hardware investments.

**EASIER NETWORK MANAGEABILITY.** Our products collect information that can be used to facilitate network management and planning from a central location. Leveraging our products' strategic location in the network, our solutions collect data that is crucial for traffic analysis and apply proprietary trend and analysis tools that synthesize this data so that network managers can forecast network requirements more accurately. In addition, we are in the process of developing solutions to provide automatic server content synchronization across remote locations, thereby helping to ensure users access to the same content regardless of server location.

**ENHANCED NETWORK CONTROL.** Our solutions enable organizations to prioritize and arrange network traffic based on user-defined criteria to meet their specific needs. For example, our products may be configured to utilize the most cost-efficient communication links or, alternatively, to achieve the most rapid response time.

## **STRATEGY**

Our objective is to be the leading provider of integrated Internet traffic management solutions designed to optimize network server availability and performance. Key components of our strategy include:

**OFFER A COMPLETE INTERNET TRAFFIC MANAGEMENT SOLUTION.** We plan to continue expanding our existing suite of products to provide a complete Internet traffic management solution that further optimizes the availability and performance of network servers and applications. To support this objective, we have recently introduced our see/IT Network Management Console that communicates with our BIG/ip and 3DNS Controllers to enable real-time network monitoring and pro-active network management. Furthermore, we are currently developing our global/SITE-TM- Controller that is designed to ensure data integrity by automatically synchronizing content across local and geographically dispersed network servers. To further support our suite of products, we intend to continue to invest in our professional services group to provide the installation, training and support services required to help our customers optimize their use of our Internet traffic management solutions.

**INVEST IN TECHNOLOGY TO CONTINUE TO MEET CUSTOMER NEEDS.** We plan to continue to invest in research and development to provide our customers with complete Internet traffic management solutions that meet their needs. Our current technology platform has been designed to quickly and easily expand the features and functionalities of our suite of products as well as develop additional products that address the complex and changing needs of our customers. We are also in the process of developing specialized software modules that will allow our customers to purchase products with specific features based on their specific requirements.

**EXPAND SALES CHANNELS AND GEOGRAPHIC SCOPE OF SALES.** We plan to invest significant resources to expand our direct sales force and further develop our indirect sales channels. In addition to maintaining a strong direct sales force, we plan to expand our indirect sales channels through leading industry resellers, original equipment manufacturers, systems integrators, Internet service providers and other channel partners. Furthermore, we plan to pursue sales of our Internet traffic management solutions to governmental entities. We also plan to aggressively develop our direct and indirect international sales capabilities, particularly in selected countries in the European and Asia Pacific markets.

**LEVERAGE OUR MARKET LEADERSHIP TO CONTINUE TO BUILD THE F5 BRAND.** We plan to continue building brand awareness that positions us as one of the leading providers of Internet traffic management solutions. Our goal is for the F5 brand to be synonymous with superior network performance, high quality customer service and ease of use. To achieve these objectives, we plan to increase our investments in a broad range of marketing programs, including active tradeshow participation, advertising in print publications, direct marketing, high-profile Web events and our Internet site.

**PURSUE STRATEGIC ACQUISITIONS.** We may selectively pursue strategic acquisitions for products and technologies that will complement or expand our existing Internet traffic management solutions.

## **PRODUCTS AND TECHNOLOGY**

We have developed BIG/ip, 3DNS and see/IT as a suite of Internet traffic management products that facilitate high performance, high availability and scalable access to network server arrays located at a single site or across multiple, geographically dispersed sites. Our suite of products helps to ensure that Web

servers can respond to ever-increasing Internet traffic. The following is a summary of our products currently available and under development:

PRODUCT NAME	DESCRIPTION	INTRODUCTION DATE
BIG/ip-Registered Trademark-Controller	Intelligent load balancer for local area networks	July 1997
3DNS-TM- Controller	Intelligent load balancer for wide area networks	September 1998
see/IT-TM- Network Management Console	Traffic analysis and network management software application for BIG/ip and 3DNS	April 1999
global/SITE-TM- Controller	File replication and synchronization controller for managing content across geographically dispersed Internet sites	Under development

**BIG/IP CONTROLLER.** BIG/ip is an intelligent load balancer consisting of proprietary software installed on a pre-configured, industry-standard hardware platform. Situated between a network's routers and server array, BIG/ip continuously monitors the array of local servers to ensure application availability and performance and automatically directs user requests to the server best able to handle such requests. By quickly detecting application, server and network failures and directing service toward those servers and applications that are functioning properly, BIG/ip is designed to ensure fault-tolerance and provide timely responses to user requests and data flow. BIG/ip offers a comprehensive choice of load-balancing algorithms that enables an organization to choose a load-balancing configuration that best suits its particular needs. Additionally, BIG/ip actively queries and checks content received from applications, thereby helping to ensure the quality of static and dynamic Web content. Thus, if a server and application are responding to users' requests with incorrect content, BIG/ip redirects requests to those servers and applications that are responding properly.

BIG/ip can be used in any Internet protocol, or IP, environment and can operate with multiple, heterogeneous hardware platforms. This enables organizations to leverage their existing infrastructure without limiting their options to meet future network needs. BIG/ip supports a wide variety of network protocols, including Web, e-mail, audio, video, database and file transfer protocol, and manages traffic for network devices such as firewalls, cache servers, proxy servers and multimedia servers, to help provide reliable content availability for end users. BIG/ip's ability to intelligently distribute traffic across server arrays reduces the need for increasingly larger and more expensive servers to accommodate increases in network traffic. This configuration also reduces the single point of failure inherent with a single large server and allows for the orderly addition of new servers or the routine maintenance or upgrades of servers without disrupting service to the end user. A typical configuration of redundant BIG/ip Controllers located between the server array and network is shown below.



## [ILLUSTRATION]

Additional BIG/ip features include:

- SECURE SOCKETS LAYER SESSION PERSISTENCE enables server arrays to support e-commerce and other applications in a secure, cost-effective and scalable environment.
- SECURE SERVER PROTECTION protects against unauthorized use of the network server array.
- RATE SHAPING allows priority levels to be assigned to specific types of traffic.
- PACKET FILTERING enables content providers to direct network traffic to servers based on user-definable criteria for increased network security and performance.
- BIG/CONFIG, a simple point-and-click browser-based installation and configuration tool, facilitates remote monitoring and administration of the network in a secure environment.

**3DNS CONTROLLER.** 3DNS is an intelligent load balancer that manages and distributes user requests across wide area networks. 3DNS consists of proprietary software installed on a pre-configured, industry-standard hardware platform. Like BIG/ip, 3DNS functions with multiple heterogeneous hardware platforms and supports a wide variety of network protocols, including Web, e-mail, audio, video, database and file transfer protocol, and manages traffic for network devices such as firewalls, cache servers, proxy servers and multimedia servers.

When an end-user request is received from a local domain name server or DNS, 3DNS collects network information and communicates with each BIG/ip in the network to determine the server array with the fastest response time. 3DNS then sends the request to the BIG/ip at this server array, and the

BIG/ip then directs the request to the individual server best able to handle it. Although organizations can deploy a single 3DNS in their network configuration, multiple 3DNS Controllers are often deployed within the network to provide redundancy to help ensure network availability and performance for end users. A typical 3DNS configuration is shown below:

### **[ILLUSTRATION]**

Additional 3DNS features include:

- DYNAMIC LOAD BALANCING optimizes use of available network resources across wide area networks.
- USER-DEFINED PRODUCTION RULES allow organizations to pre-configure traffic distribution decisions according to their specific user requirements.
- SECURE SERVER PROTECTION offers security features for wide area networks similar to those BIG/ip provides for local area networks.
- BIG/CONFIG, a simple point-and-click browser-based installation and configuration tool, facilitates remote monitoring and administration of the network in a secure environment.

SEE/IT NETWORK MANAGEMENT CONSOLE. see/IT is a recently introduced software application that communicates with BIG/ip and 3DNS to help improve the management and functionality of an organization's network servers. see/IT, which runs on an NT server, uses real-time data collected by BIG/ip and 3DNS to perform crucial traffic analysis management functions. Furthermore, by reviewing historical patterns, network administrators can build predictive models and forecast usage, which helps them to intelligently plan and budget for additional server and bandwidth capacity. see/IT integrates the BIG/config software module that comes pre-loaded with BIG/ip and 3DNS and consists of the following two additional Internet browser-based modules:

- BIG/PICTURE-TM- is a real-time monitoring tool that displays key data on network traffic in easy-to-read graphical illustrations, thereby enabling network administrators to quickly obtain information

regarding network and server performance, including data about server status and traffic, number of connections, active and inactive IP addresses and the availability of individual applications.

- BIG/ANALYSIS-TM- is a forward-looking trend and analysis tool that uses the information generated by BIG/picture to project future network and server needs. Network managers and system administrators can use this tool to create "what if?" scenarios to help forecast the need for additional servers, interface upgrades and other network capacity requirements.

GLOBAL/SITE CONTROLLER. global/SITE is a global data management solution currently under development that has been designed to help organizations automate publishing, distribution and synchronization of file-based content and applications to local and geographically dispersed Internet sites. global/SITE is being developed to work with our other products to provide an integrated Internet traffic management solution. global/SITE will consist of proprietary software installed on a pre-configured, industry-standard hardware platform and is being developed to intelligently deploy both program and data files to arrays of heterogeneous Web servers. global/SITE's configuration database will allow administrators to define standard rules for content deployment as well as accommodate unique content distribution events as needed.

## **PRODUCT DEVELOPMENT**

We believe that our future success depends on our ability to build upon our current technology platform, expand the features and functionalities of our suite of Internet traffic management products and develop additional products that maintain our technological competitiveness. Our product development group, which is divided along product lines, employs a standard process for the design, development, documentation and quality control of our Internet traffic management solutions. As of March 1, 1999, we employed 43 people in this group. Each product line is headed by a lead architect, who is responsible for developing the technology behind the product. To help develop the technology, the lead architects work closely with our customers to better understand their requirements. Each line also has a product manager, who ensures that the team develops and delivers a product that satisfies our customers' needs. Software engineers, who help design and build the products, and technicians, who perform test engineering, configuration management, quality assurance and documentation functions, complete our product development teams. The test engineering team evaluates the overall quality of our products and determines whether they are ready for release.

Our product development expenses for fiscal 1996, 1997, 1998 and the three months ended December 31, 1998 were \$103,000, \$569,000, \$1.8 million and \$1.0 million, respectively. We expect our product development expenses to increase as we hire additional research and development personnel to develop new products and upgrade our existing ones.

## **CUSTOMERS**

Our target customers include Internet service providers and companies with e-commerce sites and high-traffic Internet or intranet Web sites. We have also participated in several high profile Web events. For example, BIG/ip and 3DNS were used to manage traffic for the official shuttle.nasa.gov Web site for the John Glenn space shuttle mission. This site featured a real-time audio and video simulcast of the live NASA broadcast of the shuttle liftoff. In addition, video clips covering the remainder of the mission were periodically updated and made available through the site. On its most active day, this site received over 7 million user requests. Since shipping our first product in July 1997, we have sold our products directly or through resellers, including Exodus Communications and Frontier GlobalCenter, to over 290 end-

customers. The following is a list of customers that have purchased at least \$100,000 of our products since the end of March 1998:

Resellers	<ul style="list-style-type: none"><li>- Exodus Communications</li><li>- Frontier GlobalCenter</li><li>- Vanstar</li></ul>
ISP/Web Hosting	<ul style="list-style-type: none"><li>- Exodus Communications</li><li>- MCI WorldCom</li><li>- PSINet Inc.</li><li>- StarMedia Network, Inc.</li></ul>
Intranet/Enterprise	<ul style="list-style-type: none"><li>- BankAmerica Corporation</li><li>- BellSouth.net</li><li>- Eastman Kodak Company</li><li>- Encyclopedia Britannica, Inc.</li><li>- Microsoft Corporation</li><li>- Motorola, Inc.</li><li>- People's Bank</li><li>- Techwave Corporation</li><li>- Unum Corporation</li></ul>

**SALES AND MARKETING**

We market and sell our Internet traffic management solutions through a direct sales force in the United States, the United Kingdom and Germany, as well as through domestic and international channel partners. We plan to invest significant resources to expand our direct sales force and further develop our indirect sales channels by developing relationships with leading industry resellers, original equipment manufacturers, systems integrators, Internet service providers and other channel partners. We are in the process of seeking international channel partners for our products in selected countries in the European and Asia Pacific markets. We also intend to increase the number of individuals focused on sales to governmental entities, and develop strategic relationships that will help facilitate these sales. As of March 1, 1999, we employed 43 people in sales and marketing.

Our regional sales managers are responsible for direct customer contact and are located in Seattle, San Francisco, Los Angeles, Houston, Chicago, Boston, New York, Atlanta, Washington, D.C., London and Munich. Our inside sales managers generate and qualify leads for our regional sales managers and help manage accounts by serving as a liaison between our field and internal corporate resources. Our field systems engineers also support our regional sales managers by participating in joint sales calls and providing pre-sales technical resources as needed.

We plan to continue to build strong brand awareness to leverage the value of our Internet traffic management products and professional services in the marketplace. We believe brand visibility is a key factor in increasing customer awareness, and our goal is for the F5 brand to be synonymous with superior performance, high quality customer service and ease of use. We market our products and services through a broad range of marketing programs, including active tradeshow participation, advertising in print publications, direct marketing, high-profile Web events and our Internet site. Our marketing programs are focused on creating awareness of our Internet traffic management solutions and services and are targeted at information technology professionals such as chief information officers.

**PROFESSIONAL SERVICES AND TECHNICAL SUPPORT**

We believe that our ability to consistently provide high-quality customer service and support will be a key factor in attracting and retaining customers. Prior to the installation of our Internet traffic management

solutions, our professional services team works with organizations to analyze and understand their special network needs. They also make recommendations on how to integrate our solutions to best utilize our product features and functionality to support their unique network environment. Once our customers purchase our products, we go on-site to help with installation and provide an initial training session to help our customers make use of the functionality built into our products.

Our technical support team provides remote support through a 24x7 help desk. Our technical support team also assists our customers with online updates and upgrades. We also offer seminars and training sessions for our customers on the configuration and use of our products, including local and wide area network system administration and management. In addition, we provide a full range of consulting services to our customers, including comprehensive network management, documentation and performance analysis and capacity planning to assist in predicting future network requirements. As of March 1, 1999, our professional services and technical support team consisted of 14 employees.

## **MANUFACTURING**

We outsource the manufacturing of our pre-configured, industry-standard hardware platforms to primarily two contract manufacturers who assemble such hardware platforms to our specifications. These platforms consist primarily of an Intel-based computing platform, rack-mounted enclosure system and custom-designed front panel. We install our proprietary software onto the hardware platforms and conduct functionality testing, quality assurance and documentation control prior to shipping our products.

We have experienced delays in shipments from these contract manufacturers in the past and may experience delays in the future or other problems, such as inferior quality and insufficient quantity of product, any of which may seriously harm our business and results of operations. There can be no assurance that we will effectively manage our contract manufacturers or that these manufacturers will meet our future requirements for the timely delivery of our hardware platforms in sufficient quality and quantity. From time to time, we intend to introduce new products and product enhancements, which will require that we coordinate our efforts with those of our contract manufacturers to ensure a sufficient quantity of hardware components. In addition, as our sales increase our contract manufacturers will need to achieve volume production to meet our demand. The inability of our contract manufacturers to provide us with adequate supplies of high-quality hardware platforms or the loss of one or more of our contract manufacturers may cause a delay in our ability to fulfill orders while we obtain a replacement manufacturer and may seriously harm our business and results of operations.

Subcontractors supply our contract manufacturers with the standard parts and components for our products. We currently purchase several key hardware components used in the manufacture of our products from limited sources. Generally, purchase commitments with our limited source suppliers are on a purchase order basis. An interruption or delay in the supply of any of these hardware components, or the inability to procure these components from alternate sources at acceptable prices and within a reasonable time, will seriously harm our business and results of operations. In addition, qualifying additional suppliers can be time-consuming and expensive and may increase the likelihood of errors.

Lead times for purchasing materials and hardware components vary significantly and depend on factors such as the specific supplier, contract terms and demand for a component at a given time. If orders do not match forecasts, excess or inadequate supplies of certain materials, including components manufactured by our subcontractors, may seriously harm our business and results of operations.

## **COMPETITION**

Our markets are new, rapidly evolving and highly competitive, and we expect such competition to persist and intensify in the future. Our principal competitors in the Internet traffic management market include Cisco Systems as well as a number of other public and private companies that offer load balancing and other network management products. We expect to continue to face additional competition as new participants enter the Internet traffic management market. We also compete with other providers of

hardware and software who currently offer partial solutions to network infrastructure problems, including network-caching companies, clustering software providers, hardware server manufacturers and other networking companies. Alternatively, larger companies with significant resources, brand recognition and sales channels may form alliances with or acquire competing Internet traffic management solutions and emerge as significant competitors. In addition, competitors may bundle their products or incorporate an Internet traffic management component into existing products in a manner that discourages users from purchasing our products. Potential customers may also choose to purchase additional servers instead of our products.

Many of our competitors have longer operating histories and significantly greater financial, technical, marketing and other resources than we do. Many of these companies have more extensive customer bases and broader customer relationships that could be leveraged, including relationships with many of our current and potential customers. In addition, our competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements than us. These companies also have significantly more established customer support and professional services organizations and more extensive direct sales force and direct and indirect sales channels than we do. In addition, these companies may adopt aggressive pricing policies to gain market share. As a result, we may not be able to maintain a competitive position against current or future competitors. Our failure to maintain and enhance our competitive position within the market may seriously harm our business and results of operations.

## **INTELLECTUAL PROPERTY**

We rely on a combination of copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We currently do not have any issued patents or any patent applications pending for any of our technology.

We also enter into confidentiality or license agreements with our employees, consultants and corporate partners, and control access to and distribution of our software, documentation and other proprietary information. 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. In addition, we have not entered into non-competition agreements with several of our former employees.

From time to time, third parties may assert exclusive patent, copyright, trademark and other intellectual property rights claims or initiate litigation against us or our contract manufacturers, suppliers or customers with respect to existing or future products. Although we have not been a party to any claims alleging infringement of intellectual property rights, we cannot assure you that we will not be subject to such claims in the future. We may in the future initiate claims or litigation against third parties for infringement of our proprietary rights to determine the scope and validity of our proprietary rights or those of our competitors. Any such claims, 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. Such royalty or licensing agreements, if required, may not be available on acceptable terms, if at all. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or license the infringed or similar technology on a timely basis, our business and results of operations may be seriously harmed.

## **EMPLOYEES**

As of March 1, 1999, we employed 123 full-time persons, 43 of whom were engaged in product development, 43 in sales and marketing, 14 in professional services and 23 in finance, administration and operations. None of our employees is represented by a labor union and we have not experienced any work stoppages to date. We consider our employee relations to be good.

## **FACILITIES**

We currently lease an aggregate of approximately 20,000 square feet of office space in Seattle, Washington. The current lease for the Seattle facility expires in February 2004, with an option to renew for five years. Given our anticipated growth, we may need to find suitable additional or substitute facilities in the near future but believe such facilities will be available as needed on commercially reasonable terms. We also lease office space for our sales personnel in New York, California, Germany and the United Kingdom.

## **LEGAL PROCEEDINGS**

From time to time, we may be involved in litigation relating to claims arising out of our ordinary course of business. We are not currently involved in any material legal proceedings.

## MANAGEMENT

### THE FOLLOWING TABLE SETS FORTH CERTAIN INFORMATION WITH RESPECT TO OUR

#### EXECUTIVE OFFICERS AND DIRECTORS AS OF THE DATE OF THIS PROSPECTUS:

#### EXECUTIVE OFFICERS AND DIRECTORS

NAME	AGE	POSITION
Jeffrey S. Hussey.....	37	Chairman of the Board, Chief Executive Officer and President
Robert J. Chamberlain.....	45	Vice President of Finance, Chief Financial Officer and Treasurer
Steven Goldman.....	38	Vice President of Sales and Marketing
Brett L. Helsel.....	39	Vice President of Product Development and Chief Technology Officer
Brian R. Dixon.....	39	Vice President of Operations and Secretary
Carlton G. Amdahl (1).....	47	Director
Kimberly D. Davis (1).....	32	Director
Alan J. Higginson (2).....	52	Director
Sonja L. Hoel (2).....	32	Director
Kent L. Johnson (2).....	55	Director

(1) Member of Audit Committee.

(2) Member of Compensation Committee.

JEFFREY S. HUSSEY co-founded F5 in February 1996 and has been our Chairman, Chief Executive Officer and President since that time. From February 1996 to March 1999, Mr. Hussey also served as our Treasurer. From July 1995 to February 1996, Mr. Hussey served as Vice President of Alexander Hutton Capital L.L.C., an investment banking firm. From September 1993 to July 1995, Mr. Hussey served as President of Pacific Comlink, an inter-exchange carrier providing frame relay and Internet access services to the Pacific Rim, which he founded in September 1993. Mr. Hussey holds a B.A. in Finance from Seattle Pacific University and an M.B.A. from the University of Washington.

ROBERT J. CHAMBERLAIN has served as our Vice President of Finance, Chief Financial Officer and Treasurer since March 1999. From September 1998 to February 1999, Mr. Chamberlain served as Senior Vice President and Chief Financial Officer of Yesler Software, an early stage company developing a personal multimedia web communication product. From February 1998 to July 1998, Mr. Chamberlain served as Co-President of Photodisc, a provider of digital imagery, which merged with Getty Images Inc. in February 1998. From May 1997 to February 1998, Mr. Chamberlain served as Senior Vice President and Chief Financial Officer of Photodisc. From April 1996 to May 1997, Mr. Chamberlain served as Executive Vice President and Chief Financial Officer of Midcom Communications Inc., a telecommunications service provider. From January 1992 to December 1995, Mr. Chamberlain served as Vice President Finance and Operations of ElseWare Corporation, a font technology company. From July 1989 to April 1991, Mr. Chamberlain was an audit partner in the high technology practice of KPMG Peat Marwick, and was employed by KPMG Peat Marwick since January 1980. Mr. Chamberlain holds a B.S. in Business Administration and Accounting from California State University, Northridge.

STEVEN GOLDMAN has served as our Vice President of Sales and Marketing since July 1997. From December 1996 to February 1997, Mr. Goldman served as Vice President, Enterprise Sales and Services, for Microtest, Inc., a network test equipment and CD ROM server company, after its acquisition of Logcraft. From March 1995 to December 1996, Mr. Goldman served as Executive Vice President, North American Operations, for Logcraft, a CD ROM server company, after its merger with Virtual Microsystems,



a CD ROM server company. From 1990 to March 1995, Mr. Goldman served as Vice President of Sales for Virtual Microsystems. Mr. Goldman holds a B.A. in Economics from the University of California at Berkeley.

BRETT L. HELSEL has served as our Vice President of Product Development and Chief Technology Officer since May 1998. From April to May 1998, Mr. Helsel served as our Vice President of Advanced Product Architecture. From March 1997 to March 1998, Mr. Helsel served as Vice President, Product Development, for Cybersafe, Inc., a provider of enterprise-wide network security solutions. From April 1994 to October 1997, Mr. Helsel served as Site Development Manager for Wall Data, a host connectivity software company. Mr. Helsel holds a B.S. in Geophysics and Oceanography from the Florida Institute of Technology.

BRIAN R. DIXON has served as our Vice President of Operations since March 1999. From June 1996 to March 1999, Mr. Dixon served as our Vice President of Finance and Operations. From September 1992 to April 1996, Mr. Dixon served as Vice President of Finance for the Seattle SuperSonics professional basketball team. From January 1990 to August 1992, Mr. Dixon served as Controller for the outdoor advertising division of Ackerley Communications, a sports, entertainment and outdoor advertising company. Mr. Dixon holds a B.A. in Accounting and Finance from Seattle Pacific University and is a certified public accountant.

CARLTON G. AMDAHL has served as one of our directors since May 1998. Mr. Amdahl operates Amdahl Associates, a consulting firm specializing in technology management, product strategy and system architecture. Mr. Amdahl has served as President of Network Caching Technology L.L.C., a network caching company, since February 1999 and as President and Chief Executive Officer of Inca Technology, a network caching company, since October 1997. From 1985 to January 1996, Mr. Amdahl served as Chairman of the board of directors and Chief Technical Officer of NetFRAME Systems, a high performance network server company, which he founded in 1985. Mr. Amdahl is a Stanford University Sloan Fellow and holds a B.S. degree in Electrical Engineering and Computer Science from the University of California, Berkeley and an M.S. in Management from Stanford University.

KIMBERLY D. DAVIS has served as one of our directors since August 1998. Ms. Davis has been a general partner of IDG Ventures, L.L.C. since July 1997. From August 1994 to July 1997, Ms. Davis was an associate at BankAmerica Ventures, a venture capital firm. From June 1993 to August 1993, Ms. Davis served as a product manager in the Multimedia Publishing Group at Microsoft Corporation. From August 1988 to July 1992, Ms. Davis was a consultant at Andersen Consulting, a consulting firm. Ms. Davis holds a B.S. in Industrial Engineering from Stanford University and an M.B.A. from the Harvard Business School.

ALAN J. HIGGINSON has served as one of our directors since May 1996. From November 1995 to November 1998, Mr. Higginson served as President of Atrieva Corporation, a provider of advanced data backup and retrieval technology. From May 1990 to November 1995, Mr. Higginson served as Executive Vice President of Worldwide Sales and Marketing for Sierra On-line, a developer of multimedia software for the home personal computer market. From May 1990 to November 1995, Mr. Higginson served as President of Sierra On-line's Bright Star division, a developer of educational software. Mr. Higginson holds a B.S. in Commerce and an M.B.A. from the University of Santa Clara.

SONJA L. HOEL has served as one of our directors since August 1998. Ms. Hoel has been a managing director and general partner of Menlo Ventures, a venture capital firm, since July 1996 and has been employed by Menlo Ventures since July 1994. From August 1993 to April 1994, Ms. Hoel was an associate at the Edison Venture Fund, a venture capital firm. From December 1991 to June 1993, Ms. Hoel served as a business development consultant at Symantec Corporation, a consumer software applications company, and from January 1989 to June 1991, served as an investment analyst at TA Associates, a venture capital firm. Ms. Hoel holds a B.S. in Commerce from the University of Virginia and an M.B.A from the Harvard Business School.

KENT L. JOHNSON has served as one of our directors since May 1996. Mr. Johnson is President of Alexander Hutton Capital, L.L.C., which he co-founded in August 1994. From April 1989 to May 1994, Mr. Johnson served as Senior Vice President and Chief Operating Officer of Brazier Forest Industries, a forest products company. Mr. Johnson is also a director of Timeline, Inc., a software company. Mr. Johnson holds a B.A. in Business Administration from the University of Washington and an M.B.A. from Seattle University.

Our executive officers are appointed by the board of directors and serve until their successors are elected or appointed.

There are no family relationships among any of our directors or executive officers.

## **BOARD COMPOSITION**

Upon the closing of this offering, we will have authorized a range of directors from five to nine. In accordance with the terms of our amended articles of incorporation, the terms of office of the board of directors will be divided into three classes:

- Class I directors, whose term will expire at the annual meeting of shareholders to be held in 2000;
- Class II directors, whose term will expire at the annual meeting of shareholders to be held in 2001; and
- Class III directors, whose term will expire at the annual meeting of shareholders to be held in 2002.

Our Class I directors will be Ms. Davis and Ms. Hoel, our Class II directors will be Messrs. Higginson and Johnson, and our Class III directors will be Messrs. Amdahl and Hussey. At each annual meeting of shareholders after the initial classification, the successors to directors whose terms will then expire will be elected to serve from the time of election and qualification until the third annual meeting following election. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. This classification of the board of directors may have the effect of delaying or preventing changes in control or management of F5.

## **BOARD COMMITTEES**

- AUDIT COMMITTEE. Our audit committee, consisting of Mr. Amdahl and Ms. Davis, reviews our internal accounting procedures and consults with and reviews the services provided by our independent auditors.
- COMPENSATION COMMITTEE. Our compensation committee, consisting of Ms. Hoel and Messrs. Higginson and Johnson, reviews and recommends to the board of directors the compensation and benefits of all our officers and establishes and reviews general policies relating to compensation and benefits of our employees. Mr. Hussey, who acts as a plan administrator for our 1998 Equity Incentive Plan, authorizes stock option grants for employees other than officer and director level employees within ranges pre-approved by the board of directors.

## **COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

None of our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

## DIRECTOR COMPENSATION

Directors currently receive no cash compensation from F5 for their services as members of the board of directors. They are reimbursed for certain expenses in connection with attendance at board and committee meetings. From time to time, certain non-employee directors have received grants of options to purchase shares of our common stock. In May 1996, Messrs. Higginson and Johnson each were granted an option to purchase 84,000 shares of our common stock at an exercise price of \$0.50 per share. In May 1998, Mr. Amdahl was granted an option to purchase 84,000 shares of our common stock at an exercise price of \$0.50 per share. Upon the consummation of this offering, eligible non-employee directors will receive automatic option grants under our 1999 Non-Employee Directors' Option Plan. See "--Equity Incentive Plans--Amended and Restated Directors' Nonqualified Stock Option Plan" and "--1999 Non-Employee Directors' Option Plan."

## EXECUTIVE COMPENSATION

The table below sets forth the compensation paid by us during the fiscal year ended September 30, 1998 to (a) our President and Chief Executive Officer and (b) our only other executive officer other than the Chief Executive Officer whose salary and bonus for fiscal 1998 exceeded \$100,000 and who served as an executive officer of F5 during such fiscal year.

### SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION		
	SALARY	BONUS	ALL OTHER COMPENSATION
Jeffrey S. Hussey..... President and Chief Executive Officer	\$ 128,749	\$ 3,196	--
Steven Goldman..... Vice President of Sales and Marketing	120,000	5,000	\$ 46,444(1)

(1) Represents commissions paid to Mr. Goldman in fiscal 1998.

## OPTION GRANTS IN LAST FISCAL YEAR

We did not grant any options to the executive officers shown in the Summary Compensation Table above in fiscal 1998.

## FISCAL YEAR-END OPTION VALUES

The following table sets forth for the executive officers shown in the Summary Compensation Table the aggregate dollar value realized upon exercise of stock options in the last fiscal year and number and value of securities underlying unexercised options held at September 30, 1998.

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)(1)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT SEPTEMBER 30, 1998		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT SEPTEMBER 30, 1998 (\$)(1)	
			EXERCISABLE (#)	UNEXERCISABLE (#)	EXERCISABLE (\$)	UNEXERCISABLE (\$)
Jeffrey S. Hussey.....	--	--	--	--	--	--
Steven Goldman....	59,250	\$	--	177,750(2)	\$	\$

(1) Based on the assumed initial public offering price of \$ per share less the exercise price, multiplied by the number of shares underlying the option.

(2) These options vest 25% on each of the first, second, third and fourth anniversary of the grant date. These options will vest fully if we are acquired in a merger or asset sale. All of these options have a ten-year term.

## INCENTIVE STOCK PLANS

**1998 EQUITY INCENTIVE PLAN.** Our board of directors adopted our 1998 Equity Incentive Plan on October 22, 1998, and our shareholders approved it on November 12, 1998. We have reserved a total of 800,000 shares for issuance under the plan. In addition, in April 1999 we reserved, subject to shareholder approval, an additional 1,500,000 shares for issuance under the plan. The plan provides for grants of incentive stock options that qualify under Section 422 of the Internal Revenue Code of 1986, as amended, to employees, including officers, of F5 or any affiliate of F5, and nonstatutory stock options, restricted stock purchase awards, and stock bonuses to employees, including officers, or directors of and consultants to F5 or any affiliate of F5. The board or a committee appointed by the board administers the plan. References in this description of the plan to the board include any such committee. Our board has the authority to determine which recipients and what types of awards are to be granted, including the exercise price, number of shares subject to the award and the exercisability of the awards.

The term of a stock option granted under the plan generally may not exceed 10 years. The board of directors determines the exercise price of options granted under the plan. However, in the case of an incentive stock option, the exercise price cannot be less than 100% of the fair market value of our common stock on the date of grant and, in the case of a nonstatutory stock option, the exercise price cannot be less than 50% of the fair market value of our common stock on the date of grant. Options granted under the plan vest at the rate specified in the option agreement. Except as expressly provided by the terms of a nonstatutory stock option agreement, an optionee may not transfer options other than by will or the laws of descent or distribution, provided that an optionee may designate a beneficiary who may exercise the option following the optionee's death. An optionee whose relationship with us or any related corporation ceases for any reason, except by death or permanent and total disability, generally may exercise vested options up to three months following such cessation. Vested options may generally be exercised for up to 12 months after an optionee's relationship with F5 or any affiliate of F5 ceases due to disability and for generally up to 18 months after such relationship with F5 or any affiliate of F5 ceases due to death. However, options may terminate or expire sooner or later as may be determined by the board and set forth in the option agreement.

No incentive stock option may be granted to any person who, at the time of the grant, owns, or is deemed to own, stock possessing more than 10% of the total combined voting power of F5 or any affiliate of F5, unless the option exercise price is at least 110% of the fair market value of the stock subject to the option on the date of grant and the term of the option does not exceed five years from the date of grant. In addition, the aggregate fair market value, determined at the time of grant, of the shares of our common stock with respect to which incentive stock options are exercisable for the first time by an optionee during any calendar year under the plan and all other stock plans of F5 and its affiliates may not exceed \$100,000. The options, or portions of the options, which exceed this limit are treated as nonstatutory options.

When we become subject to Section 162(m) of the Internal Revenue Code, which, among other things, denies a deduction to publicly held corporations for certain compensation paid to specific employees in a taxable year to the extent that the compensation exceeds \$1,000,000, no person may be granted options under the plan covering an aggregate of more than 200,000 shares of our common stock in any calendar year.

Shares subject to stock awards that have lapsed or terminated, without having been exercised in full, may again become available for the grant of awards under the plan.

Restricted stock purchase awards granted under the plan may be granted pursuant to a repurchase option in our favor in accordance with a vesting schedule determined by the board. The purchase price of such awards will be at least 50% of the fair market value of our common stock on the date of grant. Stock bonuses may be awarded in consideration for past services. Rights under a stock bonus or restricted stock purchase agreement may not be transferred other than by will or by the laws of descent and distribution unless such stock bonus or restricted stock purchase agreement specifically provides for transferability.

Upon certain changes in control of F5, the surviving entity will either assume or substitute all outstanding stock awards under the plan. If the surviving entity determines not to assume or substitute such awards, then with respect to persons whose service with F5 or an affiliate of F5 has not terminated before such change in control, the vesting of 50% of such stock awards (and the time during which such awards may be exercised) will accelerate and the awards terminated if not exercised before such change in control.

As of March 1, 1999, no shares had been issued upon the exercise of options granted under the plan and options to purchase 468,758 shares were outstanding with 331,242 shares reserved for future grants or purchases under the plan. The plan will terminate on October 21, 2008, unless terminated sooner by the board.

**AMENDED AND RESTATED 1996 STOCK OPTION PLAN.** Our board of directors adopted the Amended and Restated 1996 Stock Option Plan on December 2, 1996, and our shareholders approved it on January 28, 1997. We have reserved a total of 2,600,000 shares for issuance under the plan, less any shares issuable upon the exercise of options granted under the Amended and Restated Directors' Nonqualified Stock Option Plan. The plan provides for grants of incentive stock options that qualify under Section 422 of the Internal Revenue Code to employees, including officers and employee directors, of F5 or any affiliate of F5 and nonstatutory stock options to employees, consultants and other persons selected by the board. The board or a committee appointed by the board administers the plan. References in this description of the plan to the board include any such committee. The board has the authority to determine which recipients and what types of options are to be granted, including the exercise price, number of shares subject to the option and the exercisability of the options.

The term of a stock option granted under the plan generally may not exceed 10 years. The exercise price of incentive stock options and non-statutory stock options granted under the plan following the offering, will not be less than 100% of the fair market value of our common stock on the date of grant. Options granted under the plan vest at the rate specified in the option agreement, provided that options will vest as to 25% of the underlying shares each year following the date of grant if vesting is not specified in the option agreement. An optionee may not transfer any options other than by will or the laws of descent or distribution. If an optionee's service terminates due to death or disability, then any option held by such optionee who F5 or an affiliate of F5 has continuously employed for two years will automatically become fully vested and be exercisable for the duration of the option term.

An optionee whose relationship with F5 or any affiliate of F5 ceases for any reason, other than by death or permanent and total disability, may exercise vested options up to 90 days following such cessation or such longer period as may be extended by the board in the case of a nonstatutory stock option. Options may be exercised for up to 12 months after an optionee's relationship with F5 or its affiliate ceases due to death or disability or such longer period as the board of directors may extend in the case of a nonstatutory stock option.

No incentive stock option may be granted to any person who, at the time of the grant, owns, or is deemed to own, stock possessing more than 10% of the total combined voting power of F5 or any affiliate of F5, unless the option exercise price is at least 110% of the fair market value of the stock subject to the option on the date of grant and the term of the option does not exceed five years from the date of grant. In addition, the aggregate fair market value, determined at the time of grant, of the shares of our common stock with respect to which incentive stock options are exercisable for the first time by an optionee during any calendar year under the plan and all other stock plans of F5 and its affiliates may not exceed \$100,000. The options, or portions of the options, which exceed this limit are treated as nonstatutory options.

Shares subject to stock options that have lapsed or terminated, without having been exercised in full, may again become available for the grant of options under the plan.

Upon certain changes of control of F5, or in the case of a dividend in excess of 10% of the then fair market value of our stock, all outstanding options will automatically become fully vested and exercisable for the duration of the option term.

As of March 1, 1999, we had issued 225,530 shares upon the exercise of options granted under the plan and options to purchase 1,929,660 shares were outstanding with 150,810 shares reserved for future grants or purchases under the plan and our Amended and Restated Directors' Nonqualified Stock Option Plan. After March 18, 1999, we do not plan to grant any additional options under this plan.

**AMENDED AND RESTATED DIRECTORS' NONQUALIFIED STOCK OPTION PLAN.** Our board of directors adopted the Amended and Restated Directors' Nonqualified Stock Option Plan on December 2, 1996, and our shareholders approved it on January 28, 1997. The plan provides for the issuance of up to 2,600,000 shares of our common stock, less the number of any shares issuable upon exercise under the Amended and Restated 1996 Stock Option Plan. All of our non-employee directors who joined our board of directors before August 21, 1998 were entitled to receive non-discretionary stock option grants under the plan. Options granted under the plan do not qualify as incentive stock options under the Internal Revenue Code. Each option granted pursuant to the plan has an exercise price equal to \$0.50. Under the plan, each non-employee director who joined the board following the closing of the offering of our Series A Preferred Stock and before May 1, 1998 and who was not elected in direct connection with his or her investment in such stock (or with the investment in such stock by an affiliated or representative entity of such person) was automatically granted an option to purchase that number of shares of our common stock equal to one percent of the then-current fully-diluted number of shares of our common stock. After May 1, 1999, each such non-employee director was automatically granted an option to purchase 84,000 shares of our common stock. Options granted under the plan vest in three equal annual installments from the date of grant and become immediately vested and exercisable upon a director's death or disability. Options granted under the plan are generally non-transferable. An optionee whose directorship with F5 ceases for any reason, other than by death or disability, may exercise vested options up to 90 days following such cessation, unless such options terminate or expire sooner by their terms. Options may be exercised for up to one year after an optionee's directorship with F5 ceases due to disability or death. An optionee may not exercise any options granted under the plan, however, after the expiration of ten years from the date it was granted. Upon certain changes of control of F5, the plan's options will automatically become fully vested and be exercisable for the duration of the option term.

As of March 1, 1999, we had issued 98,000 shares upon the exercise of options granted under the plan, and options to purchase 196,000 shares were outstanding with 150,810 shares reserved for future grants or purchases under the plan and the 1996 Stock Option Plan. We do not plan to grant any additional options under the Amended and Restated Directors' Nonqualified Stock Option Plan.

**1999 NON-EMPLOYEE DIRECTORS' STOCK OPTION PLAN.** We adopted the 1999 Non-Employee Directors' Stock Option Plan in April 1999 to provide for the automatic grant to F5 non-employee directors of options to purchase shares of our common stock. The board administers the plan unless it has delegated administration to a committee. In April 1999, we have reserved, subject to shareholder approval, an aggregate of 100,000 shares of common stock for issuance under the plan, subject to adjustment in the event of certain capital changes.

Each person who is first elected or appointed as a non-employee director after the initial public offering will automatically receive a fully vested and exercisable option for 5,000 shares. In addition, on the day after each of our annual meetings of the shareholders, starting with the annual meeting in 2000, each eligible non-employee director will automatically receive a fully vested and exercisable option for 5,000 shares, provided that the recipient has been a non-employee director for at least the prior six months. As long as a non-employee director who is an optionholder continues to serve with us or with an affiliate of ours, whether in the capacity of a director, an employee or a consultant, the optionholder may exercise the option.

The optionholder may not transfer the option except by will or by the laws of descent and distribution. Although only the optionholder may exercise the option during his or her lifetime, the optionholder may designate a third party who may exercise the option in the event of the optionee's death. Options granted under the plan expire 10 years after the date of grant and have an exercise price equal to 100% of the fair market value of the common stock on the date of grant. If the optionholder's service to F5 or an affiliate terminates, the optionholder may exercise the option for 12 months if termination is due to disability, for 18 months if termination is due to death or for three months in all other circumstances.

In the event of a "change in control," the surviving or acquiring corporation may assume outstanding options under the plan or substitute similar options. A "change in control" means a sale of all or substantially all of F5's assets, a merger or consolidation in which F5 is not the surviving corporation or a reverse merger in which F5 is the surviving corporation but the shares of common stock outstanding immediately preceding the merger are converted by virtue of the merger into other property.

**1999 EMPLOYEE STOCK PURCHASE PLAN.** In April 1999, we adopted, subject to shareholder approval, the 1999 Employee Stock Purchase Plan, authorizing the issuance of 1,000,000 shares of common stock pursuant to purchase rights granted to employees of F5 or to employees of any designated affiliate of F5. The purchase plan is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code.

The purchase plan provides a means by which employees may purchase our common stock through payroll deductions. We implement this purchase plan by offerings of purchase rights to eligible employees. Under the purchase plan, we may specify offerings with a duration of not more than 27 months, and may specify shorter purchase periods within each offering. The first offering will begin on the effective date of this offering. Unless otherwise determined by the board of directors, common stock is purchased for accounts of employees participating in the purchase plan at a price per share equal to the lower of

(1) 85% of the fair market value of a share of common stock on the first day of the offering or (2) 85% of the fair market value of a share of common stock on the date of purchase.

Generally, full-time employees may participate in the purchase plan and may authorize payroll deductions of up to 15% of their base compensation for the purchase of stock under the purchase plan. Employees may end their participation in the offering at any time up to one day before the offering ends. Participation ends automatically on termination of employment with F5 or an affiliate.

We may grant eligible employees purchase rights under this plan only if the rights together with any other rights granted under other employee stock purchase plans established by F5 or an affiliate of F5, if any, do not permit such employee's rights to purchase our stock to accrue at a rate which exceeds \$25,000 of fair market value of such stock for each calendar year in which such rights are outstanding. No employee is eligible for the grant of any rights under the purchase plan if immediately after we grant such rights, such employee has voting power over 5% or more of our outstanding capital stock. As of the date hereof, no shares of common stock had been purchased under the purchase plan.

**401(k) PLAN.** We have adopted a tax-qualified employee savings and retirement plan, the 401(k) Plan, for eligible United States employees. Eligible employees may elect to defer a percentage of their eligible compensation in the 401(k) Plan, subject to the statutorily prescribed annual limit. We may make matching contributions on behalf of all participants in the 401(k) Plan in an amount determined by our board of directors. We may also make additional discretionary profit sharing contributions in such amounts as determined by the board of directors, subject to statutory limitations. Matching and profit-sharing contributions, if any, are subject to a vesting schedule; all other contributions are at all times fully vested. We intend the 401(k) Plan, and the accompanying trust, to qualify under Sections 401(k) and 501 of the Internal Revenue Code so that contributions by employees or by F5 to the 401(k) Plan, and income earned (if any) on plan contributions, are not taxable to employees until withdrawn from the 401(k) Plan, and so that we will be able to deduct our contributions, if any, when made. The trustee under the 401(k) Plan, at

the direction of each participant, invests the assets of the 401(k) Plan in any of a number of investment options.

## **LIMITATIONS OF LIABILITY AND INDEMNIFICATION MATTERS**

Our articles of incorporation limit the liability of directors to the fullest extent permitted by the Washington Business Corporation Act as it currently exists. Consequently, subject to the Washington Business Corporation Act, no director will be personally liable to us or our shareholders for monetary damages resulting from his or her conduct as a director of F5, except liability for:

- acts or omissions involving intentional misconduct or knowing violations of law;
- unlawful distributions; or
- transactions from which the director personally receives a benefit in money, property or services to which the director is not legally entitled.

Upon the closing of this offering, our articles of incorporation will also provide that we may indemnify any individual made a party to a proceeding because that individual is or was an F5 director or officer, and this right to indemnification will continue as to an individual who has ceased to be a director or officer and will inure to the benefit of his or her heirs, executors or administrators. Any repeal of or modification to our articles of incorporation may not adversely affect any right of an F5 director or officer who is or was a director or officer at the time of such repeal or modification. To the extent the provisions of our articles of incorporation provide for indemnification of directors or officers for liabilities arising under the Securities Act of 1933, as amended, those provisions are, in the opinion of the Securities and Exchange Commission, against public policy as expressed in the Securities Act and they are therefore unenforceable.

Upon the closing of this offering, our bylaws will provide that we will indemnify our directors and officers and may indemnify our other officers and employees and other agents to the fullest extent permitted by law.

Upon the closing of this offering, we will enter into agreements to indemnify our directors and certain officers, in addition to indemnification provided for in our articles of incorporation or bylaws. These agreements, among other things, indemnify our directors and certain officers for certain expenses, including attorneys' fees, judgments, fines and settlement amounts incurred by any such person in any action or proceeding, including any action by us arising out of such person's services as our director or officer or any other company or enterprise to which the person provides services at our request. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and officers. We also currently maintain liability insurance for our officers and directors.

## **CHANGE OF CONTROL ARRANGEMENTS**

Upon certain changes in control of F5, all outstanding stock awards under the 1998 Equity Incentive Plan will either be assumed or substituted by the surviving entity. If the surviving entity determines not to assume or substitute such awards, then with respect to persons whose service with F5 or an affiliate of F5 has not terminated before such change in control, the vesting of 50% of such stock awards and the time during which such awards may be exercised will be accelerated and the awards terminated if not exercised before such change in control.

Upon certain changes of control of F5, or in the case of a dividend in excess of 10% of the then fair market value of our stock, then all outstanding options under the Amended and Restated 1996 Stock Option Plan will automatically become fully vested and exercisable for the duration of the option term.

Upon certain changes of control of F5, the Amended and Restated Directors' Nonqualified Stock Option Plan options will automatically become fully vested and be exercisable for the duration of the option term.



Pursuant to the terms of an agreement between F5 and Mr. Goldman, in the event of a business combination in which F5 is not the surviving entity, if the surviving entity terminates Mr. Goldman as Vice President of Sales and Marketing or changes his position to one that is not equal or greater in scope, responsibility, compensation or stature, then Mr. Goldman may be entitled to a severance payment equal to his 1998 compensation.

## CERTAIN TRANSACTIONS

Since our incorporation in February 1996, we have issued and sold securities to the following persons who are our executive officers, directors or principal shareholders.

INVESTOR (1)	SERIES A PREFERRED STOCK (2)	SERIES B PREFERRED STOCK (3)	SERIES C PREFERRED STOCK (4)	SERIES D PREFERRED STOCK (5)	WARRANTS (6)	COMMON STOCK
Brian R. Dixon.....	--	--	--	--	--	106,813
Robert J. Chamberlain....	--	--	--	--	--	150,000
Steven Goldman.....	--	--	--	--	--	59,250
Alan J. Higginson.....	10,000	--	--	--	--	--
Jeffrey S. Hussey.....	--	--	--	--	--	3,448,000
Kent L. Johnson.....	10,000 (7)	--	--	--	--	56,000
Michael D. Almquist.....	--	--	--	--	--	1,480,000
Britannia Holdings Limited.....	--	937,500	--	--	1,825,000	600,000
Cypress Partners Limited Partnership.....	--	--	156,250	--	--	187,500
Encompass Group Incorporated.....	100,000	156,250	--	--	187,500	--
Menlo Ventures (8).....	--	--	--	843,926	--	--
Alexander Hutton Capital, L.L.C. (9).....	--	--	--	--	--	240,000
Pacific Technology Ventures U.S.A., L.P. (10).....	--	--	--	294,512	--	--

(1) See "Principal and Selling Shareholder" for more detail on shares held by these purchasers.

(2) The per share purchase price for our Series A preferred stock was \$3.00. Upon the closing of the offering, each outstanding share of Series A preferred stock will convert into six shares of common stock at a conversion price of \$0.50 per share.

(3) The per share purchase price for our Series B preferred stock was \$1.60. Upon the closing of the offering, each outstanding share of Series B preferred stock will convert into two shares of common stock at a conversion price of \$0.80 per share.

(4) The per share purchase price for our Series C preferred stock was \$9.60. Upon the closing of the offering, each outstanding share of Series C preferred stock will convert into six shares of common stock at a conversion price of \$1.60 per share.

(5) The per share purchase price for our Series D preferred stock was \$6.79. Upon the closing of the offering, each outstanding share of Series D preferred stock will convert into two shares of common stock at a conversion price of \$3.395 per share.

(6) Warrants are exercisable for our common stock at purchase prices per share as follows:

WARRANTS	PRICE
600,000.....	\$ 0.50
100,000.....	\$ 0.64
1,312,500.....	\$ 0.80

(7) Consists of 10,000 shares held by KLJ Ventures, of which Mr. Johnson is President.

(8) The shares listed represent 809,910 shares held by Menlo Ventures VII, L.P. and 34,016 shares held by Menlo Entrepreneurs Fund VII, L.P. Ms. Hoel, one of our directors, is a managing director and general partner of Menlo Ventures.

(9) Mr. Johnson, one of our directors, is President of Alexander Hutton Capital, L.L.C.

(10) Ms. Davis, one of our directors, is a general partner of IDG Ventures, L.L.C., which is the general partner of Pacific Technology Ventures U.S.A., L.P.

In addition, we have granted options to certain of our executive officers. See "Management-- Executive Compensation."

In May, August and December 1996, we sold an aggregate of 400,000 shares of Series A Preferred stock to certain investors, including Messrs. Higginson and Johnson, two of our directors, members of the Hussey family, and Encompass Group Limited, one of our principal shareholders, at an aggregate purchase price of \$1.2 million or \$3.00 per share. We paid Alexander Hutton Capital, L.L.C. a placement agent fee of \$70,000 in connection with the sale of our Series A preferred stock. Mr. Johnson, one of directors, is President of Alexander Hutton Capital, L.L.C.

In September, October and November 1997, we sold an aggregate of 1,250,000 shares of Series B Preferred Stock to certain investors, including Britannia Holdings and Encompass Group Limited, two of our principal shareholders, at an aggregate purchase price of \$2.0 million or \$1.60 per share. We also issued Britannia Holdings a warrants exercisable for 1,825,000 shares of common stock at per share exercise prices ranging from \$0.50 to \$0.80 and Encompass Group Limited a warrant exercisable for 187,500 shares of common stock at a per share exercise price of \$0.80.

On April 15, 1998, we sold an aggregate of 156,250 shares of Series C Preferred Stock to Cypress Partners Limited Partnership at an aggregate purchase price of \$1.5 million or \$9.60 per share, and issued Cypress Partners Limited Partnership a warrant exercisable for 93,750 shares of common stock at a per share exercise price of \$1.60, which was exercised for 187,500 shares at a per share exercise price of \$0.80 on February 1, 1999.

On August 21, 1998, we sold an aggregate of 1,138,438 shares of Series D Preferred Stock to certain investors, including affiliates of Menlo Ventures and IDG Ventures, two of our principal shareholders, at an aggregate purchase price of \$7.7 million or \$6.79 per share. Ms. Hoel, one of our directors, is a managing director and general partner of Menlo Ventures, and Ms. Davis, one of our directors, is a general partner of IDG Ventures.

We plan to enter into indemnification agreements with our directors and certain officers for the indemnification of and advancement of expenses to such persons to the fullest extent permitted by law. We also intend to enter into these agreements with our future directors and certain officers.

We believe that the foregoing transactions were in our best interest and were made on terms no less favorable to us than could have been obtained from unaffiliated third parties. All future transactions between us and any of our officers, directors or principal shareholders will be approved by a majority of the independent and disinterested members of the board of directors, will be on terms no less favorable to us than could be obtained from unaffiliated third parties and will be in connection with our bona fide business purposes.

In March 1999, we issued 150,000 shares of our common stock to Mr. Chamberlain in exchange for a note receivable. These shares were acquired by exercising stock options that vest over a period of four years. The note bears interest at a rate of 4.83%, is collateralized by the shares and is due in 2003. Under the pledge agreement, we have the obligation to repurchase any remaining unvested shares, and the note becomes due upon Mr. Chamberlain's termination. Further, the shares may not be transferred until they are vested and paid for.

## PRINCIPAL AND SELLING SHAREHOLDER

The following table summarizes certain information regarding the beneficial ownership of our outstanding common stock as of March 1, 1999 for:

- each person or group that we know owns more than 5% of the common stock;
- each of our directors;
- our chief executive officer;
- executive officers whose compensation exceeded \$100,000 in 1998;
- a shareholder who is selling shares in this offering; and
- all of our directors and executive officers as a group.

NAME AND ADDRESS (1)	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING		NUMBER OF SHARES BEING OFFERED	SHARES BENEFICIALLY OWNED AFTER OFFERING	
	NUMBER	PERCENT (2)		NUMBER	PERCENT (2)
5% SHAREHOLDERS					
Michael D. Almquist ..... 2232 12th Avenue West Seattle, Washington 98119	1,480,000	10.09%			
Britannia Holdings Limited (3) ..... P.O. Box 556 Main Street Charlestown, Nevis	4,300,000	26.07	--	4,300,000	
Menlo Ventures VII, L.P. (4) ..... 3000 Sand Hill Rd., Bldg. 4-100 Menlo Park, California 94025	1,687,852	11.50	--	1,687,852	
Cypress Partners Limited Partnership ..... P.O. Box 9006 Seattle, Washington 98109	1,125,000	7.67	--	1,125,000	
Encompass Ventures, Inc. (5) ..... 777 - 108th Avenue N.E., Suite 2300 Bellevue, Washington 98004	1,100,000	7.50	--	1,100,000	
CURRENT EXECUTIVE OFFICERS AND DIRECTORS					
Jeffrey S. Hussey (6).....	3,048,000	20.78			
Steven Goldman (7).....	134,250	*	--	134,250	
Carlton G. Amdahl.....	--	*	--	--	
Kimberly D. Davis (8).....	589,024	4.01	--	589,024	
Alan J. Higginson (9).....	113,300	*	--	56,000	
Sonja L. Hoel (10).....	1,687,852	11.50	--	1,687,852	
Kent L. Johnson (11).....	356,000	2.43	--	356,000	
All directors and executive officers as a group (9 persons) (12).....	6,553,930	43.61	--	6,553,930	

\* Less than 1%

(1) Unless otherwise indicated, the address of each of the named individuals is c/o F5 Networks, Inc., 200 First Avenue West, Suite 500, Seattle, Washington 98119

(2) Beneficial ownership of shares is determined in accordance with the rules of the Securities and Exchange Commission and generally includes any shares over which a person exercises sole or shared voting or investment power, or of which a person has the right to acquire ownership at any time within 60 days after March 1, 1999. Except as otherwise indicated, and subject to applicable

community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock held by them. Applicable percentage ownership in the following table is based on 14,671,156 shares of common stock outstanding as of March 1, 1999 and shares of common stock outstanding immediately following the completion of this offering.

(3) Includes 1,825,000 shares issuable upon exercise of warrants exercisable within 60 days of March 1, 1999.

(4) The shares listed represent 1,619,820 shares held by Menlo Ventures VII, L.P. and 68,032 shares held by Menlo Entrepreneurs Fund VII, L.P.

(5) Includes 187,500 shares issuable upon warrants exercisable within 60 days of March 1, 1999.

(6) Includes 900,000 shares held by Freeman Wellman & Co. in an IRA fbo Mr. Hussey and does not include 400,000 shares held by the Hussey Family Trust fbo Mr. Hussey's minor child.

(7) Includes 75,000 shares issuable upon exercise of options exercisable within 60 days of March 1, 1999.

(8) Ms. Davis is a general partner of IDG Ventures, L.L.C., which is the general partner of Pacific Technology Ventures U.S.A., L.P. All shares listed are held by Pacific Technology Ventures U.S.A., L.P. Ms. Davis disclaims beneficial ownership of all shares held by Pacific Technology Ventures U.S.A., L.P. except to the extent of her pro rata interest in such partnership.

(9) Consists of 57,300 shares of common stock issuable upon conversion of 9,550 shares of Series A preferred stock in connection with the closing of the offering and 56,000 shares issuable upon exercise of options exercisable within 60 days of March 1, 1999.

(10) Ms. Hoel is a managing director and general partner of Menlo Ventures. The shares listed represent 1,619,820 shares held by Menlo Ventures VII, L.P. and 68,032 shares held by Menlo Entrepreneurs Fund VII, L.P. Ms. Hoel disclaims beneficial ownership of all shares held by Menlo Entrepreneurs Fund VII, L.P. except to the extent of her pro rata interest in such partnership.

(11) Consists of 56,000 shares held by Mr. Johnson, 60,000 shares held by KLJ Ventures and 240,000 shares held by Alexander Hutton Capital, L.L.C. Mr. Johnson is President of KLJ Ventures and President of Alexander Hutton Capital, L.L.C. Mr. Johnson disclaims beneficial ownership of all shares held by Alexander Hutton Capital, L.L.C. except to the extent of his pro rata interest in such limited liability company.

(12) Includes 356,504 shares issuable upon exercise of options exercisable within 60 days of March 1, 1999.

## DESCRIPTION OF CAPITAL STOCK

### GENERAL

Upon the completion of this offering, we will have authorized 100,000,000 shares of common stock, no par value, and 10,000,000 shares of undesignated preferred stock, no par value. The following description of our capital stock does not purport to be complete and is subject to and qualified in its entirety by our Second Amended and Restated Articles of Incorporation and bylaws and by the provisions of applicable Washington law.

### COMMON STOCK

As of March 1, 1999, there were 14,671,156 shares of common stock outstanding assuming conversion of all shares of the preferred stock, which were held by 77 shareholders. Effective upon the close of this offering, holders of common stock are entitled to one vote per share on all matters to be voted upon by the shareholders. Holders of common stock will not have cumulative voting rights, and, therefore, holders of a majority of the shares voting for the election of directors will be able to elect all of the directors. If such an event occurs, the holders of the remaining shares will not be able to elect any directors.

Holders of common stock will receive such dividends as our board of directors may declare from time to time out of funds legally available for the payment of dividends, subject to the terms of any existing or future agreements between us and our debtholders. See "Dividend Policy." In the event of the liquidation, dissolution or winding up of F5, the holders of common stock will share ratably in all assets legally available for distribution after payment of all debts and other liabilities and subject to the prior rights of any holders of preferred stock then outstanding. Holders of our common stock have no preemptive rights and no right to convert their common stock into any other securities. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are, and all shares of common stock to be outstanding upon completion of this offering will be, fully paid and nonassessable.

### PREFERRED STOCK

Effective upon the closing of this offering, we will have authorized 10,000,000 shares of undesignated preferred stock. The board of directors has the authority to issue the preferred stock in one or more series and to fix the price, rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting a series or the designation of such series, without any further vote or action by our shareholders. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of delaying, deferring or preventing a change in control of F5 without further action by the shareholders and may adversely affect the market price of, and the voting and other rights of, the holders of common stock. The issuance of preferred stock with voting and conversion rights may adversely affect the voting power of the holders of common stock, including the loss of voting control to others. We have no current plans to issue any shares of preferred stock.

### WARRANTS

As of March 1, 1999, warrants to purchase 2,212,500 shares of common stock were outstanding at a weighted-average exercise price of \$0.75 per share. Each warrant contains provisions for the adjustment of the exercise price and the aggregate number of shares issuable upon the exercise of the warrant in the event of stock dividends, stock splits, reorganizations, reclassifications and consolidations. Warrants exercisable for an aggregate of 2,200,000 shares of common stock contain additional provisions for the adjustment of the exercise price and the aggregate number of shares issuable upon certain dilutive issuances of securities at prices below the then existing warrant exercise price.

## **REGISTRATION RIGHTS**

Following this offering, holders of 8,114,376 shares of common stock and of warrants exercisable for 2,200,000 shares of common stock will have certain rights relating to the registration of such shares under state and federal securities laws. These rights, which are assignable, are outlined in an agreement between F5 and such holders. A majority of these holders may generally require that we register the common stock subject to these rights for public resale provided that the proposed aggregate selling offering price would exceed \$5.0 million. If we register any of our common stock either for our own account or for the account of other security holders, such holders may also include their common stock subject to these rights in such registration, subject to the ability of the underwriters to limit the number of shares included in such offering. The holders of our common stock that were issued upon conversion of our Series A, B, C and D Preferred Stock may also require us to register all or a portion of their common stock subject to these rights on Form S-3, when use of such form becomes available, provided that among other limitations, the proposed aggregate offering price would be at least \$2.0 million. The registration rights of such holder terminate, with respect to an individual holder, when the holder can, within a three month period, offer and sell all of his Registrable Securities pursuant to Rule 144 and as to all holders, three years after this offering.

## **ANTI-TAKEOVER EFFECTS OF CERTAIN PROVISIONS OF AMENDED ARTICLES OF INCORPORATION, BYLAWS AND WASHINGTON LAW**

Our board of directors, without shareholder approval, will have upon the closing of this offering authority under our amended articles of incorporation to issue preferred stock with rights superior to the rights of the holders of common stock. As a result, our board could issue preferred stock quickly and easily, which could adversely affect the rights of holders of common stock and which our board could issue with terms calculated to delay or prevent a change in control of F5 or make removal of management more difficult.

**ELECTION AND REMOVAL OF DIRECTORS.** Effective upon the closing of this offering, our articles of incorporation will provide for the division of our board of directors into three classes, as nearly as equal in number as possible, with the directors in each class serving for a three-year term, and one class being elected each year by our shareholders. The Class I term will expire at the annual meeting of shareholders to be held in 2000; the Class II term will expire at the annual meeting of shareholders to be held in 2001; and the Class III term will expire at the annual meeting of shareholders to be held in 2002. At each annual meeting of shareholders after the initial classification, the successors to directors whose terms will then expire will be elected to serve from the time of election and qualification until the third annual meeting following election. Because this system of electing and removing directors generally makes it more difficult for shareholders to replace a majority of the board of directors, it may discourage a third party from making a tender offer or otherwise attempting to gain control of F5 and may maintain the incumbency of the board of directors.

**SHAREHOLDER MEETINGS.** Upon the closing of this offering our bylaws will provide that, except as otherwise required by law or by our amended articles of incorporation, special meetings of the shareholders can only be called pursuant to a resolution adopted by our board of directors, the chairman of the board or president. These provisions of our amended articles of incorporation and bylaws could discourage potential acquisition proposals and could delay or prevent a change in control. These provisions are intended to enhance the likelihood of continuity and stability in the composition of the board of directors and in the policies formulated by the board of directors and to discourage certain types of transactions that may involve an actual or threatened change of control. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal. The provisions also are intended to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for our shares and, as a consequence, they also may

inhibit fluctuations in the market price of our shares that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in our management.

Washington law also imposes restrictions on certain transactions between a corporation and certain significant shareholders. Chapter 23B.19.040 of the Washington Business Corporation Act prohibits a "target corporation," with certain exceptions, from engaging in certain significant business transactions with an "acquiring person," which is defined as a person or group of persons that beneficially owns 10% or more of the voting securities of the target corporation, for a period of five years after such acquisition, unless the transaction or acquisition of shares is approved by a majority of the members of the target corporation's board of directors prior to the time of acquisition. Such prohibited transactions include, among other things:

- a merger or consolidation with, disposition of assets to, or issuance or redemption of stock to or from, the acquiring person;
- termination of 5% or more of the employees of the target corporation as a result of the acquiring person's acquisition of 10% or more of the shares; or
- allowing the acquiring person to receive any disproportionate benefits as a shareholder.

After the five-year period, a "significant business transaction" may occur, as long as it complies with certain "fair price" provisions of the statute. A corporation may not "opt out" of this statute. This provision may have the effect of delaying, deferring or preventing a change in control.

#### **TRANSFER AGENT**

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.



## SHARES ELIGIBLE FOR FUTURE SALE

Immediately prior to this offering, there was no public market for F5's common stock. Future sales of substantial amounts of common stock in the public market could adversely affect the market price of the common stock.

Upon completion of this offering, we will have outstanding shares of common stock, assuming the issuance of shares of common stock offered hereby, conversion of all shares of preferred stock and no exercise of options or warrants after March 1, 1999. Of these shares, the shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act; provided, however, that if shares are purchased by "affiliates," as that term is defined in Rule 144 under the Securities Act, their sales of shares would be subject to certain limitations and restrictions that are described below.

The remaining 14,671,156 shares of common stock, assuming conversion of all shares of preferred stock, held by existing shareholders as of March 1, 1999 were issued and sold by us in reliance on exemptions from the registration requirements of the Securities Act. Of these shares, shares will be subject to lock-up agreements described below on the effective date of the offering. Upon expiration of the lock-up agreements 180 days after the effective date of the prospectus, shares will become eligible for sale, subject in most cases to the limitations of Rule 144. In addition, holders of stock options and warrants could exercise their options and warrants and sell the shares issued upon exercise as described below.

DAYS AFTER DATE OF THIS PROSPECTUS	SHARES ELIGIBLE FOR SALE	COMMENT
-----	-----	-----
Upon effectiveness.....		Shares sold in the offering
90 days.....		Shares salable under Rule 144 that are not subject to the lock-up
180 days.....		Lock-up released: shares salable under Rules 144 and 701

As of March 1, 1999, there were a total of 2,212,500 shares of common stock that could be issued upon exercise of outstanding warrants. All of these shares are subject to lock-up agreements. As of March 1, 1999, there were a total of 2,594,418 shares of common stock subject to outstanding options under our stock plans, 368,605 of which were vested. However, all of these shares are subject to lock-up agreements. Immediately after the completion of the offering, we intend to file registration statements on Form S-8 under the Securities Act to register all of the shares of common stock issued or reserved for future issuance under our stock plans. On the date 180 days after the effective date of this prospectus, a total of shares of common stock subject to outstanding options will be vested. After the effective dates of the registration statements on Form S-8, shares purchased upon exercise of options granted pursuant to our Amended and Restated 1996 Stock Option Plan, Amended and Restated Directors' Nonqualified Stock Option Plan, 1998 Equity Incentive Plan, 1999 Non-Employees Directors' Plan and 1999 Employee Stock Purchase Plan generally would be available for resale in the public market.

The officers, directors and certain shareholders of F5 have agreed not to sell or otherwise dispose of any of their shares for a period of 180 days after the date of this prospectus. Hambrecht & Quist, however, may in its sole discretion, at any time and in most cases without notice, release all or any portion of the shares subject to lock-up agreements.

### **RULE 144**

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned shares of F5's common stock for at least one year would be entitled to sell, within any three-month period, a number of shares that does not exceed the greater of:

- 1% of the number of shares of common stock then outstanding, which will equal approximately shares immediately after the effective date of this offering; or

- the average weekly trading volume of the common stock on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 are also subject to other requirements regarding the manner of sale, notice filing and the availability of current public information about F5.

## **RULE 701**

In general, under Rule 701, any F5 employee, director, officer, consultant or advisor who purchases shares from F5 in connection with a compensatory stock or option plan or other written agreement before the effective date of the offering is entitled to resell such shares 90 days after the effective date of this offering in reliance on Rule 144, without having to comply with certain restrictions, including the holding period, contained in Rule 144.

The SEC has indicated that Rule 701 will apply to typical stock options granted by an issuer before it becomes subject to the reporting requirements of the Securities Exchange Act of 1934, along with the shares acquired upon exercise of such options (including exercises after the date of this prospectus). Securities issued in reliance on Rule 701 are restricted securities and, subject to the contractual restrictions described above, beginning 90 days after the date of this prospectus, may be sold by persons other than affiliates subject only to the manner of sale provisions of Rule 144 and by affiliates under Rule 144 without compliance with its one year minimum holding period requirement.

In addition, following this offering, the holders of 8,114,376 shares of common stock and of warrants exercisable for 2,200,000 shares of common stock will, under certain circumstances, have rights to require us to register their shares for future sale.

## **LOCK-UP AGREEMENTS**

All officers and directors and certain holders of common stock or securities convertible for common stock and options and warrants to purchase common stock have agreed pursuant to certain "lock-up" agreements that they will not offer, sell, contract to sell, pledge, grant any option to sell, or otherwise dispose of, directly or indirectly, any shares of common stock or securities convertible or exchangeable for common stock, or warrants or other rights to purchase common stock for a period of 180 days after the date of this prospectus without the prior written consent of Hambrecht & Quist L.L.C.

## UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, the underwriters named below, through their representatives, Hambrecht & Quist L.L.C., BancBoston Robertson Stephens Inc. and Dain Rauscher Wessels, a division of Dain Rauscher Incorporated, have severally agreed to purchase from F5 and the selling shareholder the following respective numbers of shares of common stock.

NAME	NUMBER OF SHARES
Hambrecht & Quist L.L.C.....	-----
BancBoston Robertson Stephens Inc.....	
Dain Rauscher Wessels, a division of Dain Rauscher Incorporated.....	-----
Total.....	----- ----- -----

The Underwriting Agreement provides that the obligations of the underwriters are subject to certain conditions precedent, including the absence of any material adverse change in our business and the receipt of certain certificates, opinions and letters from F5 and the selling shareholder, his counsel and the independent auditors. The nature of the underwriters' obligation is such that they have committed to purchase all shares of common stock offered hereby if any of such shares are purchased.

The underwriters propose to offer the shares of common stock directly to the public at the initial public offering price set forth on the cover page of this prospectus and to certain dealers at such price less a concession not in excess of \$ per share. The underwriters may allow and such dealers may re-allow a concession not in excess of \$ per share to certain other dealers. After the initial public offering of the shares, the underwriters may change the offering price and other selling terms.

Certain shareholders have granted to the underwriters an option, exercisable no later than 30 days after the date of this prospectus, to purchase up to additional shares of common stock at the initial public offering price, less the underwriting discount set forth on the cover page of this prospectus. To the extent that the underwriters exercise this option, each of the underwriters will have a firm commitment to purchase approximately the same percentage thereof which the number of shares of common stock to be purchased by it shown in the above table bears to the total number of shares of common stock offered hereby. Such shareholders will be obligated, pursuant to the option, to sell shares to the underwriters to the extent the option is exercised. The underwriters may exercise such option only to cover over-allotments made in connection with the sale of shares of common stock offered hereby.

The offering of the shares is made for delivery when, as and if accepted by the underwriters and subject to prior sale and to withdrawal, cancellation or modification of the offering without notice. The underwriters reserve the right to reject an order for the purchase of shares in whole or in part.

F5 and the selling shareholder have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriters may be required to make in respect thereof.

F5, the selling shareholder and certain other shareholders of F5, including executive officers and directors, who will own in the aggregate shares of common stock after the offering, have agreed that they will not, without the prior written consent of Hambrecht & Quist L.L.C., offer, sell or otherwise dispose of any shares of common stock, options or warrants to acquire shares of common stock or securities exchangeable for or convertible into shares of common stock owned by them during the 180-day period following the date of this prospectus. We have agreed that we will not, without the prior written consent of Hambrecht & Quist L.L.C., offer, sell or otherwise dispose of any shares of common stock, options or warrants to acquire shares of common stock or securities exchangeable for or convertible into shares of common stock during the 180-day period following the date of this prospectus, except that we may issue shares upon the exercise of options granted prior to the date hereof, and may grant additional options under our stock option plans.

Certain persons participating in this offering may over-allot or effect transactions that stabilize, maintain or otherwise affect the market price of the common stock at levels above those that might otherwise prevail in the open market, including by entering stabilizing bids, effecting syndicate covering transactions or imposing penalty bids. A stabilizing bid means the placing of any bid or effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of the common stock. A syndicate covering transaction means the placing of any bid on behalf of the underwriting syndicate or the effecting of any purchase to reduce a short position created in connection with the offering. A penalty bid means an arrangement that permits the underwriters to reclaim a selling concession from a syndicate member in connection with the offering when shares of common stock sold by the syndicate member are purchased in syndicate covering transactions. Such transactions may be effected on the Nasdaq National Market, in the over-the-counter market, or otherwise. Such stabilizing, if commenced may be discontinued at any time.

Prior to this offering, there has been no public market for the common stock. The initial public offering price for the common stock will be determined by negotiation among F5, the selling shareholder and the representatives. Among the factors to be considered in determining the initial public offering price are prevailing market and economic conditions, revenues and earnings of F5, market valuations of other companies engaged in activities similar to F5, estimates of the business potential and prospects of F5, the present state of our business operations, our management and other factors deemed relevant. The estimated initial public offering price range set forth on the cover of this preliminary prospectus is subject to change as a result of market conditions or other factors.

## **LEGAL MATTERS**

The validity of the common stock offered hereby will be passed upon for F5 by Cooley Godward LLP, Kirkland, Washington. Certain legal matters will be passed upon for the Underwriters by Gunderson Dettmer Stough Villeneuve Franklin Hachigian, LLP, Menlo Park, California.

## **EXPERTS**

The financial statements of F5 Networks, Inc. as of September 30, 1997 and 1998 and for the period from February 26, 1996, inception, to September 30, 1996 and each of the years in the two year period ended September 30, 1998, included in this registration statement have been included herein in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of such firm as experts in accounting and auditing.

## **ADDITIONAL F5 INFORMATION**

We have filed with the SEC a registration statement on Form S-1 with respect to the common stock offered hereby. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules which are part of the registration statement. For further information with respect to F5 and our common stock, reference is made to the registration statement and the exhibits and schedules thereto. You may read and copy any document we file at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information about the public reference rooms. Our SEC filings are also available to the public from the SEC's Web site at <http://www.sec.gov>. Information contained on F5's Web site does not constitute part of this prospectus.

Upon completion of this offering, we will become subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934 and, in accordance therewith, will file periodic reports, proxy statements and other information with the SEC. Such periodic reports, proxy statements and other information will be available for inspection and copying at the SEC's public reference rooms, our Web site and the Web site of the SEC referred to above.

# F5 NETWORKS, INC.

## INDEX TO FINANCIAL STATEMENTS

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## **REPORT OF INDEPENDENT ACCOUNTANTS**

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

In our opinion, the accompanying balance sheets and the related statements of operations, of shareholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of F5 Networks, Inc. at September 30, 1997 and 1998, and the results of its operations and its cash flows for the period from February 26, 1996 (inception) to September 30, 1996 and for each of the years in the two year period ended September 30, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for the opinion expressed above.

**PricewaterhouseCoopers LLP**

Seattle, Washington  
April 6, 1999

# F5 NETWORKS, INC.

## BALANCE SHEETS (IN THOUSANDS, EXCEPT SHARE DATA)

	SEPTEMBER 30, 1997	SEPTEMBER 30, 1998	DECEMBER 31, 1998
	-----	-----	-----
			(UNAUDITED)
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 143	\$ 6,206	\$ 4,458
Accounts receivable, net of allowances of \$0, \$382 and \$354.....	329	2,032	2,906
Inventories.....	77	99	380
Other current assets.....	68	250	232
	-----	-----	-----
Total current assets.....	617	8,587	7,976
Property and equipment, net.....	196	682	920
Software development costs, net of accumulated amortization of \$4, \$83 and \$109.....	52	118	92
Other assets.....	54	45	49
	-----	-----	-----
Total assets.....	\$ 919	\$ 9,432	\$ 9,037
	-----	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Current portion of long-term debt.....	\$ 500		
Capital lease obligations, current portion.....	19	\$ 19	\$ 14
Accounts payable.....	117	559	1,198
Accrued liabilities.....	114	458	715
Deferred revenue.....	184	788	1,180
	-----	-----	-----
Total current liabilities.....	934	1,824	3,107
Capital lease obligations, net of current portion.....	19		
Long-term debt, net of current portion.....	197		
	-----	-----	-----
Total liabilities.....	1,150	1,824	3,107
	-----	-----	-----
Commitments (Note 9)			
Shareholders' equity (deficit):			
Preferred stock, no par value; 10,000,000 shares authorized			
Series A Convertible, \$1,200 liquidation preference, 400,000 shares issued and outstanding.....	1,123	1,123	1,123
Series B Convertible, \$250, \$2,000 and \$2,000 liquidation preference, 156,250, 1,250,000 and 1,250,000 shares issued and outstanding.....	208	1,656	1,656
Series C Convertible, \$0, \$1,500 and \$1,500 liquidation preference, none, 156,250 and 156,250 shares issued and outstanding.....		1,418	1,418
Series D Convertible, \$0, \$15,460 and \$15,460 liquidation preference, none, 1,138,438 and 1,138,438 shares issued and outstanding.....		7,688	7,688
Common stock, no par value; 50,000,000 shares authorized, 6,000,000, 6,021,500 and 6,358,500 shares issued and outstanding.....	393	2,875	4,355
Unearned compensation.....	(169)	(1,694)	(2,656)
Accumulated deficit.....	(1,786)	(5,458)	(7,654)
	-----	-----	-----
Total shareholders' equity (deficit).....	(231)	7,608	5,930
	-----	-----	-----
Total liabilities and shareholders' equity (deficit).....	\$ 919	\$ 9,432	\$ 9,037
	-----	-----	-----

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

**F5 NETWORKS, INC.**

**STATEMENTS OF OPERATIONS**  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	PERIOD FROM FEBRUARY 26, 1996 (INCEPTION) TO SEPTEMBER 30, 1996	YEAR ENDED SEPTEMBER 30,		THREE MONTHS ENDED DECEMBER 31,	
		1997	1998	1997	1998
				(UNAUDITED)	(UNAUDITED)
Net revenues.....	\$ 2	\$ 229	\$ 4,889	\$ 842	\$ 2,695
Cost of net revenues.....	1	71	1,405	210	820
Gross profit.....	1	158	3,484	632	1,875
Operating expenses:					
Sales and marketing.....	62	565	3,881	555	2,216
Research and development.....	103	569	1,810	194	1,020
General and administrative.....	180	383	1,041	202	525
Amortization of unearned compensation.....	4	69	420	31	368
Total operating expenses.....	349	1,586	7,152	982	4,129
Loss from operations.....	(348)	(1,428)	(3,668)	(350)	(2,254)
Other income (expense):					
Interest expense.....		(46)	(42)	(23)	(1)
Interest income.....	18	18	38		59
Net loss.....	\$ (330)	\$ (1,456)	\$ (3,672)	\$ (373)	\$ (2,196)
Net loss per share--basic and diluted.....	\$ (0.06)	\$ (0.24)	\$ (0.60)	\$ (0.06)	\$ (0.36)
Weighted average shares--basic and diluted.....	5,932	6,000	6,086	6,294	6,047
Pro forma net loss per share (unaudited):					
Net loss per share--basic and diluted.....			\$ (0.26)		\$ (0.16)
Weighted average shares--basic and diluted.....			14,201		14,162

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



**F5 NETWORKS, INC.**  
**STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIT)**  
**FOR THE PERIOD FROM FEBRUARY 26, 1996 (INCEPTION) TO DECEMBER 31, 1998**  
**(IN THOUSANDS, EXCEPT SHARE DATA)**

	CONVERTIBLE PREFERRED STOCK AMOUNT				
	SHARES	SERIES A	SERIES B	SERIES C	SERIES D
Common stock issued to founding shareholders.....					
Common stock issued for merger.....					
Sales of Series A Convertible Preferred Stock, (net of issuance costs of \$77).....	370,000	\$1,123			
Issuance of Series A Convertible Preferred Stock upon payment of subscription receivable from shareholder.....	10,000				
Unearned compensation.....					
Amortization of unearned compensation.....					
Net loss.....					
Balance, September 30, 1996...	380,000	1,123			
Issuance of Series A Convertible Preferred Stock upon payment of subscription receivable from shareholders.....	20,000				
Sales of Series B Convertible Preferred Stock.....	156,250		\$ 250		
Value ascribed to warrants issued in conjunction with sale of Convertible Preferred Stock.....			(42)		
Value ascribed to warrants issued with note payable....					
Unearned compensation.....					
Amortization of unearned compensation.....					
Net loss.....					
Balance, September 30, 1997...	556,250	1,123	208		
Sales of Series B Convertible Preferred Stock, (net of issuance costs of \$15).....	1,093,750		1,740		
Sales of Series C Convertible Preferred Stock, (net of issuance costs of \$7).....	156,250			\$1,493	
Sales of Series D Convertible Preferred Stock, (net of issuance costs of \$42).....	1,138,438				\$7,688
Value ascribed to warrants issued in conjunction with sales of Convertible Preferred Stock.....			(292)	(75)	
Exercise of stock options by employees.....					
Repurchase of common stock under shareholder agreement.....					
Issuance of common stock under shareholder agreement.....					
Conversion of note payable to common stock.....					
Unearned compensation.....					
Amortization of unearned compensation.....					
Net loss.....					
Balance, September 30, 1998...	2,944,688	1,123	1,656	1,418	7,688
Exercise of stock options by employees (unaudited).....					
Exercise of stock warrants (unaudited).....					
Unearned compensation					

(unaudited).....  
Amortization of unearned  
compensation (unaudited)....  
Net loss (unaudited).....

Balance, December 31, 1998 (unaudited).....	2,944,688	\$1,123	\$1,656	\$1,418	\$7,688
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	COMMON STOCK		SUBSCRIPTIONS RECEIVABLE FROM	UNEARNED COMPEN- SATION	ACCUMULATED DEFICIT	TOTAL
	SHARES	AMOUNT	SHAREHOLDERS			
Common stock issued to founding shareholders.....	5,388,000					
Common stock issued for merger.....	612,000					
Sales of Series A Convertible Preferred Stock, (net of issuance costs of \$77).....			\$ (90)			\$ 1,033
Issuance of Series A Convertible Preferred Stock upon payment of subscription receivable from shareholder.....			30			30
Unearned compensation.....		\$ 4		\$ (4)		
Amortization of unearned compensation.....				4		4
Net loss.....					\$ (330)	(330)
Balance, September 30, 1996...	6,000,000	4	(60)		(330)	737
Issuance of Series A Convertible Preferred Stock upon payment of subscription receivable from shareholders.....			60			60
Sales of Series B Convertible Preferred Stock.....						250
Value ascribed to warrants issued in conjunction with sale of Convertible Preferred Stock.....		42				
Value ascribed to warrants issued with note payable....		109				109
Unearned compensation.....		238		(238)		
Amortization of unearned compensation.....				69		69
Net loss.....					(1,456)	(1,456)
Balance, September 30, 1997...	6,000,000	393		(169)	(1,786)	(231)
Sales of Series B Convertible Preferred Stock, (net of issuance costs of \$15).....						1,740
Sales of Series C Convertible Preferred Stock, (net of issuance costs of \$7).....						1,493
Sales of Series D Convertible Preferred Stock, (net of issuance costs of \$42).....						7,688
Value ascribed to warrants issued in conjunction with sales of Convertible Preferred Stock.....		367				
Exercise of stock options by employees.....	221,500	34				34
Repurchase of common stock under shareholder agreement.....	(2,600,000)	(245)				(245)
Issuance of common stock under shareholder agreement.....	1,800,000	172				172
Conversion of note payable to common stock.....	600,000	209				209
Unearned compensation.....		1,945		(1,945)		
Amortization of unearned compensation.....				420		420
Net loss.....					(3,672)	(3,672)
Balance, September 30, 1998...	6,021,500	2,875		(1,694)	(5,458)	7,608

Exercise of stock options by employees (unaudited).....	97,000	30				30
Exercise of stock warrants (unaudited).....	240,000	120				120
Unearned compensation (unaudited).....		1,330		(1,330)		
Amortization of unearned compensation (unaudited)....				368		368
Net loss (unaudited).....					(2,196)	(2,196)
	-----	-----	---	-----	-----	-----
Balance, December 31, 1998 (unaudited).....	6,358,500	\$4,355	\$	\$(2,656)	\$(7,654)	\$ 5,930
	-----	-----	---	-----	-----	-----

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

**F5 NETWORKS, INC.**

**STATEMENTS OF CASH FLOWS**  
(IN THOUSANDS)

	PERIOD FROM FEBRUARY 26, 1996 (INCEPTION) TO SEPTEMBER 30, 1996	YEAR ENDED SEPTEMBER 30,		THREE MONTHS ENDED DECEMBER 31,	
		1997	1998	1997	1998
				(UNAUDITED)	(UNAUDITED)
Cash flows from operating activities:					
Net loss.....	\$ (330)	\$ (1,456)	\$ (3,672)	\$ (373)	\$ (2,196)
Adjustments to reconcile net loss to net cash used in operating activities:					
Amortization of unearned compensation.....	4	69	420	31	368
Provision for doubtful accounts and sales returns.....			412	74	50
Depreciation and amortization.....	14	59	323	46	119
Non cash interest expense.....		6	12		
Changes in operating assets and liabilities:					
Accounts receivable.....	(1)	(328)	(2,115)	(514)	(924)
Inventories.....	(29)	(48)	(22)	(51)	(281)
Other current assets.....	(7)	(55)	(186)	44	18
Other assets.....	(6)	(48)	9	(73)	(4)
Accounts payable and accrued liabilities.....	37	194	806	247	896
Deferred revenue.....		184	604	(56)	392
Net cash used in operating activities...	(318)	(1,423)	(3,409)	(613)	(1,562)
Cash flows from investing activities:					
Issuance of notes to officer.....			(10)		
Purchases of property and equipment.....	(150)	(98)	(731)	(67)	(331)
Additions to software development costs.....		(56)	(145)	(83)	
Proceeds from sale leaseback.....	30				
Net cash used in investing activities...	(120)	(154)	(886)	(150)	(331)
Cash flows from financing activities:					
Proceeds from issuance of Series A Convertible Preferred Stock.....	1,063	60			
Proceeds from issuance of Series B Convertible Preferred Stock.....		250	1,235	1,235	
Proceeds from issuance of Series C Convertible Preferred Stock.....			1,493		
Proceeds from issuance of Series D Convertible Preferred Stock.....			7,688		
Proceeds from the exercise of stock options and warrants.....			34	9	150
Repurchase of common stock under shareholder agreement.....			(245)		
Proceeds from issuance of common stock under shareholder agreement.....			172		
Proceeds from line of credit.....			825		
Repayments of line of credit.....			(825)		
Proceeds from issuance of long-term debt.....		800			
Principal payments on capital lease obligations.....	(1)	(14)	(19)	(4)	(5)
Net cash provided by financing activities.....	1,062	1,096	10,358	1,240	145
Net increase (decrease) in cash and cash equivalents.....	624	(481)	6,063	477	(1,748)
Cash and cash equivalents, at beginning of year.....	--	624	143	143	6,206
Cash and cash equivalents, at end of year.....	\$ 624	\$ 143	\$ 6,206	\$ 620	\$ 4,458

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

## **F5 NETWORKS, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

#### **1. THE COMPANY AND BASIS OF PRESENTATION:**

F5 Networks, Inc. (formerly F5 Labs, Inc.) (the "Company") was incorporated on February 26, 1996 in the State of Washington.

F5 is a leading provider of integrated Internet traffic management solutions designed to improve the availability and performance of mission-critical Internet-based servers and applications. Our proprietary software-based solutions monitor and manage local and geographically dispersed servers and intelligently direct traffic to the server best able to handle a user's request.

The Company purchases material component parts and certain licensed software from suppliers and generally contracts with third parties for the assembly of products.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

##### **USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

##### **UNAUDITED INTERIM FINANCIAL STATEMENTS**

In the opinion of the Company's management, the December 31, 1997 and 1998 unaudited interim financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial statements. All references hereinafter to December 31, 1997 and 1998 amounts are based on unaudited information.

##### **RECLASSIFICATIONS**

Certain reclassifications have been made to the 1996 and 1997 financial statements to conform with the 1998 presentation. These reclassifications had no effect on previously reported net loss, shareholders' equity (deficit) or cash flows.

##### **CASH EQUIVALENTS**

Cash equivalents consist of highly liquid investments with original maturities of three months or less at the date of investment by the Company.

##### **CONCENTRATION OF CREDIT RISK**

The Company places its temporary cash investments with major financial institutions. As of September 30, 1998, all of the Company's temporary cash investments were placed with three such institutions.

The Company's customers are from diverse industries and geographic locations. Net revenues from international customers are denominated in U.S. Dollars and were approximately \$0, \$15,000 and \$172,000 in the period from February 26, 1996 (inception) to September 30, 1996, and the years ended September 30, 1997 and 1998, respectively and \$31,000 and \$61,000, for the three months ended December 31, 1997 and 1998. For the three months ended December 31, 1998, one customer

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED) accounted for 14.9% of net revenues. During the period from February 26, 1996 (inception) to September 30, 1996, the years ended September 30, 1997 and 1998, and the three months ended December 31, 1997, no single customer accounted for more than 10% of the Company's net revenues. There were no significant accounts receivable from a single customer. The Company does not require collateral to support credit sales. Allowances are maintained for potential credit losses and sales returns.

**INVENTORIES**

Inventories consist of hardware, software and related component parts and are recorded at the lower of cost (as determined by the first-in, first-out method) or market.

**PROPERTY AND EQUIPMENT**

Property and equipment is stated at cost. Equipment under capital leases is stated at the lower of the present value of the minimum lease payments discounted at the Company's incremental borrowing rate at the beginning of the lease term or fair value at the inception of the lease. Depreciation of property and equipment and amortization of capital leases are provided on the straight-line method over the estimated useful lives of the assets of 2 to 5 years. Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvements. Work in process represents the cost of construction of equipment to produce brand-identification parts for Company products.

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 in the normal course of business are reflected in the results of operations at the time of disposal. Gains from sale leaseback transactions are deferred and amortized over the term of the lease.

**SOFTWARE DEVELOPMENT COSTS**

Software development costs incurred in conjunction with product development are charged to research and development expense until technological feasibility is established. Thereafter, until the product is released for sale, such software development costs are capitalized and reported at the lower of unamortized cost or net realizable value of each product. The establishment of technological feasibility and the on-going 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 amortizes capitalized software costs using the straight-line method over the estimated economic life of the product, generally two years.

**VALUATION OF LONG-LIVED ASSETS**

The Company periodically evaluates the carrying value of long-lived assets to be held and used, including, but not limited to, property and equipment and other assets, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated

## **F5 NETWORKS, INC.**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED) cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair values are reduced for the cost to dispose.

#### **EQUITY FINANCING COSTS**

External direct costs associated with obtaining equity financing are deferred and taken as a reduction of the proceeds upon completion of such financing.

#### **REVENUE RECOGNITION**

On October 27, 1997, the American Institute of Certified Public Accountants Accounting Standards Executive Committee issued Statement of Position 97-2 ("SOP 97-2"), "Software Revenue Recognition." SOP 97-2 provides guidance on when revenue should be recognized and in what amounts for licensing, selling, leasing, or otherwise marketing computer software. The Company has implemented SOP 97-2 for the year ended September 30, 1998.

The Company generally combines software license, installation and customer support elements into a package with a single "bundled" price. The Company allocates a portion of the sales price to each element of the bundled package based on their respective fair values when the individual elements are sold separately. Revenues from the license of software are recognized when the product has been shipped and the customer is obligated to pay for the product. Installation revenue is recognized when the product has been installed at the customer's site. Revenues for customer support are recognized on a straight-line basis over the service contract terms. Estimated sales returns are based on historical experience by product and are recorded at the time revenues are recognized.

#### **ADVERTISING**

Advertising costs are expensed as incurred. Advertising expense was \$0, \$0 and \$253,000 for the period from February 26, 1996 (inception) to September 30, 1996 and the years ended September 30, 1997 and 1998, respectively, and \$0 and \$218,000, for the three months ended December 31, 1997 and 1998, respectively.

#### **INCOME TAXES**

The Company accounts for income taxes under the liability method of accounting. Under the liability method, deferred taxes are determined based on the differences between the financial statement and tax bases of assets and liabilities at enacted tax rates in effect in the year in which the differences are expected to reverse. Valuation allowances are established, when necessary, to reduce deferred tax assets to amounts expected to be realized.

#### **STOCK-BASED COMPENSATION**

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees" and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation." Under APB No. 25, compensation expense is based on the difference, if any, on the date of the grant,

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED) between the deemed fair value of the Company's stock and the exercise price of the option. The Company accounts for equity instruments issued to nonemployees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force 96-18.

**FAIR VALUE OF FINANCIAL INSTRUMENTS**

For certain financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, recorded amounts approximate market value.

**NET LOSS AND PRO FORMA NET LOSS PER SHARE**

Effective October 1, 1997, the Company adopted Statement of Financial Accounting Standards No. 128 ("SFAS No. 128"), "Earnings per Share." SFAS No. 128 requires the presentation of basic and diluted earnings (loss) per share for all periods presented.

In accordance with SFAS No. 128, basic net loss per share has been computed using the weighted-average number of shares of common stock outstanding during the period, except that pursuant to Securities and Exchange Commission Staff Accounting Bulletin No. 98, if applicable, common shares issued in each of the periods presented for nominal consideration have been included in the calculation as if they were outstanding for all periods presented.

Pro forma basic and diluted net loss per share has been computed as described above and also gives effect to the conversion of the convertible instruments that will occur upon completion of the Company's initial public offering. The Company has included the equivalent number of common shares from the conversion of preferred stock in the calculation of pro forma net loss per share. The preferred stock series are assumed converted because their terms require conversion upon an initial public offering, subject to certain conditions.



# F5 NETWORKS, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED) A reconciliation of shares used in the calculation of basic and diluted and pro forma basic and diluted net loss per share follows:

	PERIOD FROM FEBRUARY 26, 1996 (INCEPTION) TO SEPTEMBER 30, 1996	YEAR ENDED SEPTEMBER 30,		THREE MONTHS ENDED DECEMBER 31,	
		1997	1998	1997	1998
		(IN THOUSANDS, EXCEPT PER SHARE DATA)			
				(UNAUDITED)	(UNAUDITED)
Net loss.....	\$ (330)	\$ (1,456)	\$ (3,672)	\$ (373)	\$ (2,196 )
Weighted average shares of common stock outstanding (shares used in computing basic and diluted net loss per share).....	5,932	6,000	6,086	6,294	6,047
Basic and diluted net loss per share.....	\$ (0.06)	\$ (0.24)	\$ (0.60)	\$ (0.06)	\$ (0.36 )
Shares used in computing basic and diluted net loss per share.....			6,086		6,047
Adjustment to reflect the effect of the assumed conversion of preferred stock:					
Preferred stock--Series A.....			2,400		2,400
Preferred stock--Series B.....			2,500		2,500
Preferred stock--Series C.....			938		938
Preferred stock--Series D.....			2,277		2,277
			8,115		8,115
Shares used in computing pro forma basic and diluted net loss per share.....			14,201		14,162
Pro forma basic and diluted net loss per share.....			\$ (0.26)		\$ (0.16 )

Had the Company been in a net income position, diluted earnings per share would have included the shares used in the computation of basic net loss per share as well as additional potential shares of common stock related to outstanding options and warrants which were excluded because they are anti-dilutive.

## NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." This statement requires that changes in comprehensive income be shown in a financial statement that is displayed with the same prominence as other financial statements. The statement is effective for fiscal years beginning after

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED) December 15, 1997. Reclassification for earlier periods is required for comparative purposes. The Company does not have any material items of comprehensive income, other than net loss, and accordingly, the statement does not have any material impact on reported financial position or results of operations.

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information." This statement supersedes Statement of Financial Accounting Standards No. 14, "Financial Reporting for Segments of a Business Enterprise." This statement includes requirements to report selected segment information quarterly and entity-wide disclosures about products and services, major customers, and geographic areas in which the entity holds significant assets and reports significant revenues. The statement will be effective for fiscal years beginning after December 15, 1997.

Reclassification for earlier periods is required, unless impracticable, for comparative purposes. The adoption of this statement has not had any material impact on reported financial position or results of operations.

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which establishes guidelines for the accounting for the costs of all computer software developed or obtained for internal use. This statement is effective for fiscal years beginning after December 15, 1998. The Company does not expect the statement to have a material impact on its financial statements.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. This statement is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. The Company does not use derivative instruments, therefore the adoption of this statement will not have any effect on the Company's results of operations or its financial position.

# F5 NETWORKS, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 3. PROPERTY AND EQUIPMENT:

At September 30, 1997 and 1998, and December 31, 1998, property and equipment were approximately as follows:

	SEPTEMBER 30,		DECEMBER 31, 1998
	1997	1998	
	(IN THOUSANDS)		
	(UNAUDITED)		
Computer equipment.....	\$ 161	\$ 529	\$ 734
Equipment under capital leases.....	54	54	54
Office furniture and equipment.....	17	293	327
Leasehold improvements.....	29	116	116
Work in progress.....			92
	261	992	1,323
Accumulated amortization for equipment under capital leases.....	(15)	(33)	(37)
Accumulated depreciation.....	(50)	(277)	(366)
	\$ 196	\$ 682	\$ 920

Depreciation expense was approximately \$14,000 for the period from February 26, 1996 (inception) to September 30, 1996 and \$55,000 and \$245,000 for the years ended September 30, 1997 and 1998, respectively. Depreciation expense was approximately \$39,000 and \$93,000 for the three months ended December 31, 1997 and 1998, respectively (unaudited).

### 4. ACCRUED LIABILITIES:

At September 30, 1997 and 1998, and December 31, 1998, accrued liabilities were approximately as follows:

	SEPTEMBER 30,		DECEMBER 31, 1998
	1997	1998	
	(IN THOUSANDS)		
	(UNAUDITED)		
Accrued payroll and benefits.....	\$ 37	\$ 237	\$ 363
Accrued sales and use taxes.....	17	141	178
Other.....	60	80	174
	114	458	715

# F5 NETWORKS, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 5. INCOME TAXES:

The following is a reconciliation of the income tax benefit to the amount based on the statutory Federal rate:

	1997	1998
	---	---
Federal income tax benefit at statutory rate.....	(34)%	(34 )%
Non-deductible stock compensation.....	3%	1%
Other.....	1%	
	---	---
Change in valuation allowance.....	30%	33%
	---	---
	---	---

Deferred tax assets and liabilities at September 30, 1997 and 1998 were approximately as follows:

	1997	1998
	-----	-----
	(IN THOUSANDS)	
Deferred tax assets:		
Net operating loss carryforwards.....	\$ 583	\$ 1,573
Allowance for doubtful accounts.....		80
Accrued compensation and benefits.....	8	61
Depreciation.....		9
	-----	-----
Total deferred tax assets.....	591	1,723
	-----	-----
Deferred tax liabilities:		
Depreciation.....	(7)	
Amortization.....	(14)	(53)
	-----	-----
Total deferred tax liabilities.....	(21)	(53)
	-----	-----
	570	1,670
Valuation allowance.....	(570)	(1,670)
	-----	-----
	\$ 0	\$ 0
	-----	-----
	-----	-----

Differences between the tax bases of assets and liabilities and their financial statement amounts are reflected as deferred income taxes based on enacted tax rates. The net deferred tax assets have been reduced by a full valuation allowance at September 30, 1997 and 1998 based on management's determination that the recognition criteria for realization have not been met.

As of September 30, 1998, the Company had net operating loss carryforwards of approximately \$4.6 million, to offset future taxable income for Federal income tax purposes, which will expire between 2011 and 2018. Should certain changes in the Company's ownership occur, there could be a limitation on the utilization of its net operating losses.

### 6. LINES OF CREDIT:

In February 1998, the Company entered into a \$750,000 line of credit with a bank, bearing interest at the prime rate plus 1.0%. In July 1998, the line of credit was modified to allow the Company to borrow up to the lesser of \$2.0 million or 75% of the Company's eligible accounts receivable. The modification also calls for monthly interest payments, a decrease of the interest rate to the prime rate

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

6. LINES OF CREDIT: (CONTINUED) plus 0.5% and an extension of the due date to July 31, 1999. The line of credit contains certain covenants, including, but not limited to, meeting minimum financial ratios and earnings. No amount was outstanding under the line of credit at September 30, 1998 or December 31, 1998.

In February 1998, the Company entered into a \$100,000 line of credit with a bank, bearing interest at the prime rate plus 1.5%. The line of credit was restricted in use to the purchase of equipment. This line expired in August 1998 and was never utilized.

**7. LONG-TERM DEBT:**

In March and August 1997, the Company entered into \$500,000 and \$300,000 convertible note agreements with a preferred shareholder, respectively. These notes bear simple interest at 11% annually, mature 18 months from the date of the respective agreements and are collateralized by substantially all of the Company's assets. The notes were convertible into the Company's common stock at the lesser of \$1.00 per share or 80% of the sales price of the Company's Series B Preferred Stock and \$0.50 per share, respectively. In conjunction with these notes, the Company issued to the preferred shareholder warrants to purchase 100,000 and 600,000 shares of the Company's common stock at \$0.64 and \$0.50 per share, respectively. The aggregate value assigned to the warrants issued with these notes payable of \$0 and \$109,000, respectively, was reflected as both a debt discount and an increase to common stock. The debt discount is accounted for as a component of interest expense using a method which approximates the interest method.

In October 1997, the Company settled the \$500,000 note and related accrued interest by issuing to the preferred shareholder 312,500 shares of the Company's Series B Convertible Preferred Stock. In November 1997, the preferred shareholder converted the \$300,000 note and related accrued interest into 600,000 shares of the Company's common stock.

**8. SHAREHOLDERS' EQUITY:**

**A. PREFERRED STOCK**

The Series A Convertible Preferred Stock is non-cumulative and convertible into six shares of common stock, subject to adjustment upon the occurrence of certain events provided for in the Company's restated articles of incorporation. The Series A Convertible Preferred Stock is mandatorily convertible into common stock upon completion of an initial public offering of the Company's common stock in which the price per share equals or exceeds \$1.50 and gross proceeds equal or exceed \$12.0 million, or when two-thirds of the shares of Series A Convertible Preferred Stock have been converted. The holders of the Series A Convertible Preferred Stock have certain voting rights and liquidation preferences equal to \$3.00 per share.

In May 1996, the Company issued 370,000 shares of Series A Convertible Preferred Stock for an aggregate purchase price of \$1.1 million. In conjunction with the issuance of the Company's Series A shares to a certain investor, the Company issued warrants, to which no value was assigned, to purchase 240,000 shares of the Company's common stock at \$0.50 per share. On December 30, 1998, these warrants were exercised.

In addition, the Company entered into stock subscriptions for 30,000 shares of the Company's Series A Convertible Preferred Stock in exchange for notes receivable from certain investors for an aggregate of \$90,000. These notes receivable bear interest at 9% per annum and have maturity

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

8. SHAREHOLDERS' EQUITY: (CONTINUED) periods ranging from 3 to 6 months from the date of the agreements. In August 1996, 10,000 shares of the Company's Series A Convertible Preferred Stock were issued upon payment in full of \$30,000 principal value and accrued interest of a subscription agreement. In fiscal year 1997, the Company issued the remaining 20,000 shares under subscription upon payment in full of the remaining principal amount and accrued interest of the subscription agreements.

In September 1997, the Company issued 156,250 shares of Series B Convertible Preferred Stock for an aggregate purchase price of \$250,000. In conjunction with this issuance, the Company issued warrants to purchase 187,500 shares of the Company's common stock at \$0.80 per share. The Company has allocated approximately \$42,000 of the sales price as the value of these warrants. The Series B Convertible Preferred Stock is non-cumulative and convertible into two shares of the Company's common stock, subject to adjustment upon the occurrence of certain events provided for in the Company's amended and restated articles of incorporation. The Series B Convertible Preferred Stock is mandatorily convertible into common stock upon completion of an initial public offering of the Company's common stock in which the price per share equals or exceeds \$3.20 and gross proceeds equal or exceed \$8.0 million, or when two-thirds of the Series B shares have been converted. The holders of the Series B Convertible Preferred Stock have certain voting rights and liquidation preferences equal to \$1.60 per share.

In October and November 1997, the Company issued an additional 1,093,750 shares of the Company's Series B Convertible Preferred Stock for an additional aggregate purchase price of \$1.8 million, including conversion of the \$500,000 note and accrued interest of approximately \$20,000 from a preferred shareholder (see Note 7). In conjunction with this issuance, the Company issued warrants to purchase 1,312,500 shares of the Company's common stock at \$0.80 per share. The Company has allocated approximately \$292,000 of the sales price of the Series B Convertible Preferred Stock as the value of these warrants.

In April 1998, the Company issued 156,250 shares of the Company's Series C Convertible Preferred Stock and warrants to purchase 187,500 shares of the Company's common stock at \$1.60 per share for an aggregate purchase price of \$1.5 million. The Company has allocated approximately \$75,000 of the sales price of the Series C Convertible Preferred Stock as the value of the warrants issued. On February 1, 1999 these warrants were exercised. Shares of the Company's Series C Convertible Preferred Stock are non-cumulative and convertible into six shares of the Company's common stock, subject to the occurrence of certain events provided for in the Company's amended and restated articles of incorporation. The shares are mandatorily convertible upon the completion of an initial public offering in which the per share price is equal to or exceeds \$3.20 and gross proceeds equal or exceed \$8.0 million, or when two-thirds of the Series C Convertible Preferred shares have been converted. The holders of the Series C Convertible Preferred Stock have certain voting rights and liquidation preferences equal to \$9.60 per share.

In August 1998, the Company issued 1,138,438 shares of Series D Convertible Preferred Stock for an aggregate purchase price of approximately \$7.7 million. Holders of the Company's Series D Convertible Preferred Stock are entitled to receive an annual non-cumulative dividend of \$0.68 per share, subject to declaration by the Board of Directors, at their sole discretion. The shares are convertible into two shares of the Company's Common Stock, subject to the occurrence of certain events provided for in the Company's amended and restated articles of incorporation. The shares are mandatorily convertible into common stock upon the completion of an initial public offering in which

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

8. SHAREHOLDERS' EQUITY: (CONTINUED) the per share price equals or exceeds \$5.00 and gross proceeds are equal to or exceed \$15.0 million. The holders of the Series D Convertible Preferred Stock have certain voting rights and liquidation preferences equal to \$13.58 per share.

**B. COMMON STOCK**

The Company issued 5,388,000 shares of common stock on February 26, 1996, the date of its incorporation. In conjunction with the Company's formation it entered into a merger with Ambiente Inc. ("Ambiente") which was consummated in March 1996. Pursuant to the merger agreement, the Company issued 612,000 shares of common stock to the shareholders of Ambiente. Through the date of the merger, Ambiente had no significant operations, assets or liabilities, other than software under development that had not yet achieved technological feasibility. Accordingly, no value was assigned to the stock issued.

On December 2, 1996 and January 27, 1999 the Company authorized a 3 for 1 and 2 for 1 stock split, in the form of stock dividends, respectively on the Company's common stock. All references to number of shares and per share amounts of the Company's common stock in the accompanying financial statements and notes have been restated to reflect such stock splits.

Upon incorporation of the Company, the founding shareholders entered into an agreement (as amended, the "Shareholder Agreement") which, among other things, called for a mandatory offer to sell the shareholders' stock, first to the remaining founders, then to the Company, in the event of termination of their employment with the Company. In February 1998, one of the founders, who was also an officer of the Company, and the Company purchased 2,600,000 shares of the Company's common stock under the Shareholder Agreement from two founders who had terminated their employment. The Company facilitated the transactions between the shareholders under the Shareholder Agreement, retaining 800,000 of the repurchased shares.

**C. INITIAL PUBLIC OFFERING**

In April 1999, the Company's Board of Directors authorized the Company to file a Registration Statement with the Securities and Exchange Commission to permit the Company to proceed with an initial public offering of its common stock. Upon consummation of such offering, all of the outstanding Series A, B, C, and D Convertible Preferred Stock will be converted into 8,114,376 shares of common stock.

**D. EQUITY INCENTIVE PLANS**

In January 1997, Company's shareholders approved the Amended and Restated 1996 Stock Option Plan (the "1996 Employee Plan") that provides for discretionary grants of non-qualified and incentive stock options for employees and other service providers, and the Amended and Restated Directors' Nonqualified Stock Option Plan (the "1996 Directors' Plan"), which provides for automatic grants of non-qualified stock options to eligible non-employee directors. A total of 2,600,000 shares of common stock has been reserved for issuance under the 1996 Employee Plan and the 1996 Directors' Plan. Employees' stock options typically vest over a period of four years from the grant date; director options typically vest over a period of three years from the grant date. All options under the 1996 Employee Plan and the 1996 Directors' Plan expire 10 years after the grant date. In August 1997, the Company repriced all existing employee options to an exercise price of \$0.05 per share. This repricing

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

8. SHAREHOLDERS' EQUITY: (CONTINUED) was accounted for as a cancellation of existing stock options and grant of new stock options. All outstanding, unvested options under the 1996 Employee Plan and the 1996 Director's Plan vest in full upon a change in control of the Company. The Company does not intend to grant any additional options under either of these Plans.

In November 1998, the Company's shareholders adopted the 1998 Equity Incentive Plan (the "1998 Plan"), which provides for discretionary grants of non-qualified and incentive stock options, stock purchase awards and stock bonuses for employees and other service providers. A total of 800,000 shares of common stock have been reserved for issuance under the 1998 Plan. Stock options granted under this plan typically vest over a period of four years from the grant date, and expire 10 years from the grant date. The Company has not granted any stock purchase awards or stock bonuses under the 1998 Plan. Upon certain changes in control of the Company, the surviving entity will either assume or substitute all outstanding options or stock awards under the 1998 Plan. If the surviving entity determines not to assume or substitute such options or awards, then with respect to persons whose service with the Company or an affiliate of the Company has not terminated before such change in control, the vesting of 50% of such options or stock awards (and the time during which such awards may be exercised) will accelerate and the options or awards terminated if not exercised before such change in control.

The Company applies the accounting provisions prescribed in APB No. 25 and related interpretations. In certain instances, the Company has issued stock options with an exercise price less than the deemed fair value of the Company's common stock at the date of grant. Accordingly, total compensation costs related to such stock options of approximately \$238,000 and \$1.9 million was deferred during fiscal years 1997 and 1998, respectively, and is being amortized over the vesting period of the options, generally four years. Amortization of unearned compensation costs of approximately \$4,000 has been recognized as an expense for the period from February 26, 1996 (inception) to September 30, 1996, \$69,000 and \$420,000 for the years ended September 30, 1997 and 1998, respectively. Amortization of unearned compensation amounted to \$31,000 and \$368,000 for the three months ended December 31, 1997 and 1998, respectively (unaudited).



**F5 NETWORKS, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

8. SHAREHOLDERS' EQUITY: (CONTINUED) A summary of stock option transactions are as follows:

	OUTSTANDING OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
Inception		
Options granted.....	1,146,000	\$ 0.38
Options canceled.....	(150,000)	0.34
Balances at September 30, 1996.....	996,000	0.38
Options granted.....	1,349,000	0.15
Options canceled.....	(1,119,000)	0.36
Balances at September 30, 1997.....	1,226,000	0.15
Options granted.....	1,543,000	0.29
Options exercised.....	(215,750)	0.11
Options canceled.....	(476,000)	0.11
Balances at September 30, 1998.....	2,077,250	0.26
Options granted (unaudited).....	418,690	1.34
Options exercised (unaudited).....	(97,000)	0.31
Options canceled (unaudited).....	(133,000)	0.47
Balances at December 31, 1998 (unaudited).....	2,265,940	0.45

Pro forma information regarding net loss is required by SFAS No. 123, and has been determined as if the Company had accounted for its stock options under the minimum value method of that statement. The fair value of each option is estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants issued for the period from February 26, 1996 (inception) to September 30, 1996, and for the years ended September 30, 1997 and 1998:

	PERIOD FROM FEBRUARY 26, 1996 (INCEPTION) TO SEPTEMBER 30, 1996	YEAR ENDED SEPTEMBER 30, ----- 1997	1998
Risk-free interest rate.....	6.21%	6.21%	4.62%
Dividend yield.....	0.00%	0.00%	0.00%
Expected term of option.....	4 years	4 years	4 years

# F5 NETWORKS, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. SHAREHOLDERS' EQUITY: (CONTINUED) For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the options' vesting period. The Company's net loss would have been as indicated in the pro forma table below:

	PERIOD FROM FEBRUARY 26, 1996 (INCEPTION) TO SEPTEMBER 30, 1996	YEAR ENDED SEPTEMBER 30, ----- 1997	1998 -----
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Net loss--as reported.....	\$ (330)	\$ (1,456)	\$ (3,672)
Net loss--pro forma.....	(331)	(1,503)	(3,876)
Net loss per share--as reported.....	(0.06)	(0.24)	(0.60)
Net loss per share--pro forma.....	(0.06)	(0.25)	(0.64)

The weighted-average fair values and weighted-average exercise prices per share at the date of grant for options granted during the period from February 26, 1996 (inception) to September 30, 1996 and for the years ended September 30, 1997 and 1998 were as follows:

	PERIOD FROM FEBRUARY 26, 1996 (INCEPTION) TO SEPTEMBER 30, 1996	YEAR ENDED SEPTEMBER 30, ----- 1997	1998 -----
Weighted-average fair value of options granted with exercise prices equal to the market value of the stock at the date of grant.....	\$ 0.01	\$ 0.01	\$ 0.08
Weighted-average exercise price of options granted with exercise prices equal to the market value of the stock at the date of grant.....	0.05	0.05	0.50
Weighted-average fair value of options granted with exercise prices less than the market value of the stock at the date of grant.....		0.41	1.60
Weighted-average exercise price of options granted with exercise prices less than the market value of the stock at the date of grant.....	0.05	0.05	0.28

# F5 NETWORKS, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. SHAREHOLDERS' EQUITY: (CONTINUED) The following table summarizes information about fixed-price options outstanding at September 30, 1998 as follows:

EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISABLE PRICE
\$0.02-0.05	1,034,626	8.88	\$ 0.05	133,250	\$ 0.04
0.25	436,624	9.70	0.25		
0.50	336,000	8.49	0.50	112,000	0.50
0.75	255,000	9.89	0.75		
1.50	15,000	9.98	1.50		

## 9. COMMITMENTS:

The Company is committed under non-cancelable operating leases for its current and former office space, which expire in 2002 and 1999, respectively. During 1998, the Company leased its former office space under a non-cancelable sub-leasing arrangement for amounts equal to the liability of the commitment, which expires in 1999. Additionally, the Company is committed under non-cancelable operating leases for certain office equipment. Minimum operating lease payments and sub-leasing receipts for future fiscal years, as of September 30, 1998, are approximately as follows:

	OPERATING LEASE PAYMENTS	OPERATING SUBLEASE RECEIPTS
	(IN THOUSANDS)	
1999.....	\$367	\$ 18
2000.....	385	
2001.....	75	
2002.....	1	
	-----	---
	\$828	\$ 18
	-----	---
	-----	---

In January 1999, the Company amended its operating lease to increase the amount of its current office space and extend the term through 2004. This increased the minimum operating lease payments to approximately \$2.1 million.

Rent expense under noncancelable operating leases amounted to approximately \$7,000 for the period from February 26, 1996 (inception) to September 30, 1996, approximately \$38,000 and \$145,000 for the years ended September 30, 1997 and 1998, respectively. Rent expense amounted to approximately \$29,000 and \$70,000 for the three months ended December 31, 1997 and 1998, respectively (unaudited).

# F5 NETWORKS, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. COMMITMENTS: (CONTINUED) The Company leases certain equipment under a capital lease which expires in 1999. Future minimum lease payments and the present value of the net minimum lease payments for capital lease obligations as of September 30, 1998 are as follows.

	CAPITAL LEASE
	(IN THOUSANDS)
Future minimum lease payments.....	\$ 22
Less amounts representing interest.....	(3)
	--
Obligations under capital lease.....	\$ 19
	--
	--

## 10. RELATED PARTY TRANSACTIONS:

In September 1996, the Company sold certain equipment to a related party for approximately \$39,000, which included relief of a liability of approximately \$2,000 and a receivable of approximately \$7,000. The Company then leased back this and additional equipment from the related party under a capital lease of approximately \$43,000. The Company recorded a deferred gain of approximately \$5,000 on this sale leaseback transaction to be recognized over the term of the lease using the straight-line method. The unrealized portion of the deferred gain of approximately \$2,000 and \$5,000 has been included in accrued liabilities at September 30, 1997 and 1996, respectively. At September 30, 1996, approximately \$7,000 of receivables from the related party, related to the sale of equipment, are included in other current assets. In 1997, the Company recognized approximately \$2,000 of the deferred gain on the sale leaseback transaction.

In August 1997, the Company entered into a capital lease of office equipment of approximately \$11,000 from a related party. In January 1998, the Company loaned \$10,000 to an officer of the Company under a note agreement bearing interest at 9.5% which was originally due in January 1999 and was extended to January 2000. At September 30, 1998, this note and accrued interest have been included in other current assets. Additionally, approximately \$14,000 of employee receivables have been included in other current assets at September 30, 1998.

In March 1999, the Company issued 150,000 shares of common stock to an officer of the Company in exchange for a note receivable. These shares were acquired by exercising stock options that vest over a period of four years. The note bears interest at a rate of 4.83%, is collateralized by the shares and is due in 2003. Under the pledge agreement, the Company has the obligation to repurchase any remaining unvested shares, and the note becomes due upon the officer's termination. Further, the shares may not be transferred until they are vested and paid for.

# F5 NETWORKS, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 11. SUPPLEMENTAL CASH FLOW INFORMATION:

Supplemental disclosure of cash flow information is summarized below for the years ended September 30, 1997 and 1998, for the period from February 26, 1996 (inception) to September 30, 1996, and for the three months ended December 31, 1997 and 1998:

	PERIOD FROM FEBRUARY 26, 1996 (INCEPTION) TO SEPTEMBER 30, 1996 -----	YEAR ENDED SEPTEMBER 30, ----- 1997      1998 ---		THREE MONTHS ENDED DECEMBER 31, ----- 1997      1998 -----	
		(IN THOUSANDS)		(UNAUDITED) (UNAUDITED)	
Noncash investing and financing activities:					
Equipment obtained through capital lease.....	\$43	\$	11		
Disposal of property and equipment for note and relief of accounts payable.....	10				
Deferred gain on sale leaseback.....	5				
Series A Convertible Preferred Stock issued for note.....	90				
Conversion of note payable and related accrued interest to Series B Convertible Preferred Stock.....			\$520	\$520	
Value ascribed to warrants in conjunction with sale of Convertible Preferred Shares.....		42	292	292	
Value ascribed to warrants issued with note payable.....		109			
Conversion of note payable to common stock.....			209	209	
Unearned compensation.....	4	238	1,945	60	1,\$330
Write-off of accounts receivable.....			30		78
Cash paid for interest.....		19	30	10	1

**SHARES**

[LOGO]

**COMMON STOCK**

**PROSPECTUS**

**HAMBRECHT & QUIST  
BANCOSTON ROBERTSON STEPHENS  
DAIN RAUSCHER WESSELS  
A DIVISION OF DAIN RAUSCHER INCORPORATED**

, 1999

YOU SHOULD RELY ONLY ON INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION DIFFERENT FROM THAT CONTAINED IN THIS PROSPECTUS. WE ARE OFFERING TO SELL, AND SEEKING OFFERS TO BUY, SHARES OF COMMON STOCK ONLY IN JURISDICTIONS WHERE OFFERS AND SALES ARE PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS ACCURATE ONLY AS OF THE DATE OF THIS PROSPECTUS, REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS OR OF ANY SALE OF OUR COMMON STOCK.

NO ACTION IS BEING TAKEN IN ANY JURISDICTION OUTSIDE THE UNITED STATES TO PERMIT A PUBLIC OFFERING OF THE COMMON STOCK OR POSSESSION OR DISTRIBUTION OF THIS PROSPECTUS IN ANY SUCH JURISDICTION. PERSONS WHO COME INTO POSSESSION OF THIS PROSPECTUS IN JURISDICTIONS OUTSIDE THE UNITED STATES ARE REQUIRED TO INFORM THEMSELVES ABOUT AND TO OBSERVE ANY RESTRICTIONS AS TO THIS OFFERING AND THE DISTRIBUTION OF THIS PROSPECTUS APPLICABLE TO THAT JURISDICTION.

UNTIL , 1999, ALL DEALERS THAT BUY, SELL OR TRADE IN OUR COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE DEALERS' OBLIGATION TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

**PART II**  
**INFORMATION NOT REQUIRED IN PROSPECTUS**

**ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION**

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by the Company in connection with the sale of common stock being registered. All amounts are estimates except the SEC registration fee and the NASD filing fee.

SEC registration fee.....	\$ 11,120
NASD filing fee.....	4,500
Nasdaq National Market listing fee.....	95,000
Printing and engraving costs.....	120,000
Legal fees and expenses.....	350,000
Accounting fees and expenses.....	200,000
Blue Sky fees and expenses.....	5,000
Transfer Agent and Registrar fees.....	10,000
Miscellaneous expenses.....	54,380
	-----
Total.....	\$ 850,000
	-----
	-----

**ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS**

Sections 23B.08.500 through 23.B.08.600 of the Washington Business Corporation Act (the "WBCA") authorize a court to award, or a corporation's board of directors to grant, indemnification to directors and officers on terms sufficiently broad to permit indemnification under certain circumstances for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act"). The directors and officers of the registrant also may be indemnified against liability they may incur for serving in that capacity pursuant to a liability insurance policy maintained by the registrant for such purpose.

Section 23B.08.320 of the WBCA authorizes a corporation to limit a director's liability to the corporation or its shareholders for monetary damages for acts or omissions as a director, except in certain circumstances involving intentional misconduct, knowing violations of law or illegal corporate loans or distributions, or any transaction from which the director personally receives a benefit in money, property or services to which the director is not legally entitled. Section XA of the registrant's Second Amended and Restated Articles of Incorporation, as amended by Articles of Amendment (Exhibit 3.1 hereto) contains provisions implementing, to the fullest extent permitted by Washington law, such limitations on a director's liability to the registrant and its shareholders.

The registrant has entered into certain indemnification agreements with its directors and certain of its officers, the form of which is attached as Exhibit 10.1 to this Registration Statement and incorporated herein by reference. The indemnification agreements provide the registrant's directors and certain of its officers with indemnification to the maximum extent permitted by the WBCA.

The Underwriting Agreement (Exhibit 1.1 hereto) provides for indemnification by the Underwriters of the registrant and its executive officers and directors and by the registrant of the Underwriters, for certain liabilities, including liabilities arising under the Securities Act, in connection with matters specifically provided in writing by the Underwriters for inclusion in this Registration Statement.

**ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES**

During the past three years, F5 has issued unregistered securities to a limited number of persons, as described below. None of these transactions involved any underwriters, underwriting discounts or commissions, or any public offering, and F5 believes that each transaction was exempt from the

registration requirements of the Securities Act by virtue of Section 4(2) thereof, Regulation D promulgated thereunder or Rule 701 pursuant to compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of securities in each of these transactions represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates and instruments issued in such transactions. All recipients had adequate access to information about F5, through their relationships with F5.

Since March 1, 1996, F5 has issued and sold the following unregistered securities:

(1) From March 1, 1996 to March 1, 1999, F5 granted stock options to purchase an aggregate of 1,488,000 shares of common stock at exercise prices ranging from \$0.05 to \$5.00 per share to employees, consultants, directors and other service providers pursuant to F5's 1998 Equity Incentive Plan, Amended and Restated 1996 Stock Option Plan and Amended and Restated Directors' Nonqualified Stock Option Plan.

(2) In May, August and December 1996 and April 1997, F5 sold an aggregate of 400,000 shares of Series A Preferred Stock to certain investors at an aggregate purchase price of \$1,200,000 or \$3.00 per share.

(3) From April 16, 1997 to February 25, 1999, F5 has issued warrants to purchase an aggregate of 2,212,500 shares of common stock with a weighted average exercise price of \$0.75.

(4) In September, October and November 1997, F5 sold an aggregate of 1,250,000 shares of Series B Preferred Stock to certain investors at an aggregate purchase price of \$2,000,000 or \$1.60 per share.

(5) On April 15, 1998, F5 sold an aggregate of 156,250 shares of Series C Preferred Stock to certain investors at an aggregate purchase price of \$1,500,000 or \$9.60 per share.

(6) On August 21, 1998, F5 sold an aggregate of 1,138,438 shares of Series D Preferred Stock to certain investors at an aggregate purchase price of \$7,729,994 or \$6.79 per share.

## **ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

### **(a) EXHIBITS**

- 1.1\* Form of Underwriting Agreement.
- 3.1 Amended and Restated Articles of Incorporation of the Registrant, as amended.
- 3.2 Form of Second Amended and Restated Articles of Incorporation to be filed upon the closing of the offering made pursuant to this Registration Statement.
- 3.3 Bylaws of the Registrant, as currently in effect.
- 3.4 Form of Amended and Restated Bylaws of the Registrant to be filed upon the closing of the offering made pursuant to this Registration Statement.
- 4.1 Specimen Common Stock Certificate.
- 5.1\* Opinion of Cooley Godward LLP.
- 10.1 Form of Indemnification Agreement between the Registrant and each of its directors and certain of its officers.
- 10.2 1998 Equity Incentive Plan.
- 10.3 Form of Option Agreement under the 1998 Equity Incentive Plan.
- 10.4 1999 Employee Stock Purchase Plan.
- 10.5 Amended and Restated Directors' Nonqualified Stock Option Plan.
- 10.6 Form of Option Agreement under the Amended and Restated Directors' Nonqualified Stock Option Plan.



- 10.7 Amended and Restated 1996 Stock Option Plan.
- 10.8 Form of Option Agreement under the Amended and Restated 1996 Stock Option Plan.
- 10.9 1999 Non-Employee Directors' Stock Option Plan.
- 10.10 Form of Option Agreement under 1999 Non-Employee Directors' Stock Option Plan.
- 10.11 Lease Agreement, dated October 9, 1997, between the Registrant and First Avenue West Building L.L.C.
- 10.12 First Amendment to Lease Agreement, dated July 23, 1998 between Registrant and First Avenue West Building L.L.C.
- 10.13 Second Amendment to Lease Agreement, dated September 30, 1998 between Registrant and First Avenue West Building L.L.C.
- 10.14 Third Amendment to Lease Agreement, dated January 6, 1999, between the Registrant and First Avenue West Building L.L.C.
- 10.15 Business Loan Agreement, dated October 23, 1997, between Registrant and Silicon Valley Bank, as amended by that certain Loan Modification Agreement, dated July 14, 1998 by and between Registrant and Silicon Valley Bank.
- 10.16 Agreement, dated February 19, 1999, between the Registrant and Steven Goldman.
- 10.17 Form of Common Stock Purchase Warrant.
- 10.18 Common Stock Warrant, dated March 15, 1997 between Registrant and Britannia Holdings Limited.
- 10.19 Common Stock Warrant, dated August 5, 1997, between Registrant and Britannia Holdings Limited.
- 10.20 Common Stock Warrant, dated February 25, 1999, between Registrant and PSINet, Inc., as amended.
- 10.21 Investor Rights Agreement, dated August 21, 1998, between Registrant and certain holders of the Registrant's Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock.
- 10.22 Promissory Term Note, dated January 6, 1998, between Registrant and Jeffrey S. Hussey, as amended.
- 10.23\* Promissory Note, dated March 8, 1999, between Registrant and Robert J. Chamberlain.
- 23.1 Consent of PricewaterhouseCoopers LLP, Independent Accountants.
- 23.2\* Consent of Counsel (included in Exhibit 5.1).
- 24.1 Power of Attorney (contained on signature page).
- 27.1 Financial Data Schedule.

\* To be filed by amendment.

## ITEM 17. UNDERTAKINGS

The registrant hereby undertakes to provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification by the registrant for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions referenced in Item 14 of this Registration Statement or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for

indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered hereunder, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of Prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of Prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act will be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of Prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereinto duly authorized, in the City of Seattle, State of Washington, on the 7th day of April, 1999.

F5 NETWORKS, INC.

By: /s/ JEFFREY S. HUSSEY

-----  
Jeffrey S. Hussey  
CHIEF EXECUTIVE OFFICER AND PRESIDENT

## POWER OF ATTORNEY

Each person whose individual signature appears below hereby authorizes and appoints Jeffrey S. Hussey and Robert J. Chamberlain, and each of them, with full power of substitution and resubstitution and full power to act without the other, as his true and lawful attorney-in-fact and agent to act in his name, place and stead and to execute in the name and on behalf of each person, individually and in each capacity stated below, and to file, any and all amendments to this Registration Statement, including any and all post-effective amendments and amendments thereto and any registration statement relating to the same offering as this Registration Statement that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in fact and agents, and each of them, full power and authority to do and perform each and every act and thing, ratifying and confirming all that said attorneys-in fact and agents or any of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
-----	-----	-----
/s/ JEFFREY S. HUSSEY ----- Jeffrey S. Hussey	Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)	April 7, 1999
/s/ ROBERT J. CHAMBERLAIN ----- Robert J. Chamberlain	Vice President of Finance, Chief Financial Officer and Treasurer (Principal Finance and Accounting Officer)	April 7, 1999
/s/ CARLTON G. AMDAHL ----- Carlton G. Amdahl	Director	April 7, 1999
/s/ KIMBERLY D. DAVIS ----- Kimberly D. Davis	Director	April 7, 1999
/s/ ALAN J. HIGGINSON ----- Alan J. Higginson	Director	April 7, 1999
/s/ SONJA L. HOEL ----- Sonja L. Hoel	Director	April 7, 1999
/s/ KENT L. JOHNSON ----- Kent L. Johnson	Director	April 7, 1999

**REPORT ON FINANCIAL STATEMENT SCHEDULE AND  
CONSENT OF INDEPENDENT AUDITORS**

**EXHIBIT INDEX**

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- 24.1 Power of Attorney (contained on signature page).
- 27.1 Financial Data Schedule.

\* To be filed by amendment.

**CERTIFICATE OF RESTATEMENT OF**

**ARTICLES OF INCORPORATION OF**

**F5 LABS, INC.**

Pursuant to the provisions of the Washington Business Corporation Act, RCW 23B.10.070, the following Certificate of Restatement of the Articles of Incorporation of F5 Labs, Inc. (the "Corporation") is submitted for filing.

FIRST: The name of this corporation is F5 Labs, Inc. The original Articles of Incorporation of F5 Labs, Inc. was filed with the Secretary of State of the State of Washington on February 26, 1996.

SECOND: The Restated Articles of Incorporation of F5 Labs, Inc. in the form attached hereto as Exhibit A have been duly adopted by the Board of Directors of the Corporation on July 27, 1998 and duly approved in accordance with the provisions of RCW 23B.10.030, 23B.10.040 and 23B.10.070 by the shareholders of the Corporation.

THIRD: The Restated Articles of Incorporation so adopted reads in full as set forth in Exhibit A attached hereto and is hereby incorporated herein by this reference.

FOURTH: The amendments contained in the Restated Articles of Incorporation do not provide for any exchange, classification or cancellation of issued shares.

IN WITNESS WHEREOF, F5 Labs, Inc. has caused this Certificate of Restatement of Articles of Incorporation to be signed by the President this 20th day of August, 1998.

**F5 Labs, Inc.**

*By /s/ Jeffrey Hussey*

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*President*

**EXHIBIT A**

**RESTATED ARTICLES OF INCORPORATION**

**OF**

**F5 LABS, INC.**

**I.**

The name of this Corporation (hereinafter called the or this "Corporation") is F5 LABS, INC.

**II.**

The address of the registered office of this Corporation in the State of Washington is F5 Labs, Inc., 200 First Avenue West, Suite 500, Seattle, WA 98119, and the name of the registered agent of this Corporation in the State of Washington at such address is Joann Reiter.

**III.**

The purpose of this Corporation is to engage in any lawful act or activity for which corporations may be organized under the Washington Business Corporation Act.

**IV.**

A. This Corporation is authorized to issue two classes of shares to be designated, respectively, Preferred Stock ("Preferred Stock") and Common Stock ("Common Stock"). The total number of shares of capital stock that this Corporation shall have authority to issue is sixteen million (16,000,000). The total number of shares of Preferred Stock this Corporation shall have authority to issue is four million (4,000,000). The total number of shares of Common Stock this Corporation shall have authority to issue is twelve million (12,000,000). The Preferred Stock shall have no par value, and the Common Stock shall have no par value.

B. The Preferred Stock shall be divided into series. The first series shall consist of four hundred thousand (400,000) shares and is designated "Series A Preferred Stock." The second series shall consist of one million two hundred fifty thousand (1,250,000) shares and is designated "Series B Preferred Stock." The third series shall consist of one hundred fifty six thousand two hundred fifty (156,250) shares and is designated "Series C Preferred Stock." The fourth series shall consist of one million one hundred four thousand four hundred twenty-nine (1,138,438) shares and is designated "Series D Preferred Stock." The remaining shares of Preferred Stock may be issued from time to time in one or more series. The Board of Directors of the Corporation (the "Board of Directors") is expressly authorized to provide for the issue of all or any of the remaining shares of the Preferred Stock in one or more series, and to fix the number of shares and to determine or alter for each such series, such voting powers, full or limited, or no voting powers, and such designations, preferences, and relative, participating, optional or other rights and such qualifications, limitations or restrictions thereof, as shall be

**1.**

stated and expressed in the resolution or resolutions adopted by the Board of Directors providing for the issue of such shares (a "Preferred Stock Designation") and as may be permitted by the Washington Business Corporation Act. The Board of Directors is also expressly authorized to increase or decrease (but not below the number of shares of such series then outstanding) the number of shares of any series other than the Series A, B, C or D Preferred Stock subsequent to the issue of shares of that series. In case the number of shares of any such series shall be so decreased, the shares constituting such decrease shall resume the status that they had prior to the adoption of the resolution originally fixing the number of shares of such series.

C. The powers, preferences, rights, restrictions, and other matters relating to the Series A, B, C and D Preferred Stock are as follows:

1. DIVIDENDS.

a. The holders of the Series D Preferred Stock shall be entitled to receive dividends at the rate of sixty-eight cents (\$0.68), per share (as adjusted for any stock dividends, combinations or splits with respect to such shares) per annum payable out of funds legally available therefor. Such dividends shall be payable only when, as, and if declared by the Board of Directors and shall be noncumulative. No dividends (other than those payable solely in the Common Stock of the Corporation) shall be paid on any Common Stock of the Corporation or Series A, B or C Preferred Stock during any fiscal year of the Corporation until dividends in the total amount of sixty-eight cents (\$0.68) per share (as adjusted for any stock dividends, combinations or splits with respect to such shares) on the Series D Preferred Stock shall have been paid or declared and set apart during that fiscal year. No dividends shall be paid on any share of Common Stock unless a dividend (including the amount of any dividends paid pursuant to the above provisions of this Section C.1) is paid with respect to all outstanding shares of Series A, B, C and D Preferred Stock in an amount for each such share of Series A, B, C and D Preferred Stock equal to or greater than the aggregate amount of such dividends for all shares of Common Stock into which each such share of Series A, B, C and Series D Preferred Stock could then be converted. No right shall accrue to holders of shares of Series A, B, C and D Preferred Stock by reason of the fact that dividends on said shares are not declared in any prior year, nor shall any undeclared or unpaid dividend bear or accrue any interest.

b. In the event the Corporation shall declare a distribution (other than any distribution described in Section C.2 or C.3) payable in securities of other persons, evidences of indebtedness issued by the Corporation or other persons, assets (excluding cash dividends) or options or rights to purchase any such securities or evidences of indebtedness, then, in each such case the holders of the Series A, B, C and D Preferred Stock shall be entitled to a proportionate share of any such distribution as though the holders of the Series A, B, C and D Preferred Stock were the holders of the number of shares of Common Stock of the Corporation into which their respective shares of Series A, B, C and D Preferred Stock are convertible as of the record date fixed for the determination of the holders of Common Stock of the Corporation entitled to receive such distribution.



## 2. LIQUIDATION PREFERENCE.

a. In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of the Series D Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Corporation to the holders of the Common Stock and Series A, B and C Preferred Stock by reason of their ownership thereof, the amount of thirteen dollars and fifty-eight cents (\$13.58) per share (as adjusted for any stock dividends, combinations or splits with respect to such shares) plus all declared but unpaid dividends (as adjusted for any stock dividends, combinations or splits with respect to such shares). If upon the occurrence of such event, the assets and funds thus distributed among the holders of the Series D Preferred Stock shall be insufficient to permit the payment to such holders of the full aforesaid preferential amount, then the entire assets and funds of the Corporation legally available for distribution shall be distributed ratably among the holders of the Series D Preferred Stock in proportion to the preferential amount each such holder is otherwise entitled to receive.

b. After payment to the holders of the Series D Preferred Stock of the amounts set forth in Section C.2.a above, the holders of the Series B Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Corporation to the holders of the Series A and C Preferred Stock and the Common Stock by reason of their ownership thereof, the amount of one dollar and sixty cents (\$1.60) per share (as adjusted for any stock dividends, combinations or splits with respect to such shares) plus all declared and unpaid dividends. If upon the occurrence of such event, the assets and funds thus distributed among the holders of the Series B Preferred Stock shall be insufficient to permit the payment to such holders of the full aforesaid preferential amount, then the entire assets and funds of the Corporation legally available for distribution shall be distributed ratably among the holders of the Series B Preferred Stock in proportion to the preferential amount each such holder is otherwise entitled to receive.

c. After payment to the holders of the Series B Preferred Stock of the amounts set forth in Section C.2.b above, the holders of the Series A and C Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Corporation to the holders of the Common Stock by reason of their ownership thereof, the amount of three dollars (\$3.00) and nine dollars and sixty cents (\$9.60) per share (as adjusted for any stock dividends, combinations or splits with respect to such shares), respectively, plus all declared and unpaid dividends; PROVIDED, HOWEVER, that in the event of a liquidation, dissolution or winding up of the Corporation where the valuation of the Corporation in connection with such event is less than twenty million dollars (\$20,000,000), then the holders of the Series A Preferred Stock shall receive the preferential amount described above, and the assets of the Corporation available for distribution shall thereafter be distributed ratably among the holders of the Common Stock and the Series A Preferred Stock based on the number of shares of Common Stock held by each (assuming full conversion of all shares of Series A Preferred Stock then outstanding) pursuant to Section 2.d; PROVIDED, FURTHER, that in the event of a liquidation, dissolution or winding up of the Corporation where the valuation of the Corporation in connection with such event is equal to or greater than twenty million dollars (\$20,000,000), then the holders of the Series A Preferred Stock shall not receive the preferential amount described above, but the assets of the Corporation available for distribution shall be distributed

ratably among the holders of the Common Stock and the Series A Preferred Stock based on the number of shares of Common Stock held by each (assuming full conversion of all shares of Series A Preferred Stock then outstanding) pursuant to Section 2.d. If upon the occurrence of such event, the assets and funds thus distributed among the holders of the Series A and C Preferred Stock shall be insufficient to permit the payment to such holders of the full aforesaid preferential amount, then the entire assets and funds of the Corporation legally available for distribution shall be distributed ratably among the holders of the Series A and C Preferred Stock in proportion to the preferential amount each such holder is otherwise entitled to receive.

d. After payment to the holders of the Series A, B, C and D Preferred Stock of the amounts set forth in Sections C.2.a, C.2.b and C.2.c above and subject to the provisions of such sections, the entire remaining assets and funds of the Corporation legally available for distribution, if any, shall be distributed ratably among the holders of the Common Stock and, if applicable, the holders of the Series A Preferred Stock.

e. For purposes of this Section C.2, (i) any acquisition of the Corporation by means of merger or other form of corporate reorganization in which outstanding shares of the Corporation are exchanged for securities or other consideration issued, or caused to be issued, by the acquiring corporation or its subsidiary (other than a mere reincorporation transaction) that results in the shareholders owning less than fifty percent (50%) of the surviving company or (ii) a sale of all or substantially all of the assets of the Corporation, shall be treated as a liquidation, dissolution or winding up of the Corporation and shall entitle the holders of Series A, B, C and D Preferred Stock and Common Stock to receive at the closing in cash, securities or other property (valued as provided in Section C.2(f) below) amounts as specified in Sections C.2.a, C.2.b, C.2.c and C.2.d above.

f. Whenever the distribution provided for in this Section C.2 shall be payable in securities or property other than cash, the value of such distribution shall be the fair market value of such securities or other property as determined in good faith by the Board of Directors.

### 3. REDEMPTION.

a. If the holders of at least an aggregate of two-thirds (2/3) of the Series D Preferred Stock outstanding deliver a request for redemption of the Series D Preferred Stock on or prior to August 01, 2003, this Corporation shall redeem, from any source of funds legally available therefor, all of the Series D Preferred Stock in three (3) annual installments beginning on August 24, 2003, and continuing thereafter on each August \_\_\_\_ (each, a "Series D Redemption Date") until August 24, 2005, whereupon the remaining Series D Preferred Stock outstanding shall be redeemed. The Corporation shall effect such redemptions on the applicable Series D Redemption Dates by paying in cash in exchange for the shares of Series D Preferred Stock to be redeemed a sum equal to six dollars and seventy-nine cents (\$6.79) per share of Series D Preferred Stock plus all declared and unpaid dividends (as adjusted for any stock dividends, combinations or splits with respect to such shares) (the "Series D Redemption Price"). The number of shares of Series D Preferred Stock that the Corporation shall be required under this Section C.3.a to redeem on any one (1) Series D Redemption Date shall be equal to the amount determined by dividing (i) the aggregate number of shares of Series D Preferred Stock

outstanding immediately prior to the Series D Redemption Date by (ii) the number of remaining Series D Redemption Dates (including the Series D Redemption Date to which such calculation applies). Any redemption effected pursuant to this Section C.3.a shall be made on a pro-rata basis among the holders of the Series D Preferred Stock in proportion to the shares of Series D Preferred Stock then held by them.

b. As used herein and in Section C.3.c below, the term "Redemption Date" shall refer to the "Series D Redemption Date," and the term "Redemption Price" shall refer to each of the "Series D Redemption Price." At least fifteen (15) but no more than thirty (30) days prior to each Redemption Date written notice shall be mailed, first class postage prepaid, to each holder of record (at the close of business on the business day next preceding the day on which notice is given) of the Series D Preferred Stock to be redeemed, at the address last shown on the records of the Corporation for such holder, notifying such holder of the redemption to be effected, specifying the number of shares to be redeemed from such holder, the Redemption Date, the Redemption Price, the place at which payment may be obtained and calling upon such holder to surrender to the Corporation, in the manner and at the place designated, his certificate or certificates representing the shares to be redeemed (the "Redemption Notice"). Except as provided in Section C.3.c, on or within five (5) days after the Redemption Date, each holder of Series D Preferred Stock to be redeemed shall surrender to this Corporation the certificate or certificates representing such shares, in the manner and at the place designated in the Redemption Notice, and thereupon the Redemption Price of such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate shall be canceled. In the event less than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

c. From and after the Redemption Date, unless there shall have been a default in payment of the Redemption Price, all rights of the holders of shares of Series D Preferred Stock designated for redemption in the Redemption Notice as holders of Series D Preferred Stock (except the right to receive the Redemption Price without interest upon surrender of their certificate or certificates) shall cease with respect to such shares, and such shares shall not thereafter be transferred on the books of the Corporation or be deemed to be outstanding for any purpose whatsoever. If the funds of the Corporation legally available for redemption of shares of Series D Preferred Stock on any Redemption Date are insufficient to redeem the total number of shares of Series D Preferred Stock to be redeemed on such date, those funds which are legally available will be used to redeem the maximum possible number of such shares ratably among the holders of such shares to be redeemed based upon their holdings of Series D Preferred Stock. The shares of Series D Preferred Stock not redeemed shall remain outstanding and entitled to all the rights and preferences provided herein. At any time thereafter when additional funds of the Corporation are legally available for the redemption of shares of Series D Preferred Stock such funds will immediately be used to redeem the balance of the shares which the Corporation has become obliged to redeem on any Redemption Date, but which it has not redeemed.

d. On or prior to each Redemption Date, the Corporation shall deposit the Redemption Price of all shares of Series D Preferred Stock designated for redemption in the Redemption Notice and not yet redeemed with a bank or trust corporation having aggregate

capital and surplus in excess of one hundred million dollars (\$100,000,000) as a trust fund for the benefit of the respective holders of the shares designated for redemption and not yet redeemed, with irrevocable instructions and authority to the bank or trust corporation to pay the Redemption Price for such shares to their respective holders on or after the Redemption Date upon receipt of notification from the Corporation that such holder has surrendered his share certificate to the Corporation pursuant to Section C.3.b above. As of the Redemption Date, the deposit shall constitute full payment of the shares to their holders, and from and after the Redemption Date the shares so called for redemption shall be redeemed and shall be deemed to be no longer outstanding, and the holders thereof shall cease to be shareholders with respect to such shares and shall have no rights with respect thereto except the rights to receive from the bank or trust corporation payment of the Redemption Price of the shares, without interest, upon surrender of their certificates therefor. Such instructions shall also provide that any moneys deposited by the Corporation pursuant to this Section C.3.d for the redemption of shares thereafter converted into shares of the Corporation's Common Stock pursuant to Section C.5 hereof prior to the Redemption Date shall be returned to the Corporation forthwith upon such conversion. The balance of any moneys deposited by the Corporation pursuant to this Section C.3.d remaining unclaimed at the expiration of two (2) years following the Redemption Date shall thereafter be returned to the Corporation upon its request expressed in a resolution of its Board of Directors.

#### 4. VOTING RIGHTS; DIRECTORS.

a. Each holder of shares of the Series A, B, C and D Preferred Stock shall be entitled to the number of votes equal to the number of shares of Common Stock into which such shares of Series A, B, C and D Preferred Stock could be converted and shall have voting rights and powers equal to the voting rights and powers of the Common Stock (except as otherwise expressly provided herein or as required by law, voting together with the Common Stock as a single class) and shall be entitled to notice of any shareholders' meeting in accordance with the Bylaws of the Corporation. Fractional votes shall not, however, be permitted and any fractional voting rights resulting from the above formula (after aggregating all shares into which shares of Series A, B, C and D Preferred Stock held by each holder could be converted) shall be rounded to the nearest whole number (with one-half being rounded upward). Each holder of Common Stock shall be entitled to one (1) vote for each share of Common Stock held.

b. The Board of Directors shall consist of six (6) members. The holders of Series D Preferred Stock, as a class, shall be entitled to elect two (2) members of the Board of Directors at each meeting or pursuant to each consent of the Corporation's shareholders for the election of directors. The holders of Common Stock, as a class, shall be entitled to elect two (2) members of the Board of Directors at each meeting or pursuant to each consent of the Corporation's shareholders for the election of directors. The holders of the Common Stock and the Series A, B, C and D Preferred Stock, voting together as a single class, shall be entitled to elect two (2) members of the Board of Directors at each meeting or pursuant to each consent of the Corporation's shareholders for the election of directors.

c. In the case of any vacancy in the office of a director occurring among the directors elected by the holders of the Series D Preferred Stock, the Common Stock or the Series A, B, C and D Preferred Stock and Common Stock pursuant to the second, third and fourth sentences of Section C.4.b hereof, the remaining director or directors so elected by the

holders of the Series D Preferred Stock, the Common Stock or the Series A, B, C and D Preferred Stock and Common Stock may, by affirmative vote of a majority thereof (or the remaining director so elected if there is but one (1), or if there is no such director remaining, by the affirmative vote of the holders of a majority of the shares of that class) elect a successor or successors to hold the office for the unexpired term of the director or directors whose place or places shall be vacant. Any director who shall have been elected by the holders of the Series D Preferred Stock, the Common Stock or the Series A, B, C and D Preferred Stock and Common Stock or any director so elected as provided in the preceding sentence hereof, may be removed during the aforesaid term of office, whether with or without cause, only by the affirmative vote of the holders of a majority of the Series D Preferred Stock, the Common Stock or the Series A, B, C and D Preferred Stock and Common Stock, voting together as a single class, as the case may be.

## 5. CONVERSION.

The holders of the Series A, B, C and D Preferred Stock shall have conversion rights as follows (the "Conversion Rights"):

### a. RIGHT TO CONVERT.

i. Each share of Series A Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share, at the office of the Corporation or any transfer agent for such stock, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing three dollars (\$3.00) by the Conversion Price applicable to such share, determined as hereinafter provided, in effect on the date the certificate is surrendered for conversion. The price at which shares of Common Stock shall be deliverable upon conversion of shares of the Series A Preferred Stock (the "Series A Conversion Price") shall initially be one dollar (\$1.00) per share of Common Stock (which price reflects a past adjustment for the stock dividend of two (2) shares of Common Stock paid on each share of Common Stock outstanding as of December 2, 1996). Such initial Series A Conversion Price shall be adjusted as hereinafter.

ii. Each share of Series B Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such, at the office of the Corporation or any transfer agent for such stock, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing one dollar and sixty cents (\$1.60) by the Conversion Price applicable to such share, determined as hereinafter provided, in effect on the date the certificate is surrendered for conversion. The price at which shares of Common Stock shall be deliverable upon conversion of shares of the Series B Preferred Stock (the "Series B Conversion Price") shall initially be one dollar and sixty cents (\$1.60) per share of Common Stock. Such initial Series B Conversion Price shall be adjusted as hereinafter provided.

iii. Each share of Series C Preferred Stock shall be initially convertible, at the option of the holder thereof, at any time after the date of issuance of such, at the office of the Corporation or any transfer agent for such stock, into three (3) fully paid and nonassessable shares of Common Stock plus such number of fully paid and nonassessable shares of Common Stock as is determined by multiplying three (3) by the difference between (A) the

quotient of three dollars and twenty cents (\$3.20) divided by the Conversion Price applicable to such share, determined as hereinafter provided, in effect on the date the certificate is surrendered for conversion and (B) one (1). The price at which shares of Common Stock shall be deliverable upon conversion of shares of the Series C Preferred Stock (the "Series C Conversion Price") shall initially be three dollars and twenty cents (\$3.20) per share of Common Stock. Such initial Series C Conversion Price shall be adjusted as hereinafter provided.

iv. Each share of Series D Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such, at the office of the Corporation or any transfer agent for such stock, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing six dollars and seventy-nine cents (\$6.79) by the Conversion Price applicable to such share, determined as hereinafter provided, in effect on the date the certificate is surrendered for conversion. The price at which shares of Common Stock shall be deliverable upon conversion of shares of the Series D Preferred Stock (the "Series D Conversion Price") shall initially be six dollars and seventy-nine cents (\$6.79) per share of Common Stock. Such initial Series D Conversion Price shall be adjusted as hereinafter provided.

**b. AUTOMATIC CONVERSION.**

i. Each share of Series A Preferred Stock shall automatically be converted into fully paid and nonassessable shares of Common Stock at the then-effective Series A Conversion Price immediately upon (i) the closing of the sale of the Corporation's Common Stock in a firm commitment, underwritten public offering registered under the Securities Act of 1933, as amended (the "Securities Act"), other than a registration relating solely to a transaction under Rule 145 under such Act (or any successor thereto) or to an employee benefit plan of the Corporation, at a public offering price (prior to underwriters' discounts and expenses) equal to or exceeding nine dollars (\$9.00) per share of Common Stock (as adjusted for any stock dividends, combinations or splits with respect to such shares) and the aggregate proceeds to the Corporation and/or any selling shareholders (after deduction for underwriters' discounts and expenses relating to the issuance, including without limitation fees of the Corporation's counsel) of which exceed twelve million dollars (\$12,000,000) or (ii) the conversion of two-thirds (2/3) of the shares of Series A Preferred Stock originally issued (as adjusted for any stock dividends, combinations or splits with respect to such shares).

ii. Each share of Series B Preferred Stock shall automatically be converted into fully paid and nonassessable shares of Common Stock at the then-effective Series B Conversion Price immediately upon (i) the closing of the sale of the Corporation's Common Stock in a firm commitment, underwritten public offering registered under the Securities Act, other than a registration relating solely to a transaction under Rule 145 under such Act (or any successor thereto) or to an employee benefit plan of the Corporation, at a public offering price (prior to underwriters' discounts and expenses) equal to or exceeding six dollars and forty cents (\$6.40) per share of Common Stock (as adjusted for any stock dividends, combinations or splits with respect to such shares) and the aggregate proceeds to the Corporation and/or any selling shareholders (after deduction for underwriters' discounts and expenses relating to the issuance, including without limitation fees of the Corporation's counsel) of which exceed eight million dollars (\$8,000,000) or (ii) the conversion of two-thirds (2/3) of the shares

of Series B Preferred Stock originally issued (as adjusted for any stock dividends, combinations or splits with respect to such shares).

iii. Each share of Series C Preferred Stock shall automatically be converted into fully paid and nonassessable shares of Common Stock at the then-effective Series C Conversion Price immediately upon (i) the closing of the sale of the Corporation's Common Stock in a firm commitment, underwritten public offering registered under the Securities Act, other than a registration relating solely to a transaction under Rule 145 under such Act (or any successor thereto) or to an employee benefit plan of the Corporation, at a public offering price (prior to underwriters' discounts and expenses) equal to or exceeding six dollars and forty cents (\$6.40) per share of Common Stock (as adjusted for any stock dividends, combinations or splits with respect to such shares) and the aggregate proceeds to the Corporation and/or any selling shareholders (after deduction for underwriters' discounts and expenses relating to the issuance, including without limitation fees of the Corporation's counsel) of which exceed eight million dollars (\$8,000,000) or (ii) the conversion of two-thirds (2/3) of the shares of Series C Preferred Stock originally issued (as adjusted for any stock dividends, combinations or splits with respect to such shares).

iv. Each share of Series D Preferred Stock shall automatically be converted into fully paid and nonassessable shares of Common Stock at the then-effective Series D Conversion Price immediately upon (i) the closing of the sale of the Corporation's Common Stock in a firm commitment, underwritten public offering registered under the Securities Act, other than a registration relating solely to a transaction under Rule 145 under such Act (or any successor thereto) or to an employee benefit plan of the Corporation, at a public offering price (prior to underwriters' discounts and expenses) equal to or exceeding ten dollars (\$10.00) per share of Common Stock (as adjusted for any stock dividends, combinations or splits with respect to such shares) and the aggregate proceeds to the Corporation and/or any selling shareholders (after deduction for underwriters' discounts and expenses relating to the issuance, including without limitation fees of the Corporation's counsel) of which exceed fifteen million dollars (\$15,000,000) or (ii) the conversion of a majority of the shares of Series D Preferred Stock originally issued (as adjusted for any stock dividends, combinations or splits with respect to such shares).

#### c. MECHANICS OF CONVERSION.

i. Before any holder of Series A, B, C or D Preferred Stock shall be entitled to convert the same into shares of Common Stock, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent for such stock, and shall give written notice to the Corporation at such office that he elects to convert the same and shall state therein the name or names in which he wishes the certificate or certificates for shares of Common Stock to be issued. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Series A, B, C or D Preferred Stock, a certificate or certificates for the number of shares of Common Stock to which he shall be entitled as aforesaid. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of surrender of the shares of Series A, B, C or D Preferred Stock to be converted, and the person or persons entitled to receive the shares of

Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date.

ii. If the conversion is in connection with an underwritten offering of securities pursuant to the Securities Act, the conversion may, at the option of any holder tendering shares of Series A, B, C or D Preferred Stock for conversion, be conditioned upon the closing with the underwriters of the sale of securities pursuant to such offering, in which event the person(s) entitled to receive the Common Stock upon conversion of the Series A, B, C or D Preferred Stock shall not be deemed to have converted such Series A, B, C or D Preferred Stock until immediately prior to the closing of such sale of securities.

d. ADJUSTMENTS TO SERIES A, B, C OR D CONVERSION PRICES FOR CERTAIN DILUTING ISSUES.

i. SPECIAL DEFINITIONS. For purposes of this Section C.5.d, the following definitions apply:

1) "OPTIONS" shall mean rights, options, or warrants to subscribe for, purchase or otherwise acquire either Common Stock or Convertible Securities (defined below).

2) "ORIGINAL ISSUE DATE" shall mean the date on which a share of Series A, B, C, or D Preferred Stock was first issued.

3) "CONVERTIBLE SECURITIES" shall mean any evidences of indebtedness, shares (other than Common Stock and Series A, B, C, or D Preferred Stock) or other securities convertible into or exchangeable for Common Stock.

4) "ADDITIONAL SHARES OF COMMON STOCK" shall mean all shares of Common Stock issued (or, pursuant to Section C.5.d.ii, deemed to be issued) by the Corporation after the Original Issue Date, other than shares of Common Stock issued or issuable:

a) to employees, officers or directors of, or consultants or advisors to, the Corporation or any subsidiary, pursuant to stock purchase or stock option plans or other arrangements that are approved by the Board of Directors, subject to adjustment for all subdivisions and combinations;

b) pursuant to any rights or agreements outstanding as of the original issuance date of the Series D Preferred Stock or pursuant to options and warrants outstanding as of the original issuance date of the Series D Preferred Stock;

c) pursuant to a merger, consolidation, acquisition or similar business combination approved by the Board of Directors;

d) in connection with any stock split, stock dividend or recapitalization by the Corporation;



e) upon conversion of the shares of Series A, B, C or D Preferred Stock;

f) pursuant to any equipment leasing arrangement, or pursuant to debt financing from a bank or other financial institution approved by the Board of Directors;

g) pursuant to a registration statement filed by the Corporation under the Securities Act for a public offering in connection with which all outstanding shares of Series D Preferred Stock are converted to Common Stock;

h) in connection with strategic transactions involving the Corporation and other entities, including (A) joint ventures, manufacturing, marketing or distribution arrangements or (B) technology transfer or development arrangements, provided that such strategic transactions and the issuance of shares therein, have been approved by the Corporation's Board of Directors; or

i) issued upon receipt of written consent or approval of the holders of two-thirds (2/3) of the Series D Preferred Stock.

ii. **DEEMED ISSUE OF ADDITIONAL SHARES OF COMMON STOCK.** In the event the Corporation at any time or from time to time after the Original Issue Date shall issue any Options or Convertible Securities or shall fix a record date for the determination of holders of any class of securities then entitled to receive any such Options or Convertible Securities, then the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein designed to protect against dilution) of Common Stock issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date, provided that in any such case in which Additional Shares of Common Stock are deemed to be issued:

1) no further adjustments in the Series A, B, C or D Conversion Price shall be made upon the subsequent issue of Convertible Securities or shares of Common Stock upon the exercise of such Options or conversion or exchange of such Convertible Securities;

2) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase or decrease in the consideration payable to the Corporation, or decrease or increase in the number of shares of Common Stock issuable, upon the exercise, conversion or exchange thereof, the Series A, B, C or D Conversion Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities (PROVIDED, HOWEVER, that no such adjustment of the Series A, B, C or D Conversion

Price shall affect Common Stock previously issued upon conversion of the Series A, B, C or D Preferred Stock);

3) upon the expiration of any such Options or any rights of conversion or exchange under such Convertible Securities which shall not have been exercised, the Series A, B, C or D Conversion Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon such expiration, be recomputed as if:

a) in the case of Convertible Securities or Options for Common Stock the only Additional Shares of Common Stock issued were the shares of Common Stock, if any, actually issued upon the exercise of such Options or the conversion or exchange of such Convertible Securities and the consideration received therefor was the consideration actually received by the Corporation for the issue of all such Options, whether or not exercised, plus the consideration actually received by the Corporation upon such exercise, or for the issue of all such Convertible Securities which were actually converted or exchanged, plus the additional consideration, if any, actually received by the Corporation upon such conversion or exchange and

b) in the case of Options for Convertible Securities only the Convertible Securities, if any, actually issued upon the exercise thereof were issued at the time of issue of such Options, and the consideration received by the Corporation for the Additional Shares of Common Stock deemed to have been then issued was the consideration actually received by the Corporation for the issue of all such Options, whether or not exercised, plus the consideration deemed to have been received by the Corporation (determined pursuant to Section C.5.d upon the issue of the Convertible Securities with respect to which such Options were actually exercised;

4) no readjustment pursuant to clause (2) or (3) above shall have the effect of increasing the Series A, B, C or D Conversion Price to an amount which exceeds the lower of (a) the Series A, B, C or D Conversion Price on the original adjustment date, or (b) the Series A, B, C or D Conversion Price that would have resulted from any issuance of Additional Shares of Common Stock between the original adjustment date and such readjustment date; and

5) in the case of any Options which expire by their terms not more than thirty (30) days after the date of issue thereof, no adjustment of the Series A, B, C or D Conversion Price shall be made until the expiration or exercise of all such Options, whereupon such adjustment shall be made in the same manner provided in clause (3) above.

iii. ADJUSTMENT OF CONVERSION PRICE UPON ISSUANCE OF ADDITIONAL SHARES OF COMMON STOCK. In the event this Corporation, at any time after the Original Issue Date shall issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section C.5.d.ii) without consideration or for a consideration per share less than the Conversion Price with respect to any series of Preferred Stock in effect on the date of and immediately prior to such issue, then and in such event, the Conversion Price for such series of Preferred Stock shall be adjusted, concurrently with such

issue, to a price (calculated to the nearest cent) determined by multiplying such Conversion Price by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of shares of Common Stock which the aggregate consideration received by the Corporation for the total number of Additional Shares of Common Stock so issued would purchase at such Conversion Price in effect immediately prior to such issuance, and the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of Additional Shares of Common Stock so issued; PROVIDED HOWEVER, that the Conversion Price of each series of Preferred Stock shall at no time exceed the respective Original Issue Price of such series of Preferred Stock, as adjusted for stock splits, stock dividends, combinations and the like. For the purpose of the above calculation, the number of shares of Common Stock outstanding immediately prior to such issue shall be calculated on a fully diluted basis, as if all shares of Series A, B, C or D Preferred Stock and all Convertible Securities had been fully converted into shares of Common Stock immediately prior to such issuance and any outstanding warrants, options or other rights for the purchase of shares of stock or convertible securities had been fully exercised immediately prior to such issuance (and the resulting securities fully converted into shares of Common Stock, if so convertible) as of such date.

iv. DETERMINATION OF CONSIDERATION. For purposes of this Section C.5.d, the consideration received by the Corporation for the issue of any Additional Shares of Common Stock shall be computed as follows:

1) CASH AND PROPERTY. Such consideration shall:

a) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Corporation;

b) insofar as it consists of property other than cash, be computed at the fair value thereof at the time of such issue, as determined in good faith by the Board of Directors; and

c) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Corporation for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (A) and (B) above, as determined in good faith by the Board of Directors.

2) OPTIONS AND CONVERTIBLE SECURITIES. The consideration per share received by the Corporation for Additional Shares of Common Stock deemed to have been issued pursuant to Section C.5.d.ii, relating to Options and Convertible Securities, shall be determined by dividing:

a) the total amount, if any, received or receivable by the Corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein designed to protect against dilution) payable to the Corporation upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible

Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities by

b) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein designed to protect against the dilution) issuable upon the exercise of such Options or conversion or exchange of such Convertible Securities.

e. **ADJUSTMENTS TO CONVERSION PRICES FOR STOCK DIVIDENDS AND FOR COMBINATIONS OR SUBDIVISIONS OF COMMON STOCK.** In the event that this Corporation at any time or from time to time after the Original Issue Date shall declare or pay, without consideration, any dividend on the Common Stock payable in Common Stock or in any right to acquire Common Stock for no consideration, or shall effect a subdivision of the outstanding shares of Common Stock into a greater number of shares of Common Stock (by stock split, reclassification or otherwise than by payment of a dividend in Common Stock or in any right to acquire Common Stock), or in the event the outstanding shares of Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common Stock, then the Conversion Price for any series of Preferred Stock in effect immediately prior to such event shall, concurrently with the effectiveness of such event, be proportionately decreased or increased, as appropriate. In the event that this Corporation shall declare or pay, without consideration, any dividend on the Common Stock payable in any right to acquire Common Stock for no consideration, then the Corporation shall be deemed to have made a dividend payable in Common Stock in an amount of shares equal to the maximum number of shares issuable upon exercise of such rights to acquire Common Stock.

f. **ADJUSTMENTS FOR RECLASSIFICATION AND REORGANIZATION.** If the Common Stock issuable upon conversion of the Series A, B, C and D Preferred Stock shall be changed into the same or a different number of shares of any other class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares provided for in Section C.5.e above or a merger or other reorganization referred to in Section C.2.c above), the Series A, B, C and D Conversion Price then in effect shall, concurrently with the effectiveness of such reorganization or reclassification, be proportionately adjusted so that the Series A, B, C and D Preferred Stock shall be convertible into, in lieu of the number of shares of Common Stock which the holders would otherwise have been entitled to receive, a number of shares of such other class or classes of stock equivalent to the number of shares of Common Stock that would have been subject to receipt by the holders upon conversion of the Series A, B, C and D Preferred Stock immediately before that change.

g. **REORGANIZATIONS, MERGERS, CONSOLIDATIONS OR SALES OF ASSETS.** If at any time or from time to time after the Original Issue Date, there is a capital reorganization of the Common Stock (other than as defined in Section C.2.c or as recapitalization, subdivision, combination, reclassification, exchange or substitution of shares provided for elsewhere in this Section C.5) as a part of such capital reorganization, provision shall be made so that the holders of the Series A, B, C and D Preferred shall thereafter be entitled to receive upon conversion of the Series A, B, C and D Preferred the number of shares of stock or other securities or property of the Company to which a holder of the number of shares of Common Stock deliverable upon conversion would have been entitled on such capital reorganization, subject to adjustment in

respect of such stock or securities by the terms thereof. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section C.5 with respect to the rights of the holders of Series A, B, C and D Preferred after the capital reorganization to the end that the provisions of this Section C.5 (including adjustment of the Series A, B, C and D Conversion Price then in effect and the number of shares issuable upon conversion of the Series A, B, C and D Preferred) shall be applicable after that event and be as nearly equivalent as practicable.

h. NO IMPAIRMENT. The Corporation will not, by amendment of its Articles of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this Section C.5 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Series A, B, C and D Preferred Stock against impairment.

i. CERTIFICATES AS TO ADJUSTMENTS. Upon the occurrence of each adjustment or readjustment of any Conversion Price pursuant to this Section C.5, the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to each holder of Series A, B, C or D Preferred Stock a certificate executed by the Corporation's President or Chief Financial Officer setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon the written request at any time of any holder of Series A, B, C or D Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the Conversion Price for such series of Preferred Stock at the time in effect, and (iii) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of the Series A, B, C or D Preferred Stock.

j. NOTICES OF RECORD DATE. In the event that the Corporation shall propose at any time: (i) to declare any dividend or distribution upon its Common Stock, whether in cash, property, stock or other securities, whether or not a regular cash dividend and whether or not out of earnings or earned surplus; (ii) to offer for subscription pro rata to the holders of any class or series of its stock any additional shares of stock of any class or series or other rights; (iii) to effect any reclassification or recapitalization of its Common Stock outstanding involving a change in the Common Stock; or (iv) to merge or consolidate with or into any other corporation, or sell, lease or convey all or substantially all of its assets, or to liquidate, dissolve or wind up; then, in connection with each such event, the Corporation shall send to the holders of Series A, B, C and D Preferred Stock:

i. at least twenty (20) days' prior written notice of the date on which a record shall be taken for such dividend, distribution or subscription rights (and specifying the date on which the holders of Common Stock shall be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (iii) and (iv) above; and

ii. in the case of the matters referred to in (iii) and (iv) above, at least twenty (20) days' prior written notice of the date when the same shall take place (and

specifying the date on which the holders of Common Stock shall be entitled to exchange their Common Stock for securities or other property deliverable upon the occurrence of such event).

k. **ISSUE TAXES.** The Corporation shall pay any and all issue and other taxes that may be payable in respect of any issue or delivery of shares of Common Stock on conversion of Series A, B, C or D Preferred Stock pursuant hereto; **PROVIDED, HOWEVER,** that the Corporation shall not be obligated to pay any transfer taxes resulting from any transfer requested by any holder in connection with any such conversion.

l. **RESERVATION OF STOCK ISSUABLE UPON CONVERSION.** The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of the Series A, B, C and D Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series A, B, C and D Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series A, B, C and D Preferred Stock, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval of any necessary amendment to this Certificate.

m. **FRACTIONAL SHARES.** No fractional share shall be issued upon the conversion of any share or shares of Series A, B, C or D Preferred Stock. All shares of Common Stock (including fractions thereof) issuable upon conversion of more than one share of Series A, B, C or D Preferred Stock by a holder thereof shall be aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. If, after the aforementioned aggregation, the conversion would result in the issuance of a fraction of a share of Common Stock, the Corporation shall, in lieu of issuing any fractional share, pay the holder otherwise entitled to such fraction a sum in cash equal to the fair market value of such fraction on the date of conversion (as determined in good faith by the Board of Directors).

n. **NOTICES.** Any notice required by the provisions of this Section C.5 to be given to the holders of shares of Series A, B, C or D Preferred Stock shall be deemed given if deposited in the United States mail, postage prepaid, or if sent by facsimile or delivered personally by hand or nationally recognized courier and addressed to each holder of record at such holder's address or facsimile number appearing in the records of the Corporation.

## **6. RESTRICTIONS AND LIMITATIONS.**

a. The Corporation shall not, without the vote or written consent by the holders of a majority of the then outstanding shares of the Series B Preferred Stock, voting as a class:

i. Increase the authorized amount of Series B Preferred Stock or Common Stock;

- ii. Create any other class or series of stock ranking on a parity with or senior to the Series B Preferred Stock with respect to the right to receive assets upon the liquidation, dissolution or winding-up of the affairs of the Corporation;
  - iii. Amend, alter or repeal the Restated Articles of Incorporation of the Corporation, except for amendments to or restatements of such Articles as may be permitted by the Washington Business Corporation Act without shareholder approval; or
  - iv. Effect any sale, lease or transfer of all or substantially all of the assets of the Corporation, or any consolidation, merger or statutory exchange of shares involving the Corporation, or any reclassification or other change of stock, or any recapitalization, or any dissolution, liquidation or winding-up of the Corporation (except for transactions pursuant to arrangements with respect to which the holders or subscribers of a majority of the aggregate number of shares of Series B Preferred Stock have previously waived, in writing, their rights to a special class vote under this Section 6.a).
- b. The Corporation shall not, without the vote or written consent by the holders of a majority of the then outstanding shares of the Series C Preferred Stock, voting as a class:
- i. Increase the authorized amount of Series C Preferred Stock or Common Stock;
  - ii. Create any other class or series of stock ranking on a parity with or senior to the Series C Preferred Stock with respect to the right to receive assets upon the liquidation, dissolution or winding-up of the affairs of the Company;
  - iii. Amend, alter or repeal the Restated Articles of Incorporation of the Corporation, except for amendments to or restatements of such Articles as may be permitted by the Washington Business Corporation Act without shareholder approval; or
  - iv. Effect any sale, lease or transfer of all or substantially all of the assets of the Corporation, or any consolidation, merger or statutory exchange of shares involving the Corporation, or any reclassification or other change of stock, or any recapitalization, or any dissolution, liquidation or winding-up of the Corporation (except for transactions pursuant to arrangements with respect to which the holders or subscribers of a majority of the aggregate number of shares of Series C Preferred Stock have previously waived, in writing, their rights to a special class vote under this Section 6.b).
- c. So long as at least two hundred thousand (200,000) shares (as adjusted for stock splits, stock dividends, combinations and the like) of Series D Preferred Stock remain outstanding, the Corporation shall not, without the vote or written consent by the holders of a majority of the then outstanding shares of the Series D Preferred Stock, voting as a class:
- i. Alter or change the rights, preferences or privileges of the Series D Preferred Stock;

- ii. Increase or decrease (other than by redemption or conversion) the total number of authorized shares of Series A, B, C or D Preferred Stock or Common Stock;
- iii. Authorize or issue, or obligate itself to issue, any other equity security (including any security convertible into or exercisable for any equity security) senior to or on a parity with the Series D Preferred Stock as to rights, preferences or privileges;
- iv. Redeem, purchase or otherwise acquire (or pay into or set aside for a sinking fund for such purpose) any of the Common Stock; PROVIDED, HOWEVER, that this restriction shall not apply to the repurchase of shares of Common Stock from employees, officers, directors, consultants or other persons performing services for the Company or any subsidiary pursuant to agreements under which the Company has the option to repurchase such shares;
- v. Effect any sale, lease, assignment, transfer or other conveyance of all or substantially all of the assets of the Corporation or any of its subsidiaries, or any consolidation or merger involving the Corporation, or any reclassification or other change of any stock, or any recapitalization of the Corporation;
- vi. Amend, alter or repeal the Restated Articles of Incorporation of the Corporation, except for amendments to or restatements of such Articles as may be permitted by the Washington Business Corporation Act without shareholder approval;
- vii. Amend or waive any provision of its Bylaws if such amendment or waiver would change any of the rights, preferences or privileges provided for herein or therein for the benefit of any shares of Series D Preferred Stock;
- viii. Increase or decrease the authorized number of directors of the Corporation; or
- ix. Pay or declare any dividend on any shares of Common or Preferred Stock not otherwise provided for here.

7. NO REISSUANCE OF SERIES A, B, C OR D PREFERRED STOCK. No share or shares of Series A, B, C or D Preferred Stock acquired by the Corporation by reason of redemption, purchase, conversion or otherwise shall be reissued, and all such shares shall be canceled, retired and eliminated from the shares which the Corporation shall be authorized to issue.

#### V.

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors shall have the power, subject to the provisions of Section C.6 of Article FOURTH, both before and after receipt of any payment for any of the Corporation's capital stock, to adopt, amend, repeal or otherwise alter the Bylaws of the Corporation without any action on the part of the shareholders; PROVIDED, HOWEVER, that the grant of such power to the Board of Directors shall



not divest the shareholders of nor limit their power, subject to the provisions of Section C.6 of Article FOURTH, to adopt, amend, repeal or otherwise alter the Bylaws.

VI.

Elections of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

**VII.**

The Corporation reserves the right to adopt, repeal, rescind or amend in any respect any provisions contained in this Restated Articles of Incorporation in the manner now or hereafter prescribed by applicable law, and all rights conferred on shareholders herein are granted subject to this reservation.

**VIII.**

Pursuant to RCW 23B.07.040(1)(a)(ii) (as may hereafter be amended or supplemented), any action which may be taken at any meeting of shareholders may be taken without a meeting and without prior notice if written consents setting forth the action so taken are signed by the holders of the outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

IX.

A director shall have no liability to the Corporation or its shareholders for monetary damages for conduct as a director, except for acts or omissions that involve intentional misconduct by the director, or a knowing violation of law by the director, or for conduct violating RCW 23B.08.310 (as may hereafter be amended or supplemented), or for any transaction from which the director will personally receive a benefit in money, property or services to which the director is not legally entitled. If the Washington Business Corporation Act is hereafter amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director shall be eliminated or limited to the full extent permitted by the Washington Business Corporation Act, as so amended. Any repeal or modification of this Article shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification for or with respect to an act or omission of such director occurring prior to such repeal or modification.

X.

A. RIGHT TO INDEMNIFICATION. Any individual who is, was, or is threatened to be made a party to or is otherwise involved in (including without limitation as a witness) any threatened, pending, or completed action, suit, or other proceeding, whether civil, criminal, administrative or investigative, and whether formal or informal, by reason of the fact that he or she is or was a director or officer of the Corporation or that, while a director or officer, he or she is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another corporation or of a partnership, joint venture, trust, employee

benefit plan or other enterprise, shall be indemnified and held harmless by the Corporation, to the full extent permissible by applicable law as then in effect, against all expenses and liabilities (including without limitation any obligation to pay any judgment, settlement, penalty, fine, including an excise tax assessed with respect to an employee benefit plan, or expense incurred with respect to the proceeding, including attorneys' fees) actually and reasonably incurred or suffered by such individual in connection therewith; PROVIDED, HOWEVER, that the Corporation shall not indemnify any director from or on account of: (a) any act or omission of the director finally adjudged to be intentional misconduct or a knowing violation of law; (b) any conduct of the director finally adjudged to be in violation of RCW 23B.08.310 (as may hereafter be amended or supplemented); or (c) any transaction with respect to which it is finally adjudged that the director personally received a benefit in money, property or services, to which the director was not legally entitled; and further provided that except as provided in the following paragraph with respect to proceedings seeking to enforce rights to indemnification, the Corporation shall indemnify any such individual seeking indemnification in connection with a proceeding (or part thereof) initiated by such individual only if such proceeding (or part thereof) initiated by such individual only if such proceeding (or part thereof) was, prior to its initiation, authorized by the Board of Directors of the Corporation. The right to indemnification conferred in this paragraph shall be a contract right and shall include the right to be paid by the Corporation for the expenses incurred in defending any such proceeding in advance of its final disposition; PROVIDED, HOWEVER, that the payment of such expenses in advance of the final disposition of a proceeding shall be made only upon delivery to the Corporation of a written undertaking, by or on behalf of the director or officer, in the form of a general unlimited obligation to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this paragraph or otherwise. The right to indemnification as provided herein shall continue as to an individual who has ceased to be a director or officer and shall inure to the benefit of his or her heirs, executors and administrators.

**B. RIGHT OF CLAIMANT TO APPLY FOR COURT ORDER.** If a claim made on the Corporation for indemnification under the preceding paragraph of this Article is not paid in full by the Corporation within sixty (60) days after a written claim has been received by the Corporation, except in the case of a claim for expenses incurred in defending a proceeding in advance of its final disposition, in which case the applicable period shall be twenty (20) days, the claimant may at any time thereafter commence an action or otherwise petition a court to order the Corporation to pay the unpaid amount of such claim and, to the extent successful in whole or in part, the claimant shall be entitled to be paid also the expense of obtaining such a court order. A claimant shall be presumed to be entitled to indemnification under this Article upon submission of a written claim to the Corporation or, in an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition, where the required undertaking has been tendered to the Corporation; and thereafter the Corporation shall have the burden of proof to overcome the presumption that the claimant is not so entitled. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel or its shareholders) to have made a determination prior to the filing of such petition that indemnification or reimbursement or advancement of expenses to the claimant is proper in the circumstances, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel or its shareholders) that the claimant is not entitled to indemnification or to the reimbursement or advancement of expenses, shall be a defense to the action or create a presumption that the claimant is not so entitled.

C. NONEXCLUSIVITY OF RIGHTS. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article shall not be exclusive of any other right which any individual may have or hereafter acquire under any statute, provision of the Articles in Incorporation, Bylaws, agreement, vote of shareholders or disinterested directors or otherwise.

D. INSURANCE, CONTRACTS AND FUNDING. The Corporation may maintain insurance, at its expense, to protect itself and any director, trustee, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such individual against such expense, liability or loss under the Washington Business Corporation Act. Without further shareholder action, the Corporation may enter into contracts with any director or officer of the Corporation in furtherance of the provisions of this Article and may create a trust fund, grant a security interest or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Article.

E. INDEMNIFICATION OF EMPLOYEES AND AGENTS OF THE CORPORATION. From time to time by action of its Board of Directors, the Corporation may provide to employees and agents of the Corporation indemnification and payment of expenses in advance of the final disposition of a proceeding to the same extent provided to officers of the Corporation by the provisions of this Article or pursuant to rights granted in or provided by the Washington Business Corporation Act.

XI.

No preemptive rights shall exist with respect to shares of stock or securities convertible into shares of stock of this Corporation.

XII.

The right to cumulate votes in the election of directors shall not exist with respect to shares of stock of this Corporation.

XIII.

The Board of Directors shall have the power to adopt, amend or repeal the Bylaws or adopt new Bylaws. Nothing herein shall deny the concurrent power of the shareholders to adopt, alter, amend or repeal the Bylaws.

      /s/ Jeff Hussey  
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      Jeff Hussey  
      President and CEO

**ARTICLES OF AMENDMENT  
TO THE  
RESTATED ARTICLES OF INCORPORATION OF  
F5 LABS, INC.**

Pursuant to the Washington Business Corporations Act, F5 Labs, Inc. a Washington corporation (the "Corporation"), hereby adopts the following Articles of Amendment to its Restated Articles of Incorporation.

1. Article IV, paragraph A of the Corporation's Restated Articles of Incorporation is revised to read as follows:

"A. This Corporation is authorized to issue two classes of shares to be designated, respectively, Preferred Stock ("Preferred Stock") and Common Stock ("Common Stock"). The total number of shares of capital stock that this Corporation shall have authority to issue is sixty million (60,000,000). The total number of shares of Preferred Stock this Corporation shall have authority to issue is ten million (10,000,000). The total number of shares of Common Stock this Corporation shall have authority to issue is fifty million (50,000,000). The Preferred Stock shall have no par value, and the Common Stock shall have no par value."

2. This Amendment was adopted by the Board on January 13, 1999.

3. This Amendment was approved by consent of the shareholders in accordance with RCW 23B.070.040, RCW 23B.10.030 and Section 1 of Article IV of the Corporation's Bylaws on January 27, 1999.

**Dated this 27th day of January, 1999.**

**F5 LABS, INC.**

*By: /s/ Jeffrey S. Hussey*

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*Jeffrey S. Hussey, President*

**ARTICLES OF AMENDMENT  
TO THE  
ARTICLES OF INCORPORATION  
OF  
F5 LABS, INC.**

Pursuant to RCW 23B.10, F5 Labs, Inc. a Washington corporation (the "Corporation"), adopts the following articles of Amendment to its Articles of Incorporation.

1. Article 1 is amended in its entirety to read as follows:

I.

The name of this Corporation (hereinafter called the or this "Corporation") is F5 Networks, Inc.

2. This amendment was adopted on February 17, 1999.

3. This amendment was adopted by the directors. Shareholder approval was not required.

**DATED this 3rd day of March, 1999.**

**F5 Labs, Inc.**

*By: /s/ Jeffrey S. Hussey  
Jeffrey S. Hussey  
President and Chief Executive Officer*

**SECOND AMENDED AND RESTATED ARTICLES OF INCORPORATION  
OF  
F5 NETWORKS, INC.**

**I.**

**NAME**

The name of this Corporation (hereinafter called the "Corporation") is  
**F5 NETWORKS, INC.**

**II.**

**AUTHORIZED SHARES**

2.1 This Corporation is authorized to issue 110,000,000 shares of stock in the aggregate. Such shares shall be divided into two classes as follows:

(a) 100,000,000 shares of common stock ("Common Stock").

(b) 10,000,000 shares of preferred stock ("Preferred Stock"). Holders of Common Stock are entitled to one vote per share on any matter on which holders of Common Stock are entitled to vote. On dissolution of the Corporation, after any preferential amount with respect to the Preferred Stock has been paid or set aside, the holders of Common Stock and the holders of any series of Preferred Stock entitled to participate further in the distribution of assets are entitled to receive the net assets of the Corporation.

2.2 The Board of Directors is authorized, subject to limitations prescribed by the Washington Business Corporation Act (the "Act") and by the provisions of this Article II, to provide for the issuance of shares of Preferred Stock in series, to establish from time to time the number of shares to be included in each series and to determine the designations, relative rights, preferences and limitations of the shares of each series. The authority of the Board of Directors with respect to each series includes determination of the following:

2.2.1 The number of shares in and the distinguishing designation  
of that series;

2.2.2 Whether shares of that series shall have full, special,

conditional, limited or no voting rights, except to the extent otherwise provided by the Act;

2.2.3 Whether shares of that series shall be convertible and the terms and conditions of the conversion, including provision for adjustment of the conversion rate in circumstances determined by the Board of Directors;

2.2.4 Whether shares of that series shall be redeemable and the terms and conditions of redemption, including the date or dates upon or after which they shall be redeemable and the amount per share payable in case of redemption, which amount may vary under different conditions or at different redemption dates;

2.2.5 The dividend rate, if any, on shares of that series, the manner of calculating any dividends and the preference of any dividends;

2.2.6 The rights of shares of that series in the event of voluntary or involuntary dissolution of the corporation and the rights of priority of that series relative to the Common Stock and any other series of Preferred Stock on the distribution of assets on dissolution; and

2.2.7 Any other rights, preferences and limitations of that series that are permitted by the Act.

Within any limits stated in these Articles or in the resolution of the Board of Directors establishing a series, the Board of Directors, after the issuance of shares of a series, may amend the resolution establishing the series to decrease (but not below the number of shares of such series then outstanding) the number of shares of that series, and the number of shares constituting the decrease shall thereafter constitute authorized but undesignated shares, and the Board of Directors may amend the rights and preferences of the shares of any series that has been established but is wholly unissued.

The authority herein granted to the Board of Directors to determine the relative rights and preferences of the Preferred Stock shall be limited to unissued shares, and no power shall exist to alter or change the rights and preferences of any shares that have been issued.

2.3 The Board of Directors shall have the authority to issue shares of the capital stock of this Corporation and the certificates therefor subject to such transfer restrictions and other limitations as it may deem necessary to promote compliance with applicable federal and state securities laws, and to regulate the transfer thereof in such manner as may be calculated to promote such compliance or to further any other reasonable purpose.

2.4 At any time when the corporation is subject to the reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended, special meetings of the shareholders for any purpose or purposes may be called only by the Board of Directors or the Chairman of the Board (if one be appointed) or the President.

### **III.**

#### **DIRECTORS**

3.1 The number of directors of the Corporation and the manner in which such directors are to be elected shall be as set forth in the Bylaws.

3.2 Subject to the rights of the holders of any series of Preferred Stock to elect additional directors under specified circumstances, the directors shall be divided into three classes designated as Class I, Class II and Class III, respectively. Directors shall be assigned to each class in accordance with a resolution or resolutions adopted by the Board of Directors. At the first annual meeting of stockholders following the adoption and filing of this Certificate of Incorporation, the term of office of the Class I directors shall expire and Class I directors shall be elected for a full term of three years. At the second annual meeting of stockholders following the

adoption and filing of this Certificate of Incorporation, the term of office of the Class II directors shall expire and Class II directors shall be elected for a full term of three years. At the third annual meeting of stockholders following the adoption and filing of this Certificate of Incorporation, the term of office of the Class III directors shall expire and Class III directors shall be elected for a full term of three years. At each succeeding annual meeting of stockholders, directors shall be elected for a full term of three years to succeed the directors of the class whose terms expire at such annual meeting.

Notwithstanding the foregoing provisions of this section, each director shall serve until his successor is duly elected and qualified or until his death, resignation or removal. Neither the Board of Directors nor any individual director may be removed without cause. Subject to any limitation imposed by law, any individual director or directors may be removed with cause by the holders of a majority of the voting power of the corporation entitled to vote at an election of directors. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

3.3 In furtherance and not in limitation of the powers conferred by statute, the Board of Directors shall have the power to make, adopt, amend or repeal the Bylaws, or adopt new Bylaws for this Corporation, by a resolution adopted by a majority of the directors.

3.4 Vacancies in the board of directors may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director. The shareholders may elect a director at any time to fill any vacancy not filled by the directors

IV.

## **SHAREHOLDER RIGHTS**

4.1 No shareholder of this Corporation shall have, solely by reason of being a shareholder, any preemptive or preferential right or subscription right to any stock of this Corporation or to any obligations convertible into stock of this Corporation, or to any warrant or option for the purchase thereof, except to the extent provided by resolution or resolutions of the Board of Directors establishing a series of Preferred Stock or by written agreement with this Corporation.

4.2 In any election for directors of the Corporation, a holder of shares of any class or series of stock then entitled to vote has the right to vote in person or by proxy the number of shares of stock held thereby for as many persons as there are directors to be elected. No cumulative voting for directors shall be permitted.

4.3 The approval of any plan of merger, plan of share exchange, sale, lease, exchange or other disposition of all, or substantially all, of the Corporation's property otherwise than in the usual and regular course of business, or proposal to dissolve, shall require the affirmative vote of the holders of not less than a majority of all outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors of the corporation. At any time when the corporation is subject to the reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended, pursuant to the authority granted under RCW



23B.10.030, RCW 23B.11.030, RCW 23B.12.020, and RCW 23B.14.020, the vote of shareholders of this Corporation required in order to approve amendments to the Articles of Incorporation, a plan of merger or share exchange, the sale, lease, exchange, or other disposition of all or substantially all of the property of the Corporation not in the usual and regular course of business, or dissolution of the Corporation shall be a majority of all of the votes entitled to be cast by each voting group, regardless of whether or not the corporation is a "public company," as that term is defined in Section 23B.01.400 of the Act.

V.

## **INDEMNIFICATION AND LIABILITY OF OFFICERS AND DIRECTORS**

5.1 The Corporation may indemnify, in the manner and to the full extent permitted by law, any person (or the estate of any person) who was or is a party to, or is threatened to be made a party to any threatened, pending or complete action, suit or proceeding, whether or not by or in the right of the Corporation, and whether civil, criminal, administrative, investigative or otherwise, by reason of the fact that such person is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise. The Corporation may, to the full extent permitted by law, purchase and maintain insurance on behalf of any such person against any liability which may be asserted against such person. To the full extent permitted by law, the indemnification provided herein shall include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement, and, in the manner provided by law, any such expenses may be paid by the corporation in advance of the final disposition of such action, suit or proceeding. The indemnification provided herein shall not be deemed to limit the right of the Corporation to indemnify any other person for any such expenses to the full extent permitted by law, nor shall it be deemed exclusive of any other rights to which any person seeking indemnification from the corporation may be entitled under any agreement, vote of shareholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office.

5.2 No director of the Corporation shall be personally liable to the Corporation or its shareholders for monetary damages for his conduct as a director, except for (i) acts or omissions that involve intentional misconduct or a knowing violation of law by the director, (ii) approval of distributions or loans in violation of RCW 23B.08.310, or (iii) any transaction from which the director will personally receive a benefit in money, property or services to which the director is not legally entitled. If the Act is hereafter amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the Act, as so amended. Any amendment to or repeal of this Article shall not adversely affect any right or protection of a director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal.

VI.

**OTHER MATTERS**

6.1 Except as otherwise provided in these Articles, as amended from time to time, the corporation reserves the right to amend, alter, change or repeal any provisions contained in these Articles in any manner now or hereafter prescribed or permitted by statute.

6.2 The corporation shall have authority to correct clerical errors in any documents filed with the Secretary of State of Washington, including these Articles or any amendments hereto, without the necessity of special shareholder approval of such corrections.

The undersigned has signed these Second Amended and Restated Articles of Incorporation on \_\_\_\_\_, 1999.

**F5 NETWORKS, INC.**

Brian R. Dixon Secretary

# **CERTIFICATE**

The undersigned, as Secretary of F5 Networks, Inc., hereby certifies that the accompanying Second Amended and Restated Articles of Incorporation were adopted by the Board of Directors on \_\_\_\_\_, 1999 and by the shareholders on \_\_\_\_\_, 1999.

Dated: \_\_\_\_\_, 1999

**F5 NETWORKS, INC.**

Brian R. Dixon Secretary

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**CERTIFICATE OF SECRETARY  
OF  
F5 LABS, INC., A WASHINGTON CORPORATION**

The undersigned certifies that he is the duly elected and acting Secretary of F5 Labs, Inc., a Washington corporation (the "Corporation"), and that the following amendments to the Corporation's Bylaws have been duly adopted by unanimous written consent of the Board of Directors on July 27, 1998.

1. RESOLVED, that Section 2 of Article III of the Bylaws be, and it hereby is, amended in its entirety as follows:

Section 2. NUMBER. The board shall be composed of not less than three (3) nor more than eight (8) directors, the specific number to be set by resolution of the board of directors. No decrease in the number of directors shall have the effect of shortening the term of any incumbent director.

2. RESOLVED FURTHER, that Section 1 of Article IV of the Bylaws be, and it hereby is, amended in its entirety as follows:

Section 1. ACTION BY WRITTEN CONSENT. Any corporate action required or permitted by the Articles of Incorporation, Bylaws, or the laws under which this corporation is formed, to be voted upon or approved at a duly called meeting of the directors or committee of directors may be accomplished without a meeting if one or more unanimous written consents of the respective directors, setting forth the actions so taken, shall be signed, either before or after the action taken, by all the directors or committee members, as the case may be. Action taken by unanimous written consent is effective when the last director or committee member signs the consent, unless the consent specifies a later effective date. Any corporate action required or permitted by the Articles of Incorporation, Bylaws, or the laws under which this corporation is formed, to be voted upon or approved at a duly called meeting of the shareholders may be accomplished without a meeting if written consents setting forth the action so taken are signed by the holders of the outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Action taken by written consent of the shareholders is effective when all consents representing not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted are in possession of the corporation, unless the consent specifies a later effective date.

In Witness Whereof, the undersigned has signed this Certificate this 27th day of July, 1998.

*/s/ Brian Dixon*

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*Brian Dixon*  
*Secretary*

**BYLAWS**  
**OF**  
**VIRTUAL SOFTWARES, INC.**

**ARTICLE I**  
**PRINCIPAL OFFICE**

The principal office of the corporation shall be at such location as the board of directors may designate from time to time. The corporation may have such other offices, either within or without the state of Washington, as the business of the corporation may require from time to time.

**ARTICLE II**  
**SHAREHOLDERS' MEETINGS**

Section 1. ANNUAL MEETINGS. Commencing in 1997, the annual meeting of the shareholders of this corporation, for the purpose of election of directors and for such other business as may come before it, shall be held at the principal office of the corporation, or such other place as may be designated by the notice of the meeting, on the third Tuesday of March of each and every year, at 3:00 p.m., but in case such day shall be a legal holiday, the meeting shall be held at the same hour and place on the next succeeding day not a holiday.

Section 2. SPECIAL MEETINGS. Special meetings of the shareholders of this corporation may be called at any time by the holders of ten percent (10%) of the voting shares of the corporation, or by the president, or by a majority of the board of directors. No business shall be transacted at any special meeting of shareholders except as is specified in the notice calling for said meeting. The board of directors may designate any place as the place of any special meeting.

Section 3. NOTICE OF MEETINGS. Written notice of annual or special meetings of shareholders stating the place, day, and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given by the secretary or persons authorized to call the meeting to each shareholder of record entitled to vote at the meeting and, if and to the extent required by law, to each other shareholder of the corporation. Such notice shall be given not less than ten (10) nor more than sixty (60) days prior to the date of the meeting, except that notice of a meeting to act on an amendment to the Articles of Incorporation, a plan of merger or share exchange, a proposed sale, lease, exchange or other disposition of all or substantially all of the assets of the corporation other than in the usual or regular course of business, or the dissolution of corporation shall be given no fewer than twenty (20) days nor more than sixty (60) days before the meeting date. Notice may be transmitted by:

mail, private carrier or personal delivery; telegraph or teletype; or telephone, wire or wireless equipment which transmits a facsimile of the notice. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the shareholder at his or her address as it appears on the stock transfer books of the corporation.

Section 4. **WAIVER OF NOTICE.** Notice of the time, place, and purpose of any meeting may be waived in writing (either before or after such meeting) and will be waived by any shareholder by his or her attendance thereat in person or by proxy, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting. Any shareholder so waiving shall be bound by the proceedings of any such meeting in all respects as if due notice thereof had been given.

Section 5. **QUORUM AND ADJOURNED MEETINGS.** A majority of the outstanding shares of the corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders. A majority of the shares represented at a meeting, even if less than a quorum, may adjourn the meeting from time to time without further notice. At such reconvened meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. The shareholders present at a duly organized meeting may continue to transact business at such meeting and at any adjournment of such meeting (unless a new record date is or must be set for the adjourned meeting pursuant to Section 9 of this Article II), notwithstanding the withdrawal of enough shareholders from either meeting to leave less than a quorum.

Section 6. **PROXIES.** At all meetings of shareholders, a shareholder may vote by proxy executed in writing by the shareholder or by his or her duly authorized attorney in fact. Such proxy shall be filed with the secretary of the corporation before or at the time of the meeting. No proxy shall be valid after eleven (11) months from the date of its execution, unless otherwise provided in the proxy.

Section 7. **VOTING RECORD.** After fixing a record date for a shareholders' meeting, the corporation shall prepare an alphabetical list of the names of all shareholders on the record date who are entitled to notice of the shareholders' meeting. The list shall be arranged by voting group, and within each voting group by class or series of shares, and show the address of and number of shares held by each shareholder. A shareholder, a shareholder's agent, or a shareholder's attorney may inspect the shareholders' list, beginning ten (10) days prior to the shareholders' meeting and continuing through the meeting, at the corporation's principal office or at a place identified in the meeting notice in the city where the meeting will be held, during regular business hours and at the shareholder's expense. The shareholders' list shall be kept open for inspection during such meeting or any adjournment.

Section 8. **VOTING OF SHARES.** Except as otherwise provided in the Articles of Incorporation or in these Bylaws, every shareholder of record shall have the right at every shareholders' meeting to one vote for every share standing in his or her name on the books of the corporation, and the affirmative vote of a majority of the shares represented at a meeting and

entitled to vote thereat shall be necessary for the adoption of a motion or for the determination of all questions and business which shall come before the meeting.

Section 9. RECORD DATE. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders, or any adjournment thereof, or entitled to receive payment of any dividend, the board of directors may fix in advance a record date for any such determination of shareholders, such date to be not more than seventy (70) days prior to the date on which the particular action requiring such determination of shareholders is to be taken. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the day before the date on which notice of the meeting is mailed or the date on which the resolution of the board of directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof, unless the board of directors fixes a new record date, which it must do if the meeting is adjourned to a date more than one hundred twenty (120) days after the date is fixed for the original meeting.

Section 10. ELECTION OF DIRECTORS. Each shareholder entitled to vote at an election of directors may vote in person or by proxy the number of shares owned by him or her for as many persons as there are directors to be elected and for whose election he or she has a right to vote.

### **ARTICLE III**

#### **DIRECTORS**

Section 1. GENERAL POWERS. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, the board of directors except as otherwise provided by the laws under which this corporation is formed or in the Articles of Incorporation.

Section 2. NUMBER. The board shall be composed of not less than three (3) nor more than eight (8) directors, the specific number to be set by resolution of the shareholders. No decrease in the number of directors shall have the effect of shortening the term of any incumbent director.

Section 3. TENURE AND QUALIFICATIONS. Each director shall hold office until the next annual meeting of shareholders and until his or her successor shall have been elected and qualified. Directors need not be residents of the state or shareholders of the corporation.

Section 4. ELECTION. The directors shall be elected by the shareholders at their annual meeting each year; and if, for any cause, the directors shall not have been elected at an annual meeting, they may be elected at a special meeting of shareholders called for that purpose in the manner provided by these Bylaws.

Section 5. VACANCIES. Any vacancy occurring on the board may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the board. A director elected to fill a vacancy due to resignation or removal shall be elected for the unexpired term of his or her predecessor in office. Any directorship to be filled by reason of an increase in the number of directors shall be filled for a term extending only until the next annual meeting of shareholders.

Section 6. RESIGNATION. Any director may resign at any time by delivering written notice to the board of directors, its chairperson, the president or the secretary of the corporation. A resignation shall be effective when the notice is delivered unless the notice specifies a later effective date.

Section 7. REMOVAL OF DIRECTORS. At a meeting of shareholders called expressly for that purpose, the entire board of directors, or any member thereof, may be removed, with or without cause, by a vote of the holders of a majority of shares then entitled to vote at an election of such directors.

#### Section 8. MEETINGS

(a) The annual meeting of the board of directors shall be held immediately after the annual shareholders' meeting at the same place as the annual shareholders' meeting or at such other place and at such time as may be determined by the directors. No notice of the annual meeting of the board of directors shall be necessary.

(b) Special meetings may be called at any time and place upon the call of the president, secretary, or any two (2) directors; provided, however, that in the event there is only one (1) director, he or she may call a special meeting. Notice of the time and place of each special meeting shall be given by the secretary, or the persons calling the meeting, by mail, private carrier, radio, telegraph, telegram, facsimile transmission, personal communication by telephone or otherwise at least two (2) days in advance of the time of the meeting. The purpose of the meeting need not be given in the notice. Notice of any special meeting may be waived in writing or by telegram (either before or after such meeting) and will be waived by any director by attendance thereat. Written notice shall be in a comprehensible form and effective at the earliest of the following: (i) when dispatched by telegraph, teletype, or facsimile equipment; or (ii) when received; or (iii) if mailed, five (5) days after its deposit in the United States mail, as evidenced by the postmark if mailed with first-class postage, prepaid and correctly addressed; or on the date shown on the return receipt if sent by registered or certified mail, return receipt requested, and the receipt is signed by or on behalf of the addressee.

(c) Regular meetings of the board of directors shall be held at such place and on such day and hour as shall from time to time be fixed by resolution of the board of directors. No notice of regular meetings of the board of directors shall be necessary.

(d) At any meeting of the board of directors, any business may be transacted, the board may exercise all of its powers.



## Section 9. QUORUM AND VOTING

(a) A majority of the directors presently in office shall constitute a quorum, but a lesser number may adjourn any meeting from time to time until a quorum is obtained, and no further notice thereof need be given.

(b) At each meeting of the board at which a quorum is present, the act of a majority of the directors present at the meeting shall be the act of the board of directors. The directors present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough directors to leave less than a quorum.

Section 10. COMPENSATION. By resolution of the board of directors, the directors may be paid their expenses, if any, of attendance at each meeting of the board of directors and may be paid a fixed sum for attendance at each meeting of the board of directors or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

Section 11. PRESUMPTION OF ASSENT. A director of the corporation who is present at a meeting of the board of directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless:

(a) The director objects at the beginning of the meeting, or promptly upon the director's arrival, to holding it or transacting business at the meeting;

(b) The director's dissent or abstention from the action taken is entered in the minutes of the meeting; or

(c) The director delivers written notice of the director's dissent or abstention to the presiding officer of the meeting before its adjournment or to the corporation within a reasonable time after adjournment of the meeting.

The right of dissent or abstention is not available to a director who votes in favor of the action taken.

Section 12. COMMITTEES. The board of directors, by resolution adopted by a majority of the full board of directors, may designate from among its members one or more committees, each of which must have two or more members and, to the extent provided in such resolution, shall have and may exercise all the authority of the board of directors, except that no such committee shall have the authority to: authorize or approve a distribution except according to a general formula or method prescribed by the board of directors; approve or propose to shareholders action that the Washington Business Corporation Act requires to be approved by shareholders; fill vacancies on the board of directors or on any of its committees; amend any Articles of Incorporation not requiring shareholder approval; adopt, amend, or repeal Bylaws; approve a plan of merger not requiring shareholder approval; or authorize or approve the issuance or sale or

contract for sale of shares, or determine the designation and relative rights, preferences, and limitations of a class or series of shares, except that the board of directors may authorize a committee, or a senior executive officer of the corporation, to do so within limits specifically prescribed by the board of directors.

## **ARTICLE IV**

### **SPECIAL MEASURES FOR CORPORATE ACTION**

Section 1. **ACTIONS BY WRITTEN CONSENT.** Any corporate action required or permitted by the Articles of Incorporation, Bylaws, or the laws under which this corporation is formed, to be voted upon or approved at a duly called meeting of the directors, committee of directors, or shareholders may be accomplished without a meeting if one or more unanimous written consents of the respective directors or shareholders, setting forth the actions so taken, shall be signed, either before or after the action taken, by all the directors, committee members, or shareholders, as the case may be. Action taken by unanimous written consent is effective when the last director or committee member signs the consent, unless the consent specifies a later effective date. Action taken by unanimous written consent of the shareholders is effective when all consents are in possession of the corporation, unless the consent specifies a later effective date.

Section 2. **MEETINGS BY CONFERENCE TELEPHONE.** Members of the board of directors, members of a committee of directors, or shareholders may participate in their respective meetings by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time. Participation in a meeting by such means shall constitute presence in person at such meeting.

## **ARTICLE V**

### **OFFICERS**

Section 1. **OFFICERS DESIGNATED.** The officers of the corporation shall be a president, one or more vice presidents (the number thereof to be determined by the board of directors), a secretary, and a treasurer, each of whom shall be elected by the board of directors. Such other officers and assistant officers as may be deemed necessary may be elected or appointed by the board of directors. Any two or more offices may be held by the same person. The board of directors may, in its discretion, elect a chairperson of the board of directors; and, if a chairperson has been elected, the chairperson shall, when present, preside at all meetings of the board of directors and the shareholders and shall have such other powers as the board may prescribe.

Section 2. **ELECTION, QUALIFICATION AND TERM OF OFFICE.** Each of the officers shall be elected by the board of directors at each annual meeting of the board of directors. Except as hereinafter provided, each of said officers shall hold office from the date of his or her election until the next annual meeting of the board of directors and until his or her successor shall have been duly elected and qualified.

### Section 3. POWERS AND DUTIES

(a) **PRESIDENT.** The president shall be the chief executive officer of the corporation and, subject to the direction and control of the board of directors, shall have general charge and supervision over its property, business, and affairs. He or she shall, unless a chairperson of the board of directors has been elected and is present, preside at meetings of the shareholders and the board of directors.

(b) **VICE PRESIDENT.** In the absence of the president or in the event of the president's inability to act, the senior vice president shall act in the president's place and stead and shall have all the powers and authority of the president, except as limited by resolution of the board of directors.

(c) **SECRETARY.** The secretary shall: (1) be responsible for preparing minutes of the shareholders' and of the board of directors' meetings and keeping all such minutes in one or more books provided for that purpose; (2) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; (3) be custodian of the corporate records; (4) keep a register of the post office address of each shareholder which shall be furnished to the secretary by such shareholder; (5) sign with the president, or a vice president, certificates for shares of the corporation, the issuance of which shall have been authorized by resolution of the board of directors; (6) have general charge of the stock transfer books of the corporation; (7) authenticate records of the corporation; and (8) in general perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to him or her by the president or by the board of directors.

(d) **TREASURER.** Subject to the direction and control of the board of directors, the treasurer shall have the custody, control, and disposition of the funds and securities of the corporation and shall account for the same. At the expiration of his or her term of office, the treasurer shall turn over to his or her successor all property of the corporation in his or her possession.

**Section 4. ASSISTANT SECRETARIES AND ASSISTANT TREASURERS.** The assistant secretaries, when authorized by the board of directors, may sign with the president, or a vice president, certificates for shares of the corporation, the issuance of which shall have been authorized by resolution of the board of directors. The assistant treasurers shall, respectively, if required by the board of directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the board of directors shall determine. The assistant secretaries and assistant treasurers, in general, shall perform such duties as shall be assigned to them by the secretary or the treasurer, respectively, or by the president or the board of directors.

**Section 5. REMOVAL.** The board of directors shall have the right to remove any officer whenever in its judgment the best interests of the corporation will be served thereby.

Section 6. VACANCIES. The board of directors shall fill any office which becomes vacant with a successor who shall hold office for the unexpired term and until his or her successor shall have been duly elected and qualified.

Section 7. SALARIES. The salaries of all officers of the corporation shall be fixed by the board of directors.

## **ARTICLE VI**

### **SHARE CERTIFICATES**

Section 1. ISSUANCE, FORM AND EXECUTION OF CERTIFICATES. No shares of the corporation shall be issued unless authorized by the board. Such authorization shall include the maximum number of shares to be issued, the consideration to be received for each share, the value of noncash consideration, and a statement that the board has determined that such consideration is adequate. Certificates for shares of the corporation shall be in such form as is consistent with the provisions of the Washington Business Corporation Act and shall state:

- (a) The name of the corporation and that the corporation is organized under the laws of this state;
- (b) The name of the person to whom issued; and
- (c) The number and class of shares and the designation of the series, if any, which such certificate represents.

They shall be signed by the president or vice president and by the secretary of the corporation. Certificates may be issued for fractional shares. No certificate shall be issued for any share until the consideration established for its issuance has been paid.

Section 2. TRANSFERS. Shares may be transferred by delivery of the certificate therefor, accompanied either by an assignment in writing on the back of the certificate or by a written power of attorney to assign and transfer the same, signed by the record holder of the certificate. The board of directors may, by resolution, provide that beneficial owners of shares shall be deemed holders of record for certain specified purposes. Except as otherwise specifically provided in these Bylaws, no shares shall be transferred on the books of the corporation until the outstanding certificate therefor has been surrendered to the corporation.

Section 3. LOSS OR DESTRUCTION OF CERTIFICATES. In case of loss or destruction of any certificate of shares, another may be issued in its place upon proof of such loss or destruction and upon the giving of a satisfactory indemnity bond to the corporation. A new certificate may be issued without requiring any bond, when in the judgment of the board of directors it is proper to do so.

## **ARTICLE VII**

### **BOOKS AND RECORDS**

Section 1. **BOOKS OF ACCOUNTS, MINUTES AND SHARE REGISTER.** The corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, and a record of all actions taken by a committee of the board of directors exercising the authority of the board of directors on behalf of the corporation. The corporation shall maintain appropriate accounting records. The corporation or its agent shall maintain a record of its shareholders, in a form that permits preparation of a list of the names and addresses of all shareholders, in alphabetical order by class of shares showing the number and class of shares held by each. The corporation shall keep a copy of the following records at its principal office: the Articles or Restated Articles of Incorporation and all amendments to them currently in effect; the Bylaws or Restated Bylaws and all amendments to them currently in effect; the minutes of all shareholders' meetings, and records of all actions taken by shareholders without a meeting, for the past three years; its financial statements for the past three years, including the balance sheets and income statements prepared pursuant to Section 3 of this Article VII; all written communications to shareholders generally within the past three years; a list of the names and business addresses of its current directors and officers, and its most recent annual report delivered to the Secretary of State of the State of Washington.

Section 2. **COPIES OF RESOLUTIONS.** Any person dealing with the corporation may rely upon a copy of any of the records of the proceedings, resolutions, or votes of the board of directors or shareholders, when certified by the president or secretary.

#### **Section 3. FINANCIAL STATEMENTS**

(a) Not later than four (4) months after the close of each fiscal year, and in any event prior to the annual meeting of shareholders next following the close of such fiscal year, the corporation shall prepare (i) a balance sheet showing in reasonable detail the financial condition of the corporation as of the close of such fiscal year, and (ii) an income statement showing the results of its operation during such fiscal year. Such statements may be consolidated or combined statements of the corporation and one or more of its subsidiaries, as appropriate. If financial statements are prepared by the corporation for any purpose on the basis of generally accepted accounting principles, the annual statements must also be prepared, and disclose that they are prepared, on that basis. If financial statements are prepared only on a basis other than generally accepted accounting principles, they must be prepared, and disclose that they are prepared, on the same basis as other reports and statements prepared by the corporation for the use of others.

(b) Upon written request, the corporation shall promptly mail to any shareholder a copy of the most recent balance sheet and income statement. If prepared for other purposes, the corporation shall also furnish upon written request a statement of sources and applications of funds, and a statement of changes in shareholders' equity, for the most recent fiscal year.

(c) If the annual financial statements are reported upon by a public accountant, the accountant's report must accompany them. If not, the statements must be accompanied by a statement of the president or the person responsible for the corporation's accounting records:

(i) Stating the person's reasonable belief whether the statements were prepared on the basis of generally accepted accounting principles and, if not, describing the basis of preparation; and

(ii) Describing any respects in which the statements were not prepared on a basis of accounting consistent with the basis used for statements prepared for the preceding year.

## **ARTICLE VIII**

### **AMENDMENT OF BYLAWS**

The power to alter, amend, or repeal these Bylaws and adopt new Bylaws is vested in the board, subject to repeal or change by action of the shareholders.

## **ARTICLE IX**

### **FISCAL YEAR**

The fiscal year of the corporation shall be the twelve (12) month period as set by resolution of the board from time to time.

### **CERTIFICATE OF ADOPTION**

The undersigned, being the secretary of Virtual SoftWorks, Inc., hereby certifies that the foregoing is a true and correct copy of the Bylaws adopted by resolution of the board of directors on February 26, 1996.

*/s/ Jeffrey S. Hussey*

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*Jeffrey S. Hussey*

**BYLAWS OF**  
**F5 NETWORKS, INC.**

**BYLAWS OF**  
**F5 NETWORKS, INC.**

These BYLAWS are promulgated pursuant to the Washington Business Corporation Act, as set forth in Title 23B of the Revised Code of Washington.

**ARTICLE 1**

**OFFICES**

1.1 **PRINCIPAL OFFICE.** The principal office of the corporation shall be located at the principal place of business or such other place as the Board of Directors may designate.

1.2 **REGISTERED OFFICE AND REGISTERED AGENT.** The registered office of the corporation shall be located in the State of Washington at such place as may be fixed from time to time by the Board of Directors upon filing of such notices as may be required by law, and the registered agent shall have a business office identical with such registered office. Any change in the registered agent or registered office shall be effective upon filing such change with the office of the Secretary of State of the State of Washington.

1.3 **OTHER OFFICES.** The Corporation shall also have and maintain an office or principal place of business at such place as may be fixed by the Board of Directors, and may also have offices at such other places, both within and without the State of Washington, as the Board of Directors may from time to time determine or the business of the Corporation may require.

**ARTICLE 2**

**SHAREHOLDERS**

**2.1 ANNUAL MEETING**

(a) The annual meeting of the shareholders of the corporation for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held each year on a date and at a time and place to be set by the Board of Directors.

(b) At an annual meeting of the shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be: (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a shareholder's notice must be



delivered to or mailed and received at the principal executive offices of the corporation not later than the close of business on the ninetieth (90th) day nor earlier than the close of business on the one hundred twentieth (120th) day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the date contemplated at the time of the previous year's proxy statement, notice by the shareholder to be timely must be so received not earlier than the close of business on the ninetieth (90th) day prior to such annual meeting and not later than the close of business on the later of the sixtieth (60th) day prior to such annual meeting or, in the event public announcement of the date of such annual meeting is first made by the corporation fewer than seventy (70) days prior to the date of such annual meeting, the close of business on the tenth (10th) day following the day on which public announcement of the date of such meeting is first made by the corporation. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting: (A) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (B) the name and address, as they appear on the corporation's books, of the shareholder proposing such business, (C) the class and number of shares of the corporation which are beneficially owned by the shareholder, (D) any material interest of the shareholder in such business and (E) any other information that is required to be provided by the shareholder pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "1934 Act"), in his capacity as a proponent to a shareholder proposal. Notwithstanding the foregoing, in order to include information with respect to a shareholder proposal in the proxy statement and form of proxy for a shareholders' meeting, shareholders must provide notice as required by the regulations promulgated under the 1934 Act. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at any annual meeting except in accordance with the procedures set forth in this paragraph (b). The chairman of the annual meeting shall, if the facts warrant, determine and declare at the meeting that business was not properly brought before the meeting and in accordance with the provisions of this paragraph (b), and, if he should so determine, he shall so declare at the meeting that any such business not properly brought before the meeting shall not be transacted.

**2.2 SPECIAL MEETINGS.** Special meetings of the shareholders for any purpose or purposes may be called at any time by a majority of the Board of Directors or by the Chairperson of the Board (if one be elected) or by the President. The Board of Directors may designate any place as the place of any special meeting called by the Chairperson, the President or the Board.

**2.3 NOTICE OF MEETINGS.** Except as otherwise provided in Subsections 2.3(b) and 2.3(c) below, the Secretary, Assistant Secretary, or any transfer agent of the corporation shall deliver, either personally or by mail, private carrier, telegraph or teletype, or telephone, wire or wireless equipment which transmits a facsimile of the notice, not less than ten (10) nor more than sixty (60) days before the date of any meeting of shareholders, written notice stating the place, day, and time of the meeting to each shareholder of record entitled to vote at such meeting. If mailed in the United States, such notice shall be deemed to be delivered when deposited in the United States mail, with first-class postage thereon prepaid, addressed to the shareholder at his address as it appears on the corporation's record of shareholders. If mailed outside the United

States, such notice shall be deemed to be delivered five (5) days after being deposited in the mail, with first-class airmail postage thereon, return receipt requested, addressed to the shareholder at the shareholder's address as it appears on the corporation's record of shareholders.

(a) **NOTICE OF SPECIAL MEETING.** In the case of a special meeting, the written notice shall also state with reasonable clarity the purpose or purposes for which the meeting is called and the actions sought to be approved at the meeting. No business other than that specified in the notice may be transacted at a special meeting.

(b) **PROPOSED ARTICLES OF AMENDMENT OR DISSOLUTION.** If the business to be conducted at any meeting includes any proposed amendment to the Articles of Incorporation or the proposed voluntary dissolution of the corporation, then the written notice shall be given not less than twenty (20) nor more than sixty

(60) days before the meeting date and shall state that the purpose or one of the purposes is to consider the advisability thereof, and, in the case of a proposed amendment, shall be accompanied by a copy of the amendment.

(c) **PROPOSED MERGER, CONSOLIDATION, EXCHANGE, SALE, LEASE OR DISPOSITION.** If the business to be conducted at any meeting includes any proposed plan of merger or share exchange, or any sale, lease, exchange, or other disposition of all or substantially all of the corporation's property otherwise than in the usual or regular course of its business, then the written notice shall state that the purpose or one of the purposes is to consider the proposed plan of merger or share exchange, sale, lease, or disposition, as the case may be, shall describe the proposed action with reasonable clarity, and, if required by law, shall be accompanied by a copy or a detailed summary thereof; and written notice shall be given to each shareholder of record, whether or not entitled to vote at such meeting, not less than twenty (20) nor more than sixty

(60) days before such meeting, in the manner provided in Section 2.3 above.

(d) **DECLARATION OF MAILING.** A declaration of the mailing or other means of giving any notice of any shareholders' meeting, executed by the Secretary, Assistant Secretary, or any transfer agent of the corporation giving the notice, shall be prima facie evidence of the giving of such notice.

(e) **WAIVER OF NOTICE.** Notice of any shareholders' meeting may be waived in writing by any shareholder at any time, either before or after the meeting. Except as provided below, the waiver must be signed by the shareholder entitled to the notice, and be delivered to the corporation for inclusion in the minutes or filing with the corporate records. A shareholder's attendance at a meeting waives objection to lack of notice, or defective notice, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting.

**2.4 QUORUM.** A quorum shall exist at any meeting of shareholders if a majority of the shares entitled to vote is represented in person or by proxy. Shares entitled to vote as a separate voting group may take action on a matter at a meeting only if a quorum of those shares exists with respect to that matter. The shareholders present at a duly organized meeting may continue to transact business at such meeting and at any adjournment of such meeting (unless a new record date is or must be set for the adjourned meeting), notwithstanding the withdrawal of

enough shareholders from either meeting to leave less than a quorum. Once a share is represented for any purpose at a meeting other than solely to object to holding the meeting or transacting business at the meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for the adjourned meeting.

**2.5 VOTING OF SHARES.** Except as otherwise provided in the Articles of Incorporation or these Bylaws, every shareholder of record shall have the right at every shareholders' meeting to one vote for every share standing in his name on the books of the corporation. If a quorum exists, action on a matter, other than the election of directors, is approved by a voting group if the votes cast within the voting group favoring the action exceed the votes cast within the voting group opposing the action, unless a greater number is required by the Articles of Incorporation or the Washington Business Corporation Act.

**2.6 ADJOURNED MEETINGS.** A majority of the shares represented at a meeting, even if less than a quorum, may adjourn the meeting from time to time without further notice. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. However, if a new record date for the adjourned meeting is or must be fixed in accordance with the Washington Business Corporation Act, notice of the adjourned meeting must be given to persons who are shareholders as of the new record date. At any adjourned meeting, the corporation may transact any business which might have been transacted at the original meeting.

**2.7 RECORD DATE.** For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders, or any adjournment thereof, or entitled to receive payment of any dividend, the Board of Directors may fix in advance a record date for any such determination of shareholders, such date to be not more than seventy (70) days and, in the case of a meeting of shareholders, not less than ten (10) days prior to the meeting or action requiring such determination of shareholders. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the day before the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof, unless the Board of Directors fixes a new record date, which it must do if the meeting is adjourned more than one hundred twenty (120) days after the date is fixed for the original meeting.

**2.8 RECORD OF SHAREHOLDERS ENTITLED TO VOTE.** After fixing a record date for a shareholders' meeting, the corporation shall prepare an alphabetical list of the names of all shareholders on the record date who are entitled to notice of the shareholders' meeting. The list shall be arranged by voting group, and within each voting group by class or series of shares, and show the address of and number of shares held by each shareholder. A shareholder, shareholder's agent, or a shareholder's attorney may inspect the shareholders list, beginning ten

days prior to the shareholders' meeting and continuing through the meeting, at the corporation's principal office or at a place identified in the meeting notice in the city where the meeting will be held during regular business hours and at the shareholder's expense. The shareholders list shall be kept open for inspection during such meeting or any adjournment. Failure to comply with the requirements of this section shall not affect the validity of any action taken at such meeting.

**2.9 TELEPHONIC MEETINGS.** Shareholders may participate in a meeting by means of a conference telephone or other communications equipment by which all persons participating in the meeting can hear each other during the meeting, and participation by such means shall constitute presence in person at a meeting.

**2.10 PROXIES.** At all meetings of shareholders, a shareholder may vote by proxy executed in writing by the shareholder or by his duly authorized attorney in fact. Such proxy shall be filed with the secretary of the corporation before or at the time of the meeting. No proxy shall be valid after eleven (11) months from the date of its execution, unless otherwise provided in the proxy.

## **2.11 ORGANIZATION**

(a) At every meeting of shareholders, the Chairperson of the Board of Directors, or, if a Chairperson has not been appointed or is absent, the President, or, if the President is absent, a chairman of the meeting chosen by a majority in interest of the shareholders entitled to vote, present in person or by proxy, shall act as chairman. The Secretary, or, in his absence, an Assistant Secretary directed to do so by the President, shall act as secretary of the meeting.

(b) The Board of Directors of the corporation shall be entitled to make such rules or regulations for the conduct of meetings of shareholders as it shall deem necessary, appropriate or convenient. Subject to such rules and regulations of the Board of Directors, if any, the chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are necessary, appropriate or convenient for the proper conduct of the meeting, including, without limitation, establishing an agenda or order of business for the meeting, rules and procedures for maintaining order at the meeting and the safety of those present, limitations on participation in such meeting to shareholders of record of the corporation and their duly authorized and constituted proxies and such other persons as the chairman shall permit, restrictions on entry to the meeting after the time fixed for the commencement thereof, limitations on the time allotted to questions or comments by participants and regulation of the opening and closing of the polls for balloting on matters which are to be voted on by ballot. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of shareholders shall not be required to be held in accordance with rules of parliamentary procedure.

## **ARTICLE 3**

### **BOARD OF DIRECTORS**

5.

**3.1 MANAGEMENT RESPONSIBILITY.** All corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, the Board of Directors, except as may be otherwise provided in the Articles of Incorporation or the Washington Business Corporation Act.

**3.2 NUMBER OF DIRECTORS, QUALIFICATION.** The authorized number of directors of the corporation shall be not less than five (5) nor more than nine (9), the specific number to be set by resolution of the Board of Directors. Directors need not be shareholders. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

**3.3 ELECTION.** At the first annual meeting of shareholders and at each annual meeting thereafter, the shareholders shall elect directors to hold office at the annual meeting. If, for any reason, the directors shall not have been elected at an annual meeting, they may be elected at a special meeting of shareholders called for that purpose in accordance with these Bylaws. Despite the expiration of a director's term, the director continues to serve until the director's successor shall have been elected and qualified or until there is a decrease in the number of directors.

**3.4 VACANCIES.** Any vacancy occurring in the Board of Directors (whether caused by resignation, death, an increase in the number of directors, or otherwise) may be filled by the shareholders or the Board of Directors. If the directors in office constitute fewer than a quorum of the Board, they may fill the vacancy by the affirmative vote of a majority of all the directors in office. A director elected to fill any vacancy shall hold office until the next shareholders meeting at which directors are elected.

**3.5 REMOVAL.** One or more members of the Board of Directors (including the entire Board) may be removed, with or without cause, at a meeting of shareholders called expressly for that purpose. A director may be removed only if the number of votes cast to remove the director exceeds the number of votes cast not to remove the director.

**3.6 RESIGNATION.** Any director may resign at any time by delivering his written resignation to the Secretary, such resignation to specify whether it will be effective at a particular time, upon receipt by the Secretary or at the pleasure of the Board of Directors. If no such specification is made, it shall be deemed effective at the pleasure of the Board of Directors. When one or more directors shall resign from the Board of Directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each Director so chosen shall hold office for the unexpired portion of the term of the Director whose place shall be vacated and until his successor shall have been duly elected and qualified.

**3.7 ANNUAL MEETING.** The first meeting of each newly elected Board of Directors shall be known as the annual meeting thereof and shall be held without notice immediately after the annual shareholders' meeting or any special shareholders' meeting at which a Board is elected. Said meeting shall be held at the same place as such shareholders' meeting unless some other place shall be specified by resolution of the Board of Directors.

**3.8 REGULAR MEETINGS.** Regular meetings of the Board of Directors or of any committee designated by the Board may be held at such place and such day and hour as shall from time to time be fixed by resolution of the Board or committee, without other notice than the delivery of such resolution as provided in Section 3.10 below.

**3.9 SPECIAL MEETINGS.** Special meetings of the Board of Directors or any committee designated by the Board may be called by the President or the Chairperson of the Board (if one be elected) or any director or committee member, to be held at such place and such day and hour as specified by the person or persons calling the meeting.

**3.10 NOTICE OF MEETING.** Notice of the date, time, and place of all special meetings of the Board of Directors or any committee designated by the Board shall be given by the Secretary, or by the person calling the meeting, by mail, private carrier, telegram, facsimile transmission, or personal communication over the telephone or otherwise, provided such notice is received at least two (2) days prior to the day upon which the meeting is to be held.

No notice of any regular meeting need be given if the time and place thereof shall have been fixed by resolution of the Board of Directors or any committee designated by the Board and a copy of such resolution has been delivered by mail, private carrier, telegram or facsimile transmission to every director or committee member and is received at least two (2) days before the first meeting held in pursuance thereof.

Notice of any meeting of the Board of Directors or any committee designated by the Board need not be given to any director or committee member if it is waived in a writing signed by the director entitled to the notice, whether before or after such meeting is held.

A director's attendance at or participation in a meeting waives any required notice to the director of the meeting unless the director at the beginning of the meeting, or promptly upon the director's arrival, objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors or any committee designated by the Board need be specified in the notice or waiver of notice of such meeting unless required by the Articles of Incorporation or these Bylaws.

Any meeting of the Board of Directors or any committee designated by the Board shall be a legal meeting without any notice thereof having been given if all of the directors or committee members have received valid notice thereof, are present without objecting, or waive notice thereof in a writing signed by the director and delivered to the corporation for inclusion in the minutes or filing with the corporate records, or any combination thereof.

**3.11 QUORUM OF DIRECTORS.** A majority of the number of directors fixed by or in the manner provided by these Bylaws shall constitute a quorum for the transaction of business. If a quorum is present when a vote is taken, the affirmative vote of a majority of directors present is the act of the Board of Directors unless the Articles of Incorporation or these Bylaws require the vote of a greater number of directors.

A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place. If the meeting is adjourned for more than forty-eight (48) hours, then notice of the time and place of the adjourned meeting shall be given before the adjourned meeting takes place, in the manner specified in Section 3.10 of these Bylaws, to the directors who were not present at the time of the adjournment.

**3.12 PRESUMPTION OF ASSENT.** Any director who is present at any meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless (a) the director objects at the beginning of the meeting, or promptly upon the director's arrival, to holding the meeting or transacting business at the meeting; (b) the director's dissent or abstention from the action taken is entered in the minutes of the meeting; or (c) the director delivers written notice of dissent or abstention to the presiding officer of the meeting before the adjournment thereof or to the corporation within a reasonable time after adjournment of the meeting. Such right to dissent or abstain shall not be available to any director who voted in favor of such action.

**3.13 ACTION BY DIRECTORS WITHOUT A MEETING.** Any action required by law to be taken or which may be taken at a meeting of the Board of Directors or of a committee thereof may be taken without a meeting if one or more written consents, setting forth the action so taken, shall be signed by all of the directors or all of the members of the committee, as the case may be, either before or after the action taken and delivered to the corporation for inclusion in the minutes or filing with the corporate records. Such consent shall have the same effect as a unanimous vote at a meeting duly held upon proper notice on the date of the last signature thereto, unless the consent specifies a later effective date.

**3.14 TELEPHONIC MEETINGS.** Members of the Board of Directors or any committee designated by the Board may participate in a meeting of the Board or committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other during the meeting. Participation by such means shall constitute presence in person at a meeting.

**3.15 COMPENSATION.** By resolution of the Board of Directors, the directors and committee members may be paid their expenses, if any, or a fixed sum or a stated salary as a director or committee member for attendance at each meeting of the Board or of such committee as the case may be. No such payment shall preclude any director or committee member from serving the corporation in any other capacity and receiving compensation therefor.

**3.16 COMMITTEES.** The Board of Directors, by resolution adopted by a majority of the full Board, may from time to time designate from among its members one or more committees, each of which must have two (2) or more members and, to the extent provided in such resolution, shall have and may exercise all the authority of the Board of Directors, except that no such committee shall have the authority to:

(a) authorize or approve a distribution except according to a general formula or method prescribed by the Board of Directors;

(b) approve or propose to shareholders action that the Washington Business Corporation Act requires to be approved by shareholders;

(c) fill vacancies on the Board of Directors or on any of its committees;

(d) adopt any amendment to the Articles of Incorporation;

(e) adopt, amend or repeal these Bylaws;

(f) approve a plan of merger; or

(g) authorize or approve the issuance or sale or contract for sale of shares, or determine the designation and relative rights, preferences and limitations of a class or series of shares, except that the Board of Directors may authorize a committee, or a senior executive officer of the corporation, to do so within limits specifically prescribed by the Board of Directors.

Meetings of such committees shall be governed by the same procedures as govern the meetings of the Board of Directors. All committees so appointed shall keep regular minutes of their meetings and shall cause them to be recorded in books kept for that purpose at the office of the corporation.

## **ARTICLE 4**

### **OFFICERS**

4.1 APPOINTMENT. The officers of the corporation shall be appointed annually by the Board of Directors at its annual meeting held after the annual meeting of the shareholders. If the appointment of officers is not held at such meeting, such appointment shall be held as soon thereafter as a Board meeting conveniently may be held. Except in the case of death, resignation or removal, each officer shall hold office at the pleasure of the Board of Directors until the next annual meeting of the Board and until his successor is appointed and qualified.

4.2 QUALIFICATION. None of the officers of the corporation need be a director, except as specified below. Any two or more of the corporate offices may be held by the same person.

4.3 OFFICERS DESIGNATED. The officers of the corporation shall be a President, one or more Vice Presidents (the number thereof to be determined by the Board of Directors), a Secretary, a Chief Financial Officer and a Treasurer, each of whom shall be elected by the Board of Directors. Such other officers and assistant officers as may be deemed necessary may be appointed by the Board of Directors.

The Board of Directors may, in its discretion, appoint a Chairperson of the Board of Directors; and, if a Chairperson has been appointed, the Chairperson shall, when present, preside at all meetings of the Board of Directors and the shareholders and shall have such other powers commonly incident to his office and as the Board may prescribe.



(a) **PRESIDENT.** The President shall be the chief executive officer of the corporation and, subject to the direction and control of the Board, shall supervise and control all of the assets, business, and affairs of the corporation. The President shall vote the shares owned by the corporation in other corporations, domestic or foreign, unless otherwise prescribed by resolution of the Board. In general, the President shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board from time to time.

The President shall, unless a Chairperson of the Board of Directors has been appointed and is present, preside at all meetings of the shareholders and the Board of Directors.

(b) **VICE PRESIDENTS.** In the absence of the President or his inability to act, the Vice Presidents, if any, in order of their rank as fixed by the Board of Directors or, if not ranked a Vice President designated by the Board shall perform all the duties of the President and when so acting shall have all the powers of, and be subject to all the restrictions upon, the President; provided that no such Vice President shall assume the authority to preside as Chairperson of meetings of the Board unless such Vice President is a member of the Board. The Vice Presidents shall have such other powers and perform such other duties as from time to time may be respectively prescribed for them by the Board, these Bylaws or the President.

(c) **SECRETARY.** The Secretary shall attend all meetings of the shareholders and of the Board of Directors and shall record all acts and proceedings thereof in the minute book of the corporation. The Secretary shall give notice in conformity with these Bylaws of all meetings of the shareholders and of all meetings of the Board of Directors and any committee thereof requiring notice. The Secretary shall perform all other duties given him in these Bylaws and other duties commonly incident to his office and shall also perform such other duties and have such other powers, as the Board of Directors shall designate from time to time. The President may direct any Assistant Secretary to assume and perform the duties of the Secretary in the absence or disability of the Secretary, and each Assistant Secretary shall perform other duties commonly incident to his office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time.

(d) **CHIEF FINANCIAL OFFICER.** The Chief Financial Officer shall keep or cause to be kept the books of account of the corporation in a thorough and proper manner and shall render statements of the financial affairs of the corporation in such form and as often as required by the Board of Directors or the President. The Chief Financial Officer, subject to the order of the Board of Directors, shall have the custody of all funds and securities of the corporation. The Chief Financial Officer shall perform other duties commonly incident to his office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time. The President may direct the Treasurer or any Assistant Treasurer, or the Controller or any Assistant Controller to assume and perform the duties of the Chief Financial Officer in the absence or disability of the Chief Financial Officer, and each Treasurer and Assistant Treasurer and each Controller and Assistant Controller shall perform other duties commonly incident to his office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time.

(e) TREASURER. Subject to the direction and control of the Board of Directors, the Treasurer shall have charge and custody of and be responsible for all funds and securities of the corporation; and, at the expiration of his term of office, he shall turn over to his successor all property of the corporation in his possession.

In the absence of the Treasurer, an Assistant Treasurer may perform the duties of the Treasurer.

4.4 DELEGATION. In case of the absence or inability to act of any officer of the corporation and of any person herein authorized to act in his place, the Board of Directors may from time to time delegate the powers or duties of such officer to any other officer or director or other person whom it may select.

4.5 RESIGNATION. Any officer may resign at any time by delivering written notice to the Corporation. Any such resignation shall take effect when the notice is delivered unless the notice specifies a later date. Unless otherwise specified in the notice, acceptance of such resignation by the corporation shall not be necessary to make it effective. Any resignation shall be without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

4.6 REMOVAL. Any officer or agent elected or appointed by the Board of Directors may be removed by the Board at any time with or without cause. Election or appointment of an officer or agent shall not of itself create contract rights.

4.7 VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification, creation of a new office, or any other cause may be filled by the Board of Directors for the unexpired portion of the term or for a new term established by the Board.

4.8 COMPENSATION. Compensation, if any, for officers and other agents and employees of the corporation shall be determined by the Board of Directors, or by the President to the extent such authority may be delegated to him by the Board. No officer shall be prevented from receiving compensation in such capacity by reason of the fact that he is also a director of the corporation.

## **ARTICLE 5**

### **EXECUTION OF CORPORATION INSTRUMENTS AND VOTING OF SECURITIES OWNED BY THE CORPORATION**

5.1 EXECUTION OF CORPORATE INSTRUMENTS. The Board of Directors may, in its discretion, determine the method and designate the signatory officer or officers, or other person or persons, to execute on behalf of the corporation any corporate instrument or document, or to sign on behalf of the corporation the corporate name without limitation, or to enter into contracts on behalf of the corporation, except where otherwise provided by law or these Bylaws, and such execution or signature shall be binding upon the corporation.

All checks and drafts drawn on banks or other depositaries on funds to the credit of the corporation or in special accounts of the corporation shall be signed by such person or persons as the Board of Directors shall authorize so to do.

Unless authorized or ratified by the Board of Directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

**5.2 VOTING OF SECURITIES OWNED BY THE CORPORATION.** All stock and other securities of other corporations owned or held by the corporation for itself, or for other parties in any capacity, shall be voted, and all proxies with respect thereto shall be executed, by the person authorized so to do by resolution of the Board of Directors, or, in the absence of such authorization, by the Chairperson of the Board of Directors, the Chief Executive Officer, the President or any Vice President.

## **ARTICLE 6**

### **STOCK**

**6.1 FORM AND EXECUTION OF CERTIFICATES.** Certificates for the shares of stock of the corporation shall be in such form as is consistent with the Articles of Incorporation and applicable law. Every holder of stock in the corporation shall be entitled to have a certificate signed by or in the name of the corporation by the Chairperson of the Board of Directors, or the President or any Vice President and by the Treasurer or Assistant Treasurer or the Secretary or Assistant Secretary, certifying the number of shares owned by him in the corporation. Any or all of the signatures on the certificate may be facsimiles. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued with the same effect as if he were such officer, transfer agent, or registrar at the date of issue. Each certificate shall state upon the face or back thereof, in full or in summary, all of the powers, designations, preferences, and rights, and the limitations or restrictions of the shares authorized to be issued or shall, except as otherwise required by law, set forth on the face or back a statement that the corporation will furnish without charge to each shareholder who so requests the powers, designations, preferences and relative, participating, optional, or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable time after the issuance or transfer of uncertificated stock, the corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to this section or otherwise required by law or with respect to this section a statement that the corporation will furnish without charge to each shareholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Except as otherwise expressly provided by law, the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.

**6.2 LOST CERTIFICATES.** A new certificate or certificates shall be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen, or destroyed. The corporation may require, as a condition precedent to the issuance of a new certificate or certificates, the owner of such lost, stolen, or destroyed certificate or certificates, or his legal representative, to agree to indemnify the corporation in such manner as it shall require or to give the corporation a surety bond in such form and amount as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen, or destroyed.

### **6.3 TRANSFERS**

(a) Transfers of record of shares of stock of the corporation shall be made only upon its books by the holders thereof, in person or by attorney duly authorized, and upon the surrender of a properly endorsed certificate or certificates for a like number of shares.

(b) The corporation shall have power to enter into and perform any agreement with any number of shareholders of any one or more classes of stock of the corporation to restrict the transfer of shares of stock of the corporation of any one or more classes owned by such shareholders in any manner not prohibited by the Act.

**6.4 REGISTERED SHAREHOLDERS.** The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Washington.

**6.5 EXECUTION OF OTHER SECURITIES.** All bonds, debentures and other corporate securities of the corporation, other than stock certificates (covered in Section 6.1), may be signed by the Chairperson of the Board of Directors, the President or any Vice President, or such other person as may be authorized by the Board of Directors, and the corporate seal impressed thereon or a facsimile of such seal imprinted thereon and attested by the signature of the Secretary or an Assistant Secretary, or the Chief Financial Officer or Treasurer or an Assistant Treasurer; PROVIDED, HOWEVER, that where any such bond, debenture or other corporate security shall be authenticated by the manual signature, or where permissible facsimile signature, of a trustee under an indenture pursuant to which such bond, debenture or other corporate security shall be issued, the signatures of the persons signing and attesting the corporate seal on such bond, debenture or other corporate security may be the imprinted facsimile of the signatures of such persons. Interest coupons appertaining to any such bond, debenture or other corporate security, authenticated by a trustee as aforesaid, shall be signed by the Treasurer or an Assistant Treasurer of the corporation or such other person as may be authorized by the Board of Directors, or bear imprinted thereon the facsimile signature of such person. In case any officer who shall have signed or attested any bond, debenture or other corporate security, or whose facsimile signature shall appear thereon or on any such interest coupon, shall have ceased to be such officer before the bond, debenture or other corporate security so signed or attested shall have been delivered,

such bond, debenture or other corporate security nevertheless may be adopted by the corporation and issued and delivered as though the person who signed the same or whose facsimile signature shall have been used thereon had not ceased to be such officer of the corporation.

Except as otherwise specifically provided in these Bylaws, no shares of stock shall be transferred on the books of the corporation until the outstanding certificate therefor has been surrendered to the corporation. All certificates surrendered to the corporation for transfer shall be cancelled, and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in case of a lost, destroyed, or mutilated certificate a new one may be issued therefor upon such terms (including indemnity to the corporation) as the Board of Directors may prescribe.

## **ARTICLE 7**

### **BOOKS AND RECORDS**

**7.1 BOOKS OF ACCOUNTS, MINUTES AND SHARE REGISTER.** The corporation shall keep as permanent records minutes of all meetings of its shareholders and Board of Directors, a record of all actions taken by the shareholders or Board of Directors without a meeting, and a record of all actions taken by a committee of the Board of Directors exercising the authority of the Board of Directors on behalf of the corporation. The corporation shall maintain appropriate accounting records. The corporation or its agent shall maintain a record of its shareholders, in a form that permits preparation of a list of the names and addresses of all shareholders, in alphabetical order by class of shares showing the number and class of shares held by each. The corporation shall keep a copy of the following records at its principal office: the Articles or Restated Articles of Incorporation and all amendments to them currently in effect; the Bylaws or Restated Bylaws and all amendments to them currently in effect; the minutes of all shareholders' meetings, and records of all actions taken by shareholders without a meeting, for the past three years; its financial statements for the past three years, including balance sheets showing in reasonable detail the financial condition of the corporation as of the close of each fiscal year, and an income statement showing the results of its operations during each fiscal year prepared on the basis of generally accepted accounting principles or, if not, prepared on a basis explained therein; all written communications to shareholders generally within the past three years; a list of the names and business addresses of its current directors and officers; and its most recent annual report delivered to the Secretary of State of Washington.

**7.2 COPIES OF RESOLUTIONS.** Any person dealing with the corporation may rely upon a copy of any of the records of the proceedings, resolutions, or votes of the Board of Directors or shareholders, when certified by the President or Secretary.

## **ARTICLE 8**

### **FISCAL YEAR**

The fiscal year of the corporation shall be set by resolution of the Board of Directors.

## **ARTICLE 9**

### **CORPORATE SEAL**

The Board of Directors may adopt a corporate seal for the corporation which shall have inscribed thereon the name of the corporation, the year and state of incorporation and the words "corporate seal".

## **ARTICLE 10**

### **INDEMNIFICATION**

10.1 RIGHT TO INDEMNIFICATION. Each individual (hereinafter an "indemnatee") who was or is made a party or is threatened to be made a party to or is otherwise involved (including, without limitation, as a witness) in any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director or officer of the corporation or that, while serving as a director or officer of the corporation, he or she is or was also serving at the request of the corporation as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation or of a foreign or domestic partnership, joint venture, trust, employee benefit plan or other enterprise, whether the basis of the proceeding is alleged action in an official capacity as such a director, officer, employee, partner, trustee, or agent or in any other capacity while serving as such director, officer, employee, partner, trustee, or agent, shall be indemnified and held harmless by the corporation to the full extent permitted by applicable law as then in effect, against all expense, liability and loss (including, without limitation, attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts to be paid in settlement) incurred or suffered by such indemnatee in connection therewith, and such indemnification shall continue as to an indemnatee who has ceased to be a director, officer, employee, partner, trustee, or agent and shall inure to the benefit of the indemnatee's heirs, executors and administrators; provided, however, that no indemnification shall be provided to any such indemnatee if the corporation is prohibited by the Washington Business Corporation Act or other applicable law as then in effect from paying such indemnification; and provided, further, that except as provided in Section 10.2 of this Article with respect to proceedings seeking to enforce rights to indemnification, the corporation shall indemnify any such indemnatee in connection with a proceeding (or part thereof) initiated by such indemnatee only if such proceeding (or part thereof) was authorized or ratified by the Board of Directors. The right to indemnification conferred in this Section 10.1 shall be a contract right and shall include the right to be paid by the corporation the expenses incurred in defending any proceeding in advance of its final disposition (hereinafter an "advancement of expenses"). Any advancement of expenses shall be made only upon delivery to the corporation of a written undertaking (hereinafter an "undertaking"), by or on behalf of such indemnatee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnatee is not entitled to be indemnified for such expenses under this Section 10.1 and upon delivery to the corporation of a written affirmation (hereinafter an "affirmation") by the

indemnitee of his or her good faith belief that such indemnitee has met the standard of conduct necessary for indemnification by the corporation pursuant to this Article.

**10.2 RIGHT OF INDEMNITEE TO BRING SUIT.** If a written claim for indemnification under Section 10.1 of this Article is not paid in full by the corporation within ninety (90) days after the corporation's receipt thereof, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty (20) days, the indemnitee may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim. If successful, in whole or in part, in any such suit or in a suit brought by the corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expenses of prosecuting or defending such suit. The indemnitee shall be presumed to be entitled to indemnification under this Article upon submission of a written claim (and, in an action brought to enforce a claim for an advancement of expenses, where the required undertaking and affirmation have been tendered to the corporation) and thereafter the corporation shall have the burden of proof to overcome the presumption that the indemnitee is so entitled. Neither the failure of the corporation (including the Board of Directors, independent legal counsel or the shareholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances nor an actual determination by the corporation (including the Board of Directors, independent legal counsel or the shareholders) that the indemnitee is not entitled to indemnification shall be a defense to the suit or create a presumption that the indemnitee is not so entitled.

**10.3 NONEXCLUSIVITY OF RIGHTS.** The right to indemnification and the advancement of expenses conferred in this Article X shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Articles of Incorporation or Bylaws of the corporation, general or specific action of the Board of Directors, contract or otherwise.

**10.4 INSURANCE, CONTRACTS AND FUNDING.** The corporation may maintain insurance, at its expense, to protect itself and any individual who is or was a director, officer, employee or agent of the corporation or who, while a director, officer, employee or agent of the corporation, is or was serving at the request of the corporation as a agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any expense, liability or loss asserted against or incurred by the individual in that capacity or arising from the individual's status as a director, officer, employee or agent, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the Washington Business Corporation Act. The corporation may enter into contracts with any director, officer, employee or agent of the corporation in furtherance of the provisions of this Article and may create a trust fund, grant a security interest or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Article.

**10.5 INDEMNIFICATION OF EMPLOYEES AND AGENTS OF THE CORPORATION.** The corporation may, by action of the Board of Directors, grant rights to indemnification and advancement of expenses to employees and agents of the corporation with the same scope and

effect as the provisions of this Article with respect to the indemnification and advancement of expenses of directors and officers of the corporation or pursuant to rights granted pursuant to, or provided by, the Washington Business Corporation Act or otherwise.

10.6 PERSONS SERVING OTHER ENTITIES. Any individual who is or was a director, officer or employee of the corporation who, while a director, officer or employee of the corporation, is or was serving (a) as a director or officer of another foreign or domestic corporation of which a majority of the shares entitled to vote in the election of its directors is held by the corporation, (b) as a trustee of an employee benefit plan and the duties of the director or officer to the corporation also impose duties on, or otherwise involve services by, the director or officer to the plan or to participants in or beneficiaries of the plan or (c) in an executive or management capacity in a foreign or domestic partnership, joint venture, trust or other enterprise of which the corporation or a wholly owned subsidiary of the corporation is a general partner or has a majority ownership or interest shall be deemed to be so serving at the request of the corporation and entitled to indemnification and advancement of expenses under this Article.

ARTICLE 11

AMENDMENT OF BYLAWS

11.1 These Bylaws may be altered, amended or repealed and new Bylaws may be adopted by the Board, except that the Board may not repeal or amend any Bylaw that the shareholders have expressly provided, in amending or repealing such Bylaw, may not be amended or repealed by the Board. The shareholders may also alter, amend and repeal these Bylaws or adopt new Bylaws. All Bylaws made by the Board may be amended, repealed, altered or modified by the shareholders.

The foregoing Bylaws were read, approved, and duly adopted by the Board of Directors, of F5 Networks, Inc., on the \_\_\_\_ day of \_\_\_\_\_ 1999, and the President of the corporation was empowered to authenticate such Bylaws by his signature below.

Brian R. Dixon Secretary



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F5 Networks, Inc.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM  
TEN ENT  
JT TEN  
as tenants in common  
as tenants by the entireties  
as joint tenants with right of survivorship and not as tenants

in common  
UNIF GIFT MIN ACTD  
Custodian  
-----  
(Cust)  
-----  
(Minor)  
under Uniform Gifts to Minors  
Act  
-----  
(State)

Additional abbreviations may also be used though not in the above list. For Value Received,  
\_\_\_\_\_ hereby sell, assign and transfer unto  
\_\_\_\_\_. Please Insert Social Security or Other  
Identifying Number of Assignee \_\_\_\_\_

\_\_\_\_\_  
(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)  
Shares \_\_\_\_\_ of the capital stock represented by the  
within Certificate, and do hereby irrevocably constitute and appoint \_\_\_\_\_ Attorney  
\_\_\_\_\_ to transfer the said stock on the books of the within  
named Corporation with full power of substitution in the premises. Dated \_\_\_\_\_

**SIGNATURE GUARANTEED;**  
**X**  
**X**  
THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THIS  
CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATSOEVER. THE  
SIGNATURE(S) SHOULD BE GUARANTEED BY  
AN ELIGIBLE GUARANTOR INSTITUTION, (Banks, Stockbrokers, Savings and Loan Associations and Credit Unions) WITH  
MEMBERSHIP IN AN APPROVED SIGNATURE  
GUARANTEE MEDALLION PROGRAM PURSUANT TO S.E.C. RULE 17Ad-15.

KEEP THIS CERTIFICATE IN A SAFE PLACE. IF IT IS LOST, STOLEN, MUTILATED OR DESTROYED, THE CORPORATION WILL  
REQUIRE A BOND OF INDEMNITY AS A CONDITION TO THE ISSUANCE OF A REPLACEMENT CERTIFICATE.

**COMMON STOCK**

**COMMON STOCK**

**F5 Networks, Inc.**

**INCORPORATED UNDER THE LAWS OF THE STATE OF WASHINGTON SEE REVERSE FOR CERTAIN DEFINITIONS**

**CUSIP**

This IS TO Certify that \_\_\_\_\_

is the owner of \_\_\_\_\_ FULLY PAID AND NON-ASSESSABLE  
SHARES OF COMMON STOCK WITHOUT PAR VALUE OF F5 Networks, Inc.

\_\_\_\_\_ transferable on the books of the Corporation by the holder  
hereof in person or by duly authorized attorney upon surrender of this certificate properly endorsed. This certificate and the shares represented  
hereby are issued and shall be held subject to all of the provisions of the Articles of Incorporation of the Corporation and all amendments  
thereto to all of which the holder by the acceptance hereof assents. This certificate is not valid unless countersigned and registered by the  
Transfer Agent and Registrar.

WITNESS the facsimile signatures of its duly authorized officers. Dated: \_\_\_\_\_

Vice President of Finance and

Chief Financial Officer

Chief Executive Officer and President

**COUNTERSIGNED AND REGISTERED:**

**AMERICAN STOCK TRANSFER & TRUST COMPANY**

**TRANSFER AGENT**

**AND REGISTRAR**

**BY**

**AUTHORIZED SIGNATURE**

**F5 NETWORKS, INC.**

**INDEMNIFICATION AGREEMENT**

This INDEMNIFICATION AGREEMENT (this "Agreement") dated as of \_\_\_\_\_, 1999 is made between F5 NETWORKS, INC., a Washington corporation (the "Company"), and \_\_\_\_\_ ("Indemnitee").

**RECITALS**

WHEREAS, Indemnitee is a director or officer of the Company and in such capacity is performing valuable services for the Company;

WHEREAS, the Company and Indemnitee recognize the difficulty in obtaining directors' and officers' liability insurance and the significant cost of such insurance;

WHEREAS, the Company and Indemnitee further recognize the substantial increase in litigation subjecting directors and officers to expensive litigation risks at the same time that such liability insurance has been severely limited;

WHEREAS, the Company has adopted bylaws (the "Bylaws") providing for indemnification of the officers, directors, agents and employees of the Company to the full extent permitted by the Business Corporation Act of Washington (the "Statute");

WHEREAS, the Bylaws and the Statute specifically provide that they are not exclusive, and thereby contemplate that contracts may be entered into between the Company and its directors and officers with respect to indemnification of such directors and officers; and

WHEREAS, to induce Indemnitee to serve or continue to serve as a director or officer of the Company, the Company desires to confirm the contract indemnification rights provided in the Bylaws and agrees to provide the Indemnitee with the benefits contemplated by this Agreement.

**AGREEMENT**

In consideration of the recitals above, the mutual covenants and agreements herein contained, and Indemnitee's continued service as a director or officer, as the case may be, of the Company after the date hereof, the parties to this Agreement agree as follows:

**1. INDEMNIFICATION OF INDEMNITEE**

1.1 SCOPE. The Company agrees to hold harmless and indemnify Indemnitee to the full extent provided under the provisions of the Company's Amended and Restated Articles of Incorporation and the Bylaws, and to the full extent permitted by law, notwithstanding that the basis for such indemnification is not specifically enumerated in this Agreement, the Company's Amended and Restated Articles of Incorporation, the Bylaws, any

1.

statute or otherwise. In the event of any change, after the date of this Agreement, in any applicable law, statute or rule regarding the right of a Washington corporation to indemnify a member of its board of directors or an officer, such change, to the extent that it would expand Indemnatee's rights hereunder, shall be included within Indemnatee's rights and the Company's obligations hereunder, and, to the extent that it would narrow Indemnatee's rights or the Company's obligations hereunder, shall not affect or limit the scope of this Agreement; provided, however, that in no event shall any part of this Agreement be construed so as to require indemnification when such indemnification is not permitted by then applicable law.

**1.2 NONEXCLUSIVITY.** The indemnification provided by this Agreement shall not be deemed exclusive of any rights to which Indemnatee may be entitled under the Company's Amended and Restated Articles of Incorporation, the Bylaws, any agreement, any vote of shareholders or disinterested directors, the Statute, or otherwise, whether as to action in Indemnatee's official capacity or otherwise.

**1.3 INCLUDED COVERAGE.** If Indemnatee was or is made a party, or is threatened to be made a party, to or is otherwise involved (including, without limitation, as a witness) in any Proceeding (as defined below), the Company shall hold harmless and indemnify Indemnatee from and against any and all losses, claims, damages (compensatory, exemplary, punitive or otherwise), liabilities or expenses, including, without limitation, attorneys' fees, costs, judgments, fines, ERISA excise taxes or penalties, witness fees, amounts paid in settlement and other expenses incurred in connection with the investigation, defense, settlement or approval of such Proceeding (collectively, "Damages").

**1.4 DEFINITION OF PROCEEDING.** For purposes of this Agreement, "Proceeding" shall mean any completed, actual, pending or threatened action, suit, claim, hearing or proceeding, whether civil, criminal, arbitral, administrative, investigative or pursuant to any alternative dispute resolution mechanism (including an action by or in the right of the Company) and whether formal or informal, in which Indemnatee is, was or becomes involved by reason of the fact that Indemnatee is or was a director, officer, employee or agent of the Company or that, being or having been such a director, officer, employee or agent, Indemnatee is or was serving at the request of the Company as a director, officer, employee, trustee or agent of another corporation or of a partnership, joint venture, trust or other enterprise (collectively, a "Related Company"), including service with respect to an employee benefit plan, whether the basis of such proceeding is alleged action (or inaction) by Indemnatee in an official capacity as a director, officer, employee, trustee or agent or in any other capacity while serving as a director, officer, employee, trustee or agent; provided, however, that, except with respect to an Enforcement Action (defined in Section 3.1 below, an action challenging the Company's determination that Indemnatee is not entitled to indemnification pursuant to Section 1.5, and any other action to enforce the provisions of this Agreement, "Proceeding" shall not include any action, suit, claim or proceeding instituted by or at the direction of Indemnatee unless such action, suit, claim or proceeding is or was authorized by the Company's Board of Directors.

**1.5 DETERMINATION OF ENTITLEMENT.** In the event that a determination of Indemnatee's entitlement to indemnification is required pursuant to Section 23B.08.550 of the

Statute or a successor statute or pursuant to other applicable law, the appropriate decision-maker shall make such determination; provided, however, that Indemnatee shall initially be presumed in all cases to be entitled to indemnification, that Indemnatee may establish a conclusive presumption of any fact necessary to such a determination by delivering to the Company a declaration made under penalty of perjury that such fact is true and that, unless the Company shall deliver to Indemnatee written notice of a determination that Indemnatee is not entitled to indemnification within twenty (20) calendar days after the Company's receipt of Indemnatee's initial written request for indemnification, such determination shall conclusively be deemed to have been made in favor of the Company's provision of indemnification, and that the Company hereby agrees not to assert otherwise.

1.6 CONTRIBUTION. If the indemnification provided under Section 1.1 is unavailable by reason of a court decision, based on grounds other than any of those set forth in paragraphs (b) through (d) of Section 4.1, then, in respect of any Proceeding in which the Company is jointly liable with Indemnatee (or would be if joined in such Proceeding), the Company shall contribute to the amount of Damages (including attorneys' fees) actually and reasonably incurred and paid or payable by Indemnatee in such proportion as is appropriate to reflect (i) the relative benefits received by the Company on the one hand and Indemnatee on the other from the transaction from which such Proceeding arose and (ii) the relative fault of the Company on the one hand and of Indemnatee on the other in connection with the events that resulted in such Damages as well as any other relevant equitable considerations. The relative fault of the Company on the one hand and of Indemnatee on the other shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the circumstances resulting in such Damages. The Company agrees that it would not be just and equitable if contribution pursuant to this Section 1.6 were determined by pro rata allocation or any other method of allocation that does not take account of the foregoing equitable considerations.

1.7 SURVIVAL. The indemnification and contribution provided under this Agreement shall apply to any and all Proceedings, notwithstanding that Indemnatee has ceased to serve the Company or a Related Company and shall continue so long as Indemnatee shall be subject to any possible Proceeding, whether civil, criminal or investigative, by reason of the fact that Indemnatee was a director or officer of the Company or serving in any other capacity referred to in Section 1.4 of this Agreement.

## 2. EXPENSE ADVANCES.

2.1 GENERALLY. The right to indemnification of Damages conferred by Section 1 shall include the right to have the Company pay Indemnatee's expenses in any Proceeding as such expenses are incurred and in advance of such Proceeding's final disposition (such right, an "Expense Advance").

2.2 CONDITIONS TO EXPENSE ADVANCE. The Company's obligation to provide an Expense Advance is subject to the following conditions:



2.2.1 UNDERTAKING. If the Proceeding arose in connection with Indemnatee's service as a director or an officer of the Company (and not in any other capacity in which Indemnatee rendered service, including service to any Related Company), then Indemnatee or Indemnatee's representative shall have executed and delivered to the Company an undertaking, which need not be secured and shall be accepted without reference to Indemnatee's financial ability to make repayment, by or on behalf of Indemnatee to repay all Expense Advances if it shall ultimately be determined by a final, unappealable decision rendered by a court having jurisdiction over the parties that Indemnatee is not entitled to be indemnified under this Agreement or otherwise.

2.2.2 COOPERATION. Indemnatee shall give the Company such information and cooperation as it may reasonably request and as shall be within Indemnatee's legal power to so provide.

2.2.3 AFFIRMATION. Indemnatee shall furnish, upon request by the Company and if required under applicable law, a written affirmation of Indemnatee's good faith belief that any applicable standards of conduct have been met by Indemnatee.

### 3. PROCEDURES FOR ENFORCEMENT

3.1 ENFORCEMENT. In the event that any claim for indemnification, whether an Expense Advance or otherwise, is made hereunder and is not paid in full within ninety (90) calendar days after written notice of such claim is delivered to the Company, Indemnatee may, but need not, at any time thereafter bring suit against the Company to recover the unpaid amount of the claim (an "Enforcement Action"). It shall be a defense to any action for which a claim for indemnification is made under Section 1 hereof (other than an action brought to enforce a claim for expenses pursuant to Section 2 hereof, provided that the required undertaking has been tendered to the Company) that Indemnatee is not entitled to indemnification because of the limitations set forth in Section 4 hereof.

3.2 PRESUMPTIONS IN ENFORCEMENT ACTION. In any Enforcement Action, the following presumptions (and limitation on presumptions) shall apply:

(a) The Company expressly affirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereunder to induce Indemnatee to continue as a director or officer, as the case may be, of the Company;

(b) Neither (i) the failure of the Company (including the Company's Board of Directors, independent or special legal counsel or the Company's shareholders) to have made a determination prior to the commencement of the Enforcement Action that indemnification of Indemnatee is proper in the circumstances nor (ii) an actual determination by the Company, its Board of Directors, independent or special legal counsel or shareholders that Indemnatee is not entitled to indemnification shall be a defense to the Enforcement Action or create a presumption that Indemnatee is not entitled to indemnification hereunder; and

(c) If Indemnitee is or was serving as a director or officer of a corporation of which a majority of the shares entitled to vote in the election of its directors is held by the Company or as a partner, trustee or otherwise in an executive or management capacity in a partnership, joint venture, trust or other enterprise of which the Company or a wholly owned subsidiary of the Company is a general partner or has a majority ownership, then such corporation, partnership, joint venture, trust or other enterprise shall conclusively be deemed a Related Company and Indemnitee shall conclusively be deemed to be serving such Related Company at the Company's request.

**3.3 ATTORNEYS' FEES AND EXPENSES FOR ENFORCEMENT ACTION.** In the event Indemnitee is required to bring an Enforcement Action, the Company shall pay all of Indemnitee's fees and expenses in bringing and pursuing the Enforcement Action (including attorneys' fees at any stage, including on appeal); provided, however, that the Company shall not be required to provide such payment for such attorneys' fees or expenses if a court of competent jurisdiction determines that each of the material assertions made by Indemnitee in such Enforcement Action was not made in good faith.

#### **4. LIMITATIONS ON INDEMNITY; MUTUAL ACKNOWLEDGMENT**

**4.1 LIMITATION ON INDEMNITY.** No indemnity pursuant to this Agreement shall be provided by the Company:

(a) On account of any suit in which a final, unappealable judgment is rendered against Indemnitee for an accounting of profits made from the purchase or sale by Indemnitee of securities of the Company in violation of the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended;

(b) For Damages that have been paid directly to Indemnitee by an insurance carrier under a policy of insurance maintained by the Company;

(c) With respect to remuneration paid to Indemnitee if it shall be determined by a final judgment or other final adjudication that such remuneration was in violation of law;

(d) On account of Indemnitee's conduct which is finally adjudged by a court having jurisdiction in the matter to have been intentional misconduct, a knowing violation of law or the RCW 23B.08.310 or any successor provision of the Statute, or a transaction from which Indemnitee derived an improper personal benefit;

(e) If a final decision by a court having jurisdiction in the matter with no further right of appeal shall determine that such indemnification is not lawful (and, in this respect, both the Company and Indemnitee have been advised that the Securities and Exchange Commission (the "SEC") believes that indemnification for liabilities arising under the federal securities laws is against public policy and is, therefore, unenforceable and that claims for indemnification should be submitted to appropriate courts for adjudication); or

(f) In connection with any proceeding (or part thereof) initiated by Indemnatee, or any proceeding by Indemnatee against the Company or its directors, officers, employees or other indemnitees, unless (i) such indemnification is expressly required to be made by law, (ii) the proceeding was authorized by the Board of Directors of the Company, (iii) such indemnification is provided by the Company, in its sole discretion, pursuant to the powers vested in the Company under the Statute, or (iv) the proceeding is initiated pursuant to Section 3.3 hereof.

4.2 PARTIAL INDEMNIFICATION. If Indemnatee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of any Damages in connection with a Proceeding, but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnatee for the portion of such Damages to which Indemnatee is entitled.

4.3 MUTUAL ACKNOWLEDGMENT. The Company and Indemnatee acknowledge that, in certain instances, federal law or public policy may override applicable state law and prohibit the Company from indemnifying Indemnatee under this Agreement or otherwise. For example, the Company and Indemnatee acknowledge that the SEC has taken the position that indemnification is not permissible for liabilities arising under certain federal securities laws, and federal legislation prohibits indemnification for certain ERISA violations. Furthermore, Indemnatee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the SEC to submit the question of indemnification to a court in certain circumstances for a determination of the Company's right under public policy to indemnify Indemnatee.

## 5. NOTIFICATION AND DEFENSE OF CLAIM.

5.1 NOTIFICATION. Not later than thirty (30) days after receipt by Indemnatee of notice of the commencement of any Proceeding, Indemnatee shall, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof; but the omission so to notify the Company will not, however, relieve the Company from any liability which it may have to Indemnatee under this Agreement unless and only to the extent that such omission can be shown to have prejudiced the Company's ability to defend the Proceeding.

If, at the time of the receipt of a notice of a claim pursuant to Section 5.1, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnatee, all amounts payable as a result of such Proceeding in accordance with the terms of such policies.

5.2 DEFENSE OF CLAIM. With respect to any such Proceeding as to which Indemnatee notifies the Company of the commencement thereof:

(a) The Company may participate therein at its own expense;

(b) The Company, jointly with any other indemnifying party similarly notified, may assume the defense thereof, with counsel satisfactory to Indemnatee. After notice from the Company to Indemnatee of its election so to assume the defense thereof, the Company shall not be liable to Indemnatee under this Agreement for any legal or other expenses (other than reasonable costs of investigation) subsequently incurred by Indemnatee in connection with the defense thereof unless (i) the employment of counsel by Indemnatee has been authorized by the Company, (ii) Indemnatee shall have reasonably concluded that there may be a conflict of interest between the Company (or any other person or persons included in the joint defense) and Indemnatee in the conduct of the defense of such action, (iii) the Company shall not, in fact, have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of counsel shall be at the Company's expense, or (iv) the Company is not financially or legally able to perform its indemnification obligations. The Company shall not be entitled to assume the defense of any proceeding brought by or on behalf of the Company or as to which Indemnatee shall have reasonably made the conclusion provided for in (ii) or (iv) above;

(c) The Company shall not be liable to indemnify Indemnatee under this Agreement for any amounts paid in settlement of any Proceeding effected without its written consent;

(d) The Company shall not settle any action or claim in any manner that would impose any penalty or limitation on Indemnatee without Indemnatee's written consent; and

(e) Neither the Company nor Indemnatee will unreasonably withhold its, his or her consent to any proposed settlement.

6. SEVERABILITY. Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or to fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable, as provided in this Section 6. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Company shall nevertheless indemnify or make contribution to Indemnatee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

#### 7. GOVERNING LAW; BINDING EFFECT; AMENDMENT AND TERMINATION.

(a) This Agreement shall be interpreted and enforced in accordance with the laws of the State of Washington.

(b) This Agreement shall be binding on Indemnatee and on the Company and its successors and assigns (including any transferee of all or substantially all its assets and any successor by merger or otherwise by operation of law), and shall inure to the benefit of Indemnatee and Indemnatee's heirs, personal representatives and assigns and to the benefit of the Company and its successors and assigns. The Company shall not effect any merger, consolidation, sale of all or substantially all of its assets or other reorganization in which it is not

the surviving entity, unless the surviving entity agrees in writing to assure all of the Company's obligations under this Agreement.

(c) No amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

8. ENTIRE AGREEMENT. This Agreement is the entire agreement of the parties regarding its subject matter and supersedes all prior written or oral communications or agreements.

9. COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

10. AMENDMENTS; WAIVERS. Neither this Agreement nor any provision may be amended except by written agreement signed by the parties. No waiver of any breach or default shall be considered valid unless in writing, and no such waiver shall be deemed a waiver of any subsequent breach or default.

11. NOTICES. All notices, claims and other communications hereunder shall be in writing and made by hand delivery, registered or certified mail (postage prepaid, return receipt requested), facsimile or overnight air courier guaranteeing next-day delivery:

(a) If to the Company, to:

F5 Networks, Inc. 200 First Avenue West, Suite 500 Seattle, WA 98119 Attn: Legal Department

(b) If to Indemnitee, to the address specified on the last page of this Agreement or to such other address as either party may from time to time furnish to the other party by a notice given in accordance with the provisions of this Section 11. All such notices, claims and communications shall be deemed to have been duly given if (i) personally delivered, at the time delivered, (ii) mailed, five days after dispatched, (iii) sent by facsimile transmission, upon confirmation of receipt, and (iv) sent by any other means, upon receipt.

## 12. DIRECTORS' AND OFFICERS' INSURANCE.

(a) The Company hereby covenants and agrees that, subject to the provisions of Section 12(c) hereof, the Company shall, from a date no later than the closing date of the Company's first registered public offering of the Company's Common Stock pursuant to an effective registration statement under the Securities Act of 1933, as amended, maintain directors' and officers' insurance in full force and effect so long as Indemnatee continues to serve as a director or officer of the Company and thereafter so long as Indemnatee shall be subject to any possible Proceeding.

(b) In all policies of directors' and officers' insurance, Indemnatee shall be named as an insured in such a manner as to provide Indemnatee the same rights and benefits, subject to the same limitations, as are accorded to the Company's directors or officers most favorably insured by such policy.

(c) Notwithstanding the foregoing provisions of this Section 12, the Company shall have no obligation to maintain directors' and officers' insurance if the Company determines in good faith that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, or the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit.

13. SPECIFIC PERFORMANCE. The Company and Indemnatee agree herein that a monetary remedy for breach of this Agreement, at some later date, will be inadequate, impracticable and difficult of proof, and further agree that such breach would cause Indemnatee irreparable harm. Accordingly, the Company and Indemnatee agree that Indemnatee shall be entitled to temporary and permanent injunctive relief to enforce this Agreement without the necessity of proving actual damages or irreparable harm. The Company and Indemnatee further agree that Indemnatee shall be entitled to such injunctive relief, including temporary restraining orders, preliminary injunctions and permanent injunctions, without the necessity of posting bond or other undertaking in connection therewith. Any such requirement of bond or undertaking is hereby waived by the Company, and the Company acknowledges that in the absence of such a waiver, a bond or undertaking may be required by the court.

14. SUBROGATION. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnatee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the day and year first above written.

**COMPANY:**

**F5 NETWORKS, INC.**

By:

Its:

**INDEMNITEE:**

Print name:

Address:

10.

**F5 NETWORKS, INC.**

**1998 EQUITY INCENTIVE PLAN**

**ADOPTED BY BOARD OF DIRECTORS OCTOBER 22, 1998  
APPROVED BY SHAREHOLDERS NOVEMBER 12, 1998  
ADJUSTMENT FOR TWO-FOR-ONE STOCK SPLIT ON JANUARY 27, 1999  
AMENDED BY BOARD OF DIRECTORS ON APRIL 5, 1999  
APPROVED BY STOCKHOLDERS \_\_\_\_\_, 1999  
TERMINATION DATE: OCTOBER 21, 2008**

**1. PURPOSES.**

- (a) **ELIGIBLE STOCK AWARD RECIPIENTS.** The persons eligible to receive Stock Awards are the Employees, Directors and Consultants of the Company and its Affiliates.
- (b) **AVAILABLE STOCK AWARDS.** The purpose of the Plan is to provide a means by which eligible recipients of Stock Awards may be given an opportunity to benefit from increases in value of the Common Stock through the granting of the following Stock Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) stock bonuses and (iv) rights to acquire restricted stock.
- (c) **GENERAL PURPOSE.** The Company, by means of the Plan, seeks to retain the services of the group of persons eligible to receive Stock Awards, to secure and retain the services of new members of this group and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Affiliates.

**2. DEFINITIONS.**

- (a) **"AFFILIATE"** means any parent corporation or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.
- (b) **"BOARD"** means the Board of Directors of the Company.
- (c) **"CODE"** means the Internal Revenue Code of 1986, as amended.
- (d) **"COMMITTEE"** means a Committee appointed by the Board in accordance with subsection 3(c).
- (e) **"COMMON STOCK"** means the common stock of the Company.
- (f) **"COMPANY"** means F5 Labs, Inc., a Washington corporation.
- (g) **"CONSULTANT"** means any person, including an advisor, (i) who is engaged by the Company or an Affiliate to render services other than as an Employee or as a Director or (ii) who is a member of the Board of Directors of an Affiliate.



(h) "CONTINUOUS SERVICE" means that the Participant's service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. The Participant's Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant's Continuous Service. For example, a change in status from an Employee of the Company to a Consultant of an Affiliate or a Director of the Company will not constitute an interruption of Continuous Service. The Board or the chief executive officer of the Company, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave.

(i) "COVERED EMPLOYEE" means the chief executive officer and the four  
(4) other highest compensated officers of the Company for whom total compensation is required to be reported to shareholders under the Exchange Act, as determined for purposes of Section 162(m) of the Code.

(j) "DIRECTOR" means a member of the Board of Directors of the Company.

(k) "DISABILITY" means (i) before the Listing Date, the inability of a person, in the opinion of a qualified physician acceptable to the Company, to perform the major duties of that person's position with the Company or an Affiliate of the Company because of the sickness or injury of the person and

(ii) after the Listing Date, the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code.

(l) "EMPLOYEE" means any person employed by the Company or an Affiliate. Mere service as a Director or payment of a director's fee by the Company or an Affiliate shall not be sufficient to constitute "employment" by the Company or an Affiliate.

(m) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

(n) "FAIR MARKET VALUE" means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on the Nasdaq National Market or the Nasdaq SmallCap Market, the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the day of determination or, if the day of determination is not a market trading day, then on the last market trading day prior to the day of determination, as reported in THE WALL STREET JOURNAL or such other source as the Board deems reliable.

- (ii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined in good faith by the Board.
- (iii) Prior to the Listing Date, the value of the Common Stock shall be determined in a manner consistent with Section 260.140.50 of Title 10 of the California Code of Regulations.
- (o) "INCENTIVE STOCK OPTION" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.
- (p) "LISTING DATE" means the first date upon which the Common Stock is listed (or approved for listing) upon notice of issuance on any securities exchange or designated (or approved for designation) upon notice of issuance as a national market security on an interdealer quotation system if such securities exchange or interdealer quotation system has been certified in accordance with the provisions of Section 25100(o) of the California Corporate Securities Law of 1968.
- (q) "NON-EMPLOYEE DIRECTOR" means a Director of the Company who either
- (i) is not a current Employee or Officer of the Company or its parent or a subsidiary, does not receive compensation (directly or indirectly) from the Company or its parent or a subsidiary for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act ("Regulation S-K")), does not possess an interest in any other transaction as to which disclosure would be required under Item 404(a) of Regulation S-K and is not engaged in a business relationship as to which disclosure would be required under Item 404(b) of Regulation S-K; or
  - (ii) is otherwise considered a "non-employee director" for purposes of Rule 16b-3.
- (r) "NONSTATUTORY STOCK OPTION" means an Option not intended to qualify as an Incentive Stock Option.
- (s) "OFFICER" means (i) before the Listing Date, any person designated by the Company as an officer and (ii) on and after the Listing Date, a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.
- (t) "OPTION" means an Incentive Stock Option or a Nonstatutory Stock Option granted pursuant to the Plan.
- (u) "OPTION AGREEMENT" means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an individual Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

(v) "OPTIONHOLDER" means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(w) "OUTSIDE DIRECTOR" means a Director of the Company who either (i) is not a current employee of the Company or an "affiliated corporation" (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an "affiliated corporation" receiving compensation for prior services (other than benefits under a tax qualified pension plan), was not an officer of the Company or an "affiliated corporation" at any time and is not currently receiving direct or indirect remuneration from the Company or an "affiliated corporation" for services in any capacity other than as a Director or (ii) is otherwise considered an "outside director" for purposes of Section 162(m) of the Code.

(x) "PARTICIPANT" means a person to whom a Stock Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

(y) "PLAN" means this F5 Networks, Inc. 1998 Equity Incentive Plan.

(z) "RULE 16b-3" means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

(aa) "SECURITIES ACT" means the Securities Act of 1933, as amended.

(bb) "STOCK AWARD" means any right granted under the Plan, including an Option, a stock bonus and a right to acquire restricted stock.

(cc) "STOCK AWARD AGREEMENT" means a written agreement between the Company and a holder of a Stock Award evidencing the terms and conditions of an individual Stock Award grant. Each Stock Award Agreement shall be subject to the terms and conditions of the Plan.

(dd) "TEN PERCENT SHAREHOLDER" means a person who owns (or is deemed to own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any of its Affiliates.

### 3. ADMINISTRATION.

(a) ADMINISTRATION BY BOARD. The Board shall administer the Plan unless and until the Board delegates administration to a Committee, as provided in subsection 3(c).

(b) POWERS OF BOARD. The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine from time to time which of the persons eligible under the Plan shall be granted Stock Awards; when and how each Stock Award shall be granted; what type or combination of types of Stock Award shall be granted; the provisions of each Stock Award granted (which need not be identical), including the time or times when a person shall be

permitted to receive stock pursuant to a Stock Award; and the number of shares with respect to which a Stock Award shall be granted to each such person.

(ii) To construe and interpret the Plan and Stock Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iii) To amend the Plan or a Stock Award as provided in Section 12.

(iv) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company which are not in conflict with the provisions of the Plan.

(c) DELEGATION TO COMMITTEE.

(i) GENERAL. The Board may delegate administration of the Plan to a Committee or Committees of one or more members of the Board, and the term "Committee" shall apply to any person or persons to whom such authority has been delegated. If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revert in the Board the administration of the Plan.

(ii) COMMITTEE COMPOSITION WHEN COMMON STOCK IS PUBLICLY TRADED. At such time as the Common Stock is publicly traded, in the discretion of the Board, a Committee may consist solely of two or more Outside Directors, in accordance with Section 162(m) of the Code, and/or solely of two or more Non-Employee Directors, in accordance with Rule 16b-3. Within the scope of such authority, the Board or the Committee may (i) delegate to a committee of one or more members of the Board who are not Outside Directors the authority to grant Stock Awards to eligible persons who are either (1) not then Covered Employees and are not expected to be Covered Employees at the time of recognition of income resulting from such Stock Award or (2) not persons with respect to whom the Company wishes to comply with Section 162(m) of the Code and/or (ii) delegate to a committee of one or more members of the Board who are not Non-Employee Directors the authority to grant Stock Awards to eligible persons who are not then subject to Section 16 of the Exchange Act.

#### 4. SHARES SUBJECT TO THE PLAN.

(a) **SHARE RESERVE.** Subject to the provisions of Section 11 relating to adjustments upon changes in stock, the stock that may be issued pursuant to Stock Awards shall not exceed in the aggregate Two Million Three Hundred Thousand (2,300,000) shares of Common Stock.

(b) **REVERSION OF SHARES TO THE SHARE RESERVE.** If any Stock Award shall for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full, the stock not acquired under such Stock Award shall revert to and again become available for issuance under the Plan. The number of shares of Common Stock that may be issued pursuant to Stock Awards, as specified in subsection 4(a), shall only be reduced to reflect new shares that are actually delivered under the Plan. Therefore, a stock-for-stock exercise of an Option shall result in only the net number of additional shares of Common Stock being counted against the share reserve.

(c) **SOURCE OF SHARES.** The stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

(d) **SHARE RESERVE LIMITATION.** Prior to the Listing Date, at no time shall the total number of shares issuable upon exercise of all outstanding Options and the total number of shares provided for under any stock bonus or similar plan of the Company exceed the applicable percentage as calculated in accordance with the conditions and exclusions of Section 260.140.45 of Title 10 of the California Code of Regulations, based on the shares of the Company which are outstanding at the time the calculation is made.<sup>1</sup>

#### 5. ELIGIBILITY.

(a) **ELIGIBILITY FOR SPECIFIC STOCK AWARDS.** Incentive Stock Options may be granted only to Employees. Stock Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants.

(b) **TEN PERCENT SHAREHOLDERS.** No Ten Percent Shareholder shall be eligible for the grant of an Incentive Stock Option unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value of the Common Stock at the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

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(1) Section 260.140.45 generally provides that the total number of shares issuable upon exercise of all outstanding options (exclusive of certain rights) and the total number of shares called for under any stock bonus or similar plan shall not exceed a number of shares which is equal to 30% of the then outstanding shares of the issuer (convertible preferred or convertible senior common shares counted on an as if converted basis), exclusive of shares subject to promotional waivers under Section 260.141, unless a percentage higher than 30% is approved by at least two-thirds of the outstanding shares entitled to vote.

Prior to the Listing Date, no Ten Percent Shareholder shall be eligible for the grant of a Nonstatutory Stock Option unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value of the Common Stock at the date of grant.

Prior to the Listing Date, no Ten Percent Shareholder shall be eligible for a restricted stock award unless the purchase price of the restricted stock is at least one hundred percent (100%) of the Fair Market Value of the Common Stock at the date of grant.

(c) SECTION 162(m) LIMITATION. Subject to the provisions of Section 11 relating to adjustments upon changes in stock, no employee shall be eligible to be granted Options covering more than Two Hundred Thousand (200,000) shares of the Common Stock during any calendar year. This subsection 5(c) shall not apply prior to the Listing Date and, following the Listing Date, this subsection 5(c) shall not apply until (i) the earliest of: (1) the first material modification of the Plan (including any increase in the number of shares reserved for issuance under the Plan in accordance with Section 4); (2) the issuance of all of the shares of Common Stock reserved for issuance under the Plan; (3) the expiration of the Plan; or (4) the first meeting of shareholders at which Directors of the Company are to be elected that occurs after the close of the third calendar year following the calendar year in which occurred the first registration of an equity security under Section 12 of the Exchange Act; or (ii) such other date required by Section 162(m) of the Code and the rules and regulations promulgated thereunder.

## 6. OPTION PROVISIONS.

Each Option shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. All Options shall be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if a certificate is issued for shares purchased on exercise of an Option, a separate certificate or certificates will be issued for shares purchased on exercise of each type of Option. The provisions of separate Options need not be identical, but each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

(a) TERM. Subject to the provisions of subsection 5(b) regarding Ten Percent Shareholders, no Option shall be exercisable after the expiration of ten (10) years from the date it was granted.

(b) EXERCISE PRICE OF AN INCENTIVE STOCK OPTION. Subject to the provisions of subsection 5(b) regarding Ten Percent Shareholders, the exercise price of each Incentive Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of the stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, an Incentive Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(c) **EXERCISE PRICE OF A NONSTATUTORY STOCK OPTION.** Subject to the provisions of subsection 5(b) regarding Ten Percent Shareholders, the exercise price of each Nonstatutory Stock Option granted prior to the Listing Date shall be not less than eighty-five percent (85%) of the Fair Market Value of the stock subject to the Option on the date the Option is granted. The exercise price of each Nonstatutory Stock Option granted on or after the Listing Date shall be not less than fifty percent (50%) of the Fair Market Value of the stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, a Nonstatutory Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(d) **CONSIDERATION.** The purchase price of stock acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations, either (i) in cash at the time the Option is exercised or (ii) at the discretion of the Board at the time of the grant of the Option (or subsequently in the case of a Nonstatutory Stock Option) by (1) delivery to the Company of other Common Stock, (2) according to a deferred payment or other arrangement (which may include, without limiting the generality of the foregoing, the use of other Common Stock) with the Participant or (3) in any other form of legal consideration that may be acceptable to the Board.

In the case of any deferred payment arrangement, interest shall be compounded at least annually and shall be charged at the minimum rate of interest necessary to avoid the treatment as interest, under any applicable provisions of the Code, of any amounts other than amounts stated to be interest under the deferred payment arrangement.

(e) **TRANSFERABILITY OF AN INCENTIVE STOCK OPTION.** An Incentive Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing provisions of this subsection 6(e), the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(f) **TRANSFERABILITY OF A NONSTATUTORY STOCK OPTION.** A Nonstatutory Stock Option granted prior to the Listing Date shall be transferable to the extent that transferability is both permitted by Section 260.140.41(d) of Title 10 of the California Code of Regulations at the time the Option is granted and provided for in the Option Agreement. A Nonstatutory Stock Option granted on or after the Listing Date shall be transferable to the extent provided in the Option Agreement. If the Nonstatutory Stock Option does not provide for transferability, then the Nonstatutory Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing provisions of this subsection 6(f), the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(g) VESTING GENERALLY. The total number of shares of Common Stock subject to an Option may, but need not, vest and therefore become exercisable in periodic installments which may, but need not, be equal. The Option may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Board may deem appropriate. The vesting provisions of individual Options may vary. The provisions of this subsection 6(g) are subject to any Option provisions governing the minimum number of shares as to which an Option may be exercised.

(h) MINIMUM VESTING PRIOR TO THE LISTING DATE. Notwithstanding the foregoing subsection 6(g), an Option granted prior to the Listing Date to a Participant who is not an Officer, Director or Consultant shall provide for vesting of the total number of shares at a rate of at least twenty percent (20%) per year over five (5) years from the date the Option was granted, subject to reasonable conditions such as continued employment.

(i) TERMINATION OF CONTINUOUS SERVICE. In the event an Optionholder's Continuous Service terminates (other than upon the Optionholder's death or Disability), the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise it as of the date of termination) but only within such period of time ending on the earlier of (i) the date three (3) months following the termination of the Optionholder's Continuous Service (or such longer or shorter period specified in the Option Agreement, which, for Options granted prior to the Listing Date, shall not be less than thirty (30) days, unless such termination is for cause), or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified in the Option Agreement, the Option shall terminate.

(j) EXTENSION OF TERMINATION DATE. An Optionholder's Option Agreement may also provide that if the exercise of the Option following the termination of the Optionholder's Continuous Service (other than upon the Optionholder's death or Disability) would be prohibited at any time solely because the issuance of shares would violate the registration requirements under the Securities Act, then the Option shall terminate on the earlier of (i) the expiration of the term of the Option set forth in subsection 6(a) or (ii) the expiration of a period of three (3) months after the termination of the Optionholder's Continuous Service during which the exercise of the Option would not be in violation of such registration requirements.

(k) DISABILITY OF OPTIONHOLDER. In the event an Optionholder's Continuous Service terminates as a result of the Optionholder's Disability, the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise it as of the date of termination), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination (or such longer or shorter period specified in the Option Agreement, which, for Options granted prior to the Listing Date, shall not be less than six (6) months) or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified herein, the Option shall terminate.



(l) DEATH OF OPTIONHOLDER. In the event (i) an Optionholder's Continuous Service terminates as a result of the Optionholder's death or (ii) the Optionholder dies within the period (if any) specified in the Option Agreement after the termination of the Optionholder's Continuous Service for a reason other than death, then the Option may be exercised (to the extent the Optionholder was entitled to exercise the Option as of the date of death) by the Optionholder's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the option upon the Optionholder's death pursuant to subsection 6(e) or 6(f), but only within the period ending on the earlier of (1) the date eighteen (18) months following the date of death (or such longer or shorter period specified in the Option Agreement, which, for Options granted prior to the Listing Date, shall not be less than six (6) months) or (2) the expiration of the term of such Option as set forth in the Option Agreement. If, after death, the Option is not exercised within the time specified herein, the Option shall terminate.

(m) RE-LOAD OPTIONS. Without in any way limiting the authority of the Board to make or not to make grants of Options hereunder, the Board shall have the authority (but not an obligation) to include as part of any Option Agreement a provision entitling the Optionholder to a further Option (a "Re-Load Option") in the event the Optionholder exercises the Option evidenced by the Option Agreement, in whole or in part, by surrendering other shares of Common Stock in accordance with this Plan and the terms and conditions of the Option Agreement. Any such Re-Load Option shall (i) provide for a number of shares equal to the number of shares surrendered as part or all of the exercise price of such Option; (ii) have an expiration date which is the same as the expiration date of the Option the exercise of which gave rise to such Re-Load Option; and (iii) have an exercise price which is equal to one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Re-Load Option on the date of exercise of the original Option. Notwithstanding the foregoing, a Re-Load Option shall be subject to the same exercise price and term provisions heretofore described for Options under the Plan.

Any such Re-Load Option may be an Incentive Stock Option or a Nonstatutory Stock Option, as the Board may designate at the time of the grant of the original Option; provided, however, that the designation of any Re-Load Option as an Incentive Stock Option shall be subject to the one hundred thousand dollars (\$100,000) annual limitation on exercisability of Incentive Stock Options described in subsection 10(d) and in Section 422(d) of the Code. There shall be no Re-Load Options on a Re-Load Option. Any such Re-Load Option shall be subject to the availability of sufficient shares under subsection 4(a) and the "Section 162(m) Limitation" on the grants of Options under subsection 5(c) and shall be subject to such other terms and conditions as the Board may determine which are not inconsistent with the express provisions of the Plan regarding the terms of Options.

## 7. PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS.

(a) STOCK BONUS AWARDS. Each stock bonus agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and

conditions of stock bonus agreements may change from time to time, and the terms and conditions of separate stock bonus agreements need not be identical, but each stock bonus agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) **CONSIDERATION.** A stock bonus shall be awarded in consideration for past services actually rendered to the Company for its benefit.

(ii) **VESTING.** Subject to the "Repurchase Limitation" in subsection 10(h), shares of Common Stock awarded under the stock bonus agreement may, but need not, be subject to a share repurchase option in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(iii) **TERMINATION OF PARTICIPANT'S CONTINUOUS SERVICE.** Subject to the "Repurchase Limitation" in subsection 10(h), in the event a Participant's Continuous Service terminates, the Company may reacquire any or all of the shares of Common Stock held by the Participant which have not vested as of the date of termination under the terms of the stock bonus agreement.

(iv) **TRANSFERABILITY.** For a stock bonus award made before the Listing Date, rights to acquire shares under the stock bonus agreement shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant. For a stock bonus award made on or after the Listing Date, rights to acquire shares under the stock bonus agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the stock bonus agreement, as the Board shall determine in its discretion, so long as stock awarded under the stock bonus agreement remains subject to the terms of the stock bonus agreement.

(b) **RESTRICTED STOCK AWARDS.** Each restricted stock purchase agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of the restricted stock purchase agreements may change from time to time, and the terms and conditions of separate restricted stock purchase agreements need not be identical, but each restricted stock purchase agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) **PURCHASE PRICE.** Subject to the provisions of subsection 5(b) regarding Ten Percent Shareholders, the purchase price under each restricted stock purchase agreement shall be such amount as the Board shall determine and designate in such restricted stock purchase agreement. For restricted stock awards made prior to the Listing Date, the purchase price shall not be less than eighty-five percent (85%) of the stock's Fair Market Value on the date such award is made or at the time the purchase is consummated. For restricted stock awards made on or after the Listing Date, the purchase price shall not be less than fifty percent (50%) of the

stock's Fair Market Value on the date such award is made or at the time the purchase is consummated.

(ii) **CONSIDERATION.** The purchase price of stock acquired pursuant to the restricted stock purchase agreement shall be paid either: (i) in cash at the time of purchase; (ii) at the discretion of the Board, according to a deferred payment or other arrangement with the Participant; or (iii) in any other form of legal consideration that may be acceptable to the Board in its discretion.

(iii) **VESTING.** Subject to the "Repurchase Limitation" in subsection 10(h), shares of Common Stock acquired under the restricted stock purchase agreement may, but need not, be subject to a share repurchase option in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(iv) **TERMINATION OF PARTICIPANT'S CONTINUOUS SERVICE.** Subject to the "Repurchase Limitation" in subsection 10(h), in the event a Participant's Continuous Service terminates, the Company may repurchase or otherwise reacquire any or all of the shares of Common Stock held by the Participant which have not vested as of the date of termination under the terms of the restricted stock purchase agreement.

(v) **TRANSFERABILITY.** For a restricted stock award made before the Listing Date, rights to acquire shares under the restricted stock purchase agreement shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant. For a restricted stock award made on or after the Listing Date, rights to acquire shares under the restricted stock purchase agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the restricted stock purchase agreement, as the Board shall determine in its discretion, so long as stock awarded under the restricted stock purchase agreement remains subject to the terms of the restricted stock purchase agreement.

## 8. COVENANTS OF THE COMPANY.

(a) **AVAILABILITY OF SHARES.** During the terms of the Stock Awards, the Company shall keep available at all times the number of shares of Common Stock required to satisfy such Stock Awards.

(b) **SECURITIES LAW COMPLIANCE.** The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise of the Stock Awards; provided, however, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Stock Award or any stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of stock under the Plan, the Company shall be

relieved from any liability for failure to issue and sell stock upon exercise of such Stock Awards unless and until such authority is obtained.

#### 9. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of stock pursuant to Stock Awards shall constitute general funds of the Company.

#### 10. MISCELLANEOUS.

(a) **ACCELERATION OF EXERCISABILITY AND VESTING.** The Board shall have the power to accelerate the time at which a Stock Award may first be exercised or the time during which a Stock Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Stock Award stating the time at which it may first be exercised or the time during which it will vest.

(b) **SHAREHOLDER RIGHTS.** No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares subject to such Stock Award unless and until such Participant has satisfied all requirements for exercise of the Stock Award pursuant to its terms.

(c) **NO EMPLOYMENT OR OTHER SERVICE RIGHTS.** Nothing in the Plan or any instrument executed or Stock Award granted pursuant thereto shall confer upon any Participant or other holder of Stock Awards any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Stock Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate or (iii) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

(d) **INCENTIVE STOCK OPTION \$100,000 LIMITATION.** To the extent that the aggregate Fair Market Value (determined at the time of grant) of stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and its Affiliates) exceeds one hundred thousand dollars (\$100,000), the Options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options.

(e) **INVESTMENT ASSURANCES.** The Company may require a Participant, as a condition of exercising or acquiring stock under any Stock Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or

she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Stock Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring the stock subject to the Stock Award for the Participant's own account and not with any present intention of selling or otherwise distributing the stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (iii) the issuance of the shares upon the exercise or acquisition of stock under the Stock Award has been registered under a then currently effective registration statement under the Securities Act or (iv) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the stock.

(f) **WITHHOLDING OBLIGATIONS.** To the extent provided by the terms of a Stock Award Agreement, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of stock under a Stock Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares from the shares of the Common Stock otherwise issuable to the Participant as a result of the exercise or acquisition of stock under the Stock Award; or (iii) delivering to the Company owned and unencumbered shares of the Common Stock.

(g) **INFORMATION OBLIGATION.** Prior to the Listing Date, to the extent required by Section 260.140.46 of Title 10 of the California Code of Regulations, the Company shall deliver financial statements to Participants at least annually. This subsection 10(g) shall not apply to Participants whose duties in connection with the Company assure them access to equivalent information.

(h) **REPURCHASE LIMITATION.** The terms of any repurchase option shall be specified in the Stock Award and may be either at Fair Market Value at the time of repurchase or at the original purchase price. To the extent required by Section 260.140.41 and Section 260.140.42 of Title 10 of the California Code of Regulations, any repurchase option contained in a Stock Award granted prior to the Listing Date to a Participant who is not an Officer, Director or Consultant shall be upon the terms described below:

(i) **FAIR MARKET VALUE.** If the repurchase option gives the Company the right to repurchase the shares upon termination of employment at not less than the Fair Market Value of the shares to be purchased on the date of termination of Continuous Service, then (i) the right to repurchase shall be exercised for cash or cancellation of purchase money indebtedness for the shares within ninety (90) days of termination of Continuous Service (or in the case of shares issued upon exercise of Stock Awards after such date of termination, within ninety (90) days after the date of the exercise) or such longer period as may be agreed to by the Company and the

Participant (for example, for purposes of satisfying the requirements of Section 1202(c)(3) of the Code regarding "qualified small business stock") and (ii) the right terminates when the shares become publicly traded.

(ii) ORIGINAL PURCHASE PRICE. If the repurchase option gives the Company the right to repurchase the shares upon termination of Continuous Service at the original purchase price, then (i) the right to repurchase at the original purchase price shall lapse at the rate of at least twenty percent (20%) of the shares per year over five (5) years from the date the Stock Award is granted (without respect to the date the Stock Award was exercised or became exercisable) and (ii) the right to repurchase shall be exercised for cash or cancellation of purchase money indebtedness for the shares within ninety (90) days of termination of Continuous Service (or in the case of shares issued upon exercise of Options after such date of termination, within ninety (90) days after the date of the exercise) or such longer period as may be agreed to by the Company and the Participant (for example, for purposes of satisfying the requirements of Section 1202(c)(3) of the Code regarding "qualified small business stock").

(i) CANCELLATION AND RE-GRANT OF OPTIONS.

(i) AUTHORITY TO REPRICE. The Board shall have the authority to effect, at any time and from time to time, (i) the repricing of any outstanding Options under the Plan and/or (ii) with the consent of any adversely affected holders of Options, the cancellation of any outstanding Options under the Plan and the grant in substitution therefor of new Options under the Plan covering the same or different numbers of shares of Common Stock. The exercise price per share shall be not less than that specified under the Plan for newly granted Stock Awards. Notwithstanding the foregoing, the Board may grant an Option with an exercise price lower than that set forth above if such Option is granted as part of a transaction to which Section 424(a) of the Code applies.

(ii) EFFECT OF REPRICING UNDER SECTION 162(M) OF THE CODE. Shares subject to an Option which is amended or canceled in order to set a lower exercise price per share shall continue to be counted against the maximum award of Options permitted to be granted pursuant to subsection 5(c). The repricing of an Option under this subsection 10(i) resulting in a reduction of the exercise price shall be deemed to be a cancellation of the original Option and the grant of a substitute Option; in the event of such repricing, both the original and the substituted Options shall be counted against the maximum awards of Options permitted to be granted pursuant to subsection 5(c). The provisions of this subsection 10(i)(b) shall be applicable only to the extent required by Section 162(m) of the Code.

11. ADJUSTMENTS UPON CHANGES IN STOCK.

(a) CAPITALIZATION ADJUSTMENTS. If any change is made in the stock subject to the Plan, or subject to any Stock Award, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares,

exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan will be appropriately adjusted in the class(es) and maximum number of securities subject to the Plan pursuant to subsection 4(a) and the maximum number of securities subject to award to any person pursuant to subsection 5(c), and the outstanding Stock Awards will be appropriately adjusted in the class(es) and number of securities and price per share of stock subject to such outstanding Stock Awards. The Board, the determination of which shall be final, binding and conclusive, shall make such adjustments. (The conversion of any convertible securities of the Company shall not be treated as a transaction "without receipt of consideration" by the Company.)

(b) **CHANGE IN CONTROL--DISSOLUTION OR LIQUIDATION.** In the event of a dissolution or liquidation of the Company, then such Stock Awards shall be terminated if not exercised (if applicable) prior to such event.

(c) **CHANGE IN CONTROL--ASSET SALE, MERGER, CONSOLIDATION OR REVERSE MERGER.**

(i) In the event of (1) a sale of substantially all of the assets of the Company, (2) a merger or consolidation in which the Company is not the surviving corporation or (3) a reverse merger in which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise, then any surviving corporation or acquiring corporation shall assume any Stock Awards outstanding under the Plan or shall substitute similar stock awards (including an award to acquire the same consideration paid to the shareholders in the transaction described in this subsection 11(c) for those outstanding under the Plan).

(ii) For purposes of subsection 11(c) an Award shall be deemed assumed if, following the change in control, the Award confers the right to purchase in accordance with its terms and conditions, for each share of Common Stock subject to the Award immediately prior to the change in control, the consideration (whether stock, cash or other securities or property) to which a holder of a share of Common Stock on the effective date of the change in control was entitled.

(iii) In the event any surviving corporation or acquiring corporation refuses to assume such Stock Awards or to substitute similar stock awards for those outstanding under the Plan, then with respect to Stock Awards held by Participants whose Continuous Service has not terminated, the vesting of 50% of such Stock Awards (and, if applicable, the time during which such Stock Awards may be exercised) shall be accelerated in full, and the Stock Awards shall terminate if not exercised (if applicable) at or prior to such event. With respect to any other Stock Awards outstanding under the Plan, such Stock Awards shall terminate if not exercised (if applicable) prior to such event.

## 12. AMENDMENT OF THE PLAN AND STOCK AWARDS.

(a) **AMENDMENT OF PLAN.** The Board at any time, and from time to time, may amend the Plan. However, except as provided in Section 11 relating to adjustments upon changes in stock, no amendment shall be effective unless approved by the shareholders of the Company to the extent shareholder approval is necessary to satisfy the requirements of Section 422 of the Code, Rule 16b-3 or any Nasdaq or securities exchange listing requirements.

(b) **SHAREHOLDER APPROVAL.** The Board may, in its sole discretion, submit any other amendment to the Plan for shareholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of Section 162(m) of the Code and the regulations thereunder regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to certain executive officers.

(c) **CONTEMPLATED AMENDMENTS.** It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide eligible Employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options and/or to bring the Plan and/or Incentive Stock Options granted under it into compliance therewith.

(d) **NO IMPAIRMENT OF RIGHTS.** Rights under any Stock Award granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

(e) **AMENDMENT OF STOCK AWARDS.** The Board at any time, and from time to time, may amend the terms of any one or more Stock Awards; provided, however, that the rights under any Stock Award shall not be impaired by any such amendment unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

## 13. TERMINATION OR SUSPENSION OF THE PLAN.

(a) **PLAN TERM.** The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate on the day before the tenth (10th) anniversary of the date the Plan is adopted by the Board or approved by the shareholders of the Company, whichever is earlier. No Stock Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) **NO IMPAIRMENT OF RIGHTS.** Suspension or termination of the Plan shall not impair rights and obligations under any Stock Award granted while the Plan is in effect except with the written consent of the Participant.

## 14. EFFECTIVE DATE OF PLAN.

The Plan shall become effective as determined by the Board, but no Stock Award shall be exercised (or, in the case of a stock bonus, shall be granted) unless and until the Plan has been



approved by the shareholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

#### 15. CHOICE OF LAW.

All questions concerning the construction, validity and interpretation of this Plan shall be governed by the law of the State of Washington, without regard to such states conflict of laws rules.

**F5 NETWORKS, INC.**  
**1998 EQUITY INCENTIVE PLAN**

**STOCK OPTION AGREEMENT**

Pursuant to the Stock Option Grant Notice ("Grant Notice") and this Stock Option Agreement, F5 Networks, Inc. (the "Company") has granted you an option under its 1998 Equity Incentive Plan (the "Plan") to purchase the number of shares of the Company's Common Stock indicated in the Grant Notice at the exercise price indicated in the Grant Notice. Your option is granted in connection with and in furtherance of the Company's compensatory benefit plan for the Employees, Directors and Consultants of the Company and its Affiliates. Defined terms not explicitly defined in this Stock Option Agreement but defined in the Plan shall have the same definitions as in the Plan.

Your option is intended to comply with the provisions of Rule 701 promulgated by the Securities and Exchange Commission under the Securities Act.

The details of your option are as follows:

1. **VESTING.** Subject to the limitations contained herein, your option will vest as provided in the Grant Notice, provided that vesting will cease upon the termination of your Continuous Service.
2. **NUMBER OF SHARES AND EXERCISE PRICE.** The number of shares subject to your option and your exercise price per share referenced in the Grant Notice may be adjusted from time to time for Capitalization Adjustments, as provided in the Plan.
3. **METHOD OF PAYMENT.** Payment of the exercise price is due in full upon exercise of all or any part of your option. You may elect to make payment of the exercise price in cash or by check or in any other manner **PERMITTED BY THE GRANT NOTICE**, which may include one or more of the following if the Company, in its sole discretion at the time your option is exercised, is then offering such alternatives:
  - (a) Provided that at the time of exercise the Common Stock is publicly traded and quoted regularly in **THE WALL STREET JOURNAL**, then pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board which, prior to the issuance of Common Stock, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds (a "cashless exercise").
  - (b) Provided that at the time of exercise the Common Stock is publicly traded and quoted regularly in **THE WALL STREET JOURNAL**, then by delivery of already-owned shares of Common Stock (valued at their Fair Market Value on the date of exercise) if (i) either you have

held the already-owned shares for the period required to avoid a charge to the Company's reported earnings (generally six months) or you did not acquire the already-owned shares, directly or indirectly from the Company, and (ii) you own the already-owned shares free and clear of any liens, claims, encumbrances or security interests. "Delivery" for these purposes, in the sole discretion of the Company at the time your option is exercised, shall include delivery to the Company of your attestation of ownership of such shares of Common Stock in a form approved by the Company. Notwithstanding the foregoing, your option may not be exercised by tender to the Company of Common Stock to the extent such tender would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company's stock.

(c) Provided there has been a change in control described in subsection 11(c) of the Plan and the surviving corporation or acquiring corporation refuses to assume your option or to substitute a similar option for your option, then by authorizing the Company to withhold shares from the shares of the Common Stock otherwise issuable to you as a result of the exercise of your option. Notwithstanding the foregoing, your option may not be exercised by withholding shares of Common Stock to the extent such withholding would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company's stock.

4. **WHOLE SHARES.** Your option may only be exercised for whole shares.

5. **SECURITIES LAW COMPLIANCE.** Notwithstanding anything to the contrary contained herein, your option may not be exercised unless the shares issuable upon exercise of your option are then registered under the Securities Act or, if such shares are not then so registered, the Company has determined that such exercise and issuance would be exempt from the registration requirements of the Securities Act. The exercise of your option must also comply with other applicable laws and regulations governing the option, and the option may not be exercised if the Company determines that the exercise would not be in material compliance with such laws and regulations.

6. **TERM.** The term of your option commences on the Date of Grant and expires upon the EARLIEST of the following:

(a) three (3) months after the termination of your Continuous Service for any reason other than death or Disability, provided that if during any part of such three-month period the option is not exercisable solely because of the condition set forth in paragraph 5, the option shall not expire until the earlier of the Expiration Date or until it shall have been exercisable for an aggregate period of three (3) months after the termination of your Continuous Service;

(b) twelve (12) months after the termination of your Continuous Service due to Disability;

(c) eighteen (18) months after your death if you die either during your Continuous Service or within three (3) months after your Continuous Service terminates for reason other than Cause;

(d) the Expiration Date indicated in the Grant Notice; or

(e) the tenth (10th) anniversary of the Date of Grant.

If your option is an incentive stock option, note that, to obtain the federal income tax advantages associated with an "incentive stock option," the Code requires that at all times beginning on the date of grant of the option and ending on the day three (3) months before the date of the option's exercise, you must be an employee of the Company or an Affiliate, except in the event of your death or your Disability. The Company has provided for extended exercisability of your option in the event of your death or Disability, but the Company cannot guarantee that your option will necessarily be treated as an "incentive stock option" if you continue to provide services to the Company or an Affiliate as a Consultant or Director after your employment terminates or if you exercise your option more than three (3) months after the date your employment with the Company or an Affiliate terminates.

## 7. EXERCISE.

(a) You may exercise the vested portion of your option during its term by delivering a Notice of Exercise (in a form designated by the Company) together with the exercise price to the Secretary of the Company, or to such other person as the Company may designate, during regular business hours, together with such additional documents as the Company may then require.

(b) By exercising your option you agree that, as a condition to any exercise of your option, the Company may require you to enter an arrangement providing for the payment by you to the Company of any tax withholding obligation of the Company arising by reason of (1) the exercise of your option or (2) the disposition of shares acquired upon such exercise.

(c) If your option is an incentive stock option, by exercising your option you agree that you will notify the Company in writing within fifteen (15) days after the date of any disposition of any of the shares of the Common Stock issued upon exercise of your option that occurs within two (2) years after the date of your option grant or within one (1) year after such shares of Common Stock are transferred upon exercise of your option.

(d) By exercising your option you agree that the Company (or a representative of the underwriters) may, in connection with the first underwritten registration of the offering of any securities of the Company under the Securities Act, require that you not sell, dispose of, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, any shares of Common Stock or other securities of the Company held by you, for a period of time specified by the underwriter (s)

(not to exceed one hundred eighty (180) days) following the effective date of the registration statement of the Company filed under the Securities Act. You further agree to execute and deliver such other agreements as may be reasonably requested by the Company and/or the underwriter(s) which are consistent with the foregoing or which are necessary to give further effect thereto. In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to your Common Stock until the end of such period.

8. TRANSFERABILITY. Your option is not transferable, except by will or by the laws of descent and distribution, and is exercisable during your life only by you. Notwithstanding the foregoing, by delivering written notice to the Company, in a form satisfactory to the Company, you may designate a third party who, in the event of your death, shall thereafter be entitled to exercise your option.

9. OPTION NOT A SERVICE CONTRACT. Your option is not an employment or service contract, and nothing in your option shall be deemed to create in any way whatsoever any obligation on your part to continue in the employ of the Company or an Affiliate, or of the Company or an Affiliate to continue your employment. In addition, nothing in your option shall obligate the Company or an Affiliate, their respective shareholders, Boards of Directors, Officers or Employees to continue any relationship that you might have as a Director or Consultant for the Company or an Affiliate.

#### 10. WITHHOLDING OBLIGATIONS.

(a) At the time your option is exercised, in whole or in part, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and any other amounts payable to you, and otherwise agree to make adequate provision for (including by means of a "cashless exercise" pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or an Affiliate, if any, which arise in connection with your option.

(b) Your option is not exercisable unless the tax withholding obligations of the Company and/or any Affiliate are satisfied. Accordingly, you may not be able to exercise your option when desired even though your option is vested.

11. NOTICES. Any notices provided for in your option or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

12. GOVERNING PLAN DOCUMENT. Your option is subject to all applicable provisions of the Plan, which are hereby made a part of your option, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated

and adopted pursuant to the Plan. In the event of any conflict between the provisions of your option and those of the Plan, the provisions of the Plan shall control.

**F5 NETWORKS, INC**  
**1999 EMPLOYEE STOCK PURCHASE PLAN**

**ADOPTED BY BOARD OF DIRECTORS APRIL 5, 1999**  
**APPROVED BY STOCKHOLDERS \_\_\_\_\_, 1999**  
**TERMINATION DATE: NONE**

**1. PURPOSE.**

- (a) The purpose of the Plan is to provide a means by which Employees of the Company and certain designated Affiliates may be given an opportunity to purchase Shares of the Company.
- (b) The Company, by means of the Plan, seeks to retain the services of such Employees, to secure and retain the services of new Employees and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Affiliates.
- (c) The Company intends that the Rights to purchase Shares granted under the Plan be considered options issued under an "employee stock purchase plan," as that term is defined in Section 423(b) of the Code.

**2. DEFINITIONS.**

- (a) "AFFILIATE" means any parent corporation or subsidiary corporation, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.
- (b) "BOARD" means the Board of Directors of the Company.
- (c) "CODE" means the United States Internal Revenue Code of 1986, as amended.
- (d) "COMMITTEE" means a Committee appointed by the Board in accordance with subparagraph 3(c) of the Plan.
- (e) "COMPANY" means F5 Networks, Inc. a Washington corporation.
- (f) "DIRECTOR" means a member of the Board.
- (g) "ELIGIBLE EMPLOYEE" means an Employee who meets the requirements set forth in the Offering for eligibility to participate in the Offering.
- (h) "EMPLOYEE" means any person, including Officers and Directors, employed by the Company or an Affiliate of the Company. Neither service as a Director nor payment of a director's fee shall be sufficient to constitute "employment" by the Company or the Affiliate.

(i) "EMPLOYEE STOCK PURCHASE PLAN" means a plan that grants rights intended to be options issued under an "employee stock purchase plan," as that term is defined in Section 423(b) of the Code.

(j) "EXCHANGE ACT" means the United States Securities Exchange Act of 1934, as amended.

(k) "FAIR MARKET VALUE" means the value of a security, as determined in good faith by the Board. If the security is listed on any established stock exchange or traded on the Nasdaq National Market or the Nasdaq SmallCap Market, then, except as otherwise provided in the Offering, the Fair Market Value of the security shall be the closing sales price (rounded up where necessary to the nearest whole cent) for such security (or the closing bid, if no sales were reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the relevant security of the Company) on the trading day prior to the relevant determination date, as reported in THE WALL STREET JOURNAL or such other source as the Board deems reliable.

(l) "NON-EMPLOYEE DIRECTOR" means a Director who either (i) is not a current Employee or Officer of the Company or its parent or subsidiary, does not receive compensation (directly or indirectly) from the Company or its parent or subsidiary for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act ("Regulation S-K")), does not possess an interest in any other transaction as to which disclosure would be required under Item 404(a) of Regulation S-K, and is not engaged in a business relationship as to which disclosure would be required under Item 404(b) of Regulation S-K; or (ii) is otherwise considered a "non-employee director" for purposes of Rule 16b-3.

(m) "OFFERING" means the grant of Rights to purchase Shares under the Plan to Eligible Employees.

(n) "OFFERING DATE" means a date selected by the Board for an Offering to commence.

(o) "OUTSIDE DIRECTOR" means a Director who either (i) is not a current employee of the Company or an "affiliated corporation" (within the meaning of the Treasury regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an "affiliated corporation" receiving compensation for prior services (other than benefits under a tax qualified pension plan), was not an officer of the Company or an "affiliated corporation" at any time, and is not currently receiving direct or indirect remuneration from the Company or an "affiliated corporation" for services in any capacity other than as a Director, or (ii) is otherwise considered an "outside director" for purposes of Section 162(m) of the Code.

(p) "PARTICIPANT" means an Eligible Employee who holds an outstanding Right granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Right granted under the Plan.



(q) "PLAN" means this F5 Networks, Inc. 1999 Employee Stock Purchase Plan.

(r) "PURCHASE DATE" means one or more dates established by the Board during an Offering on which Rights granted under the Plan shall be exercised and purchases of Shares carried out in accordance with such Offering.

(s) "RIGHT" means an option to purchase Shares granted pursuant to the Plan.

(t) "RULE 16b-3" means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3 as in effect with respect to the Company at the time discretion is being exercised regarding the Plan.

(u) "SECURITIES ACT" means the United States Securities Act of 1933, as amended.

(v) "SHARE" means a share of the common stock of the Company.

### 3. ADMINISTRATION.

(a) The Board shall administer the Plan unless and until the Board delegates administration to a Committee, as provided in subparagraph 3(c). Whether or not the Board has delegated administration, the Board shall have the final power to determine all questions of policy and expediency that may arise in the administration of the Plan.

(b) The Board (or the Committee) shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine when and how Rights to purchase Shares shall be granted and the provisions of each Offering of such Rights (which need not be identical).

(ii) To designate from time to time which Affiliates of the Company shall be eligible to participate in the Plan.

(iii) To construe and interpret the Plan and Rights granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iv) To amend the Plan as provided in paragraph 14.

(v) Generally, to exercise such powers and to perform such acts as it deems necessary or expedient to promote the best interests of the Company and its Affiliates and to carry out the intent that the Plan be treated as an Employee Stock Purchase Plan.

(c) The Board may delegate administration of the Plan to a Committee of the Board composed of two (2) or more members, all of the members of which Committee may be, in the discretion of the Board, Non-Employee Directors and/or Outside Directors. If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the

Plan, the powers theretofore possessed by the Board, including the power to delegate to a subcommittee of two (2) or more Outside Directors any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or such a subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revest in the Board the administration of the Plan.

#### 4. SHARES SUBJECT TO THE PLAN.

(a) Subject to the provisions of paragraph 13 relating to adjustments upon changes in securities, the Shares that may be sold pursuant to Rights granted under the Plan shall not exceed in the aggregate one million (1,000,000) Shares. If any Right granted under the Plan shall for any reason terminate without having been exercised, the Shares not purchased under such Right shall again become available for the Plan.

(b) The Shares subject to the Plan may be unissued Shares or Shares that have been bought on the open market at prevailing market prices or otherwise.

#### 5. GRANT OF RIGHTS; OFFERING.

(a) The Board may from time to time grant or provide for the grant of Rights to purchase Shares of the Company under the Plan to Eligible Employees in an Offering on an Offering Date or Dates selected by the Board. Each Offering shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate, which shall comply with the requirements of Section 423(b)(5) of the Code that all Employees granted Rights to purchase Shares under the Plan shall have the same rights and privileges. The terms and conditions of an Offering shall be incorporated by reference into the Plan and treated as part of the Plan. The provisions of separate Offerings need not be identical, but each Offering shall include (through incorporation of the provisions of this Plan by reference in the document comprising the Offering or otherwise) the period during which the Offering shall be effective, which period shall not exceed twenty-seven (27) months beginning with the Offering Date, and the substance of the provisions contained in paragraphs 6 through 9, inclusive.

(b) If a Participant has more than one Right outstanding under the Plan, unless he or she otherwise indicates in agreements or notices delivered hereunder: (i) each agreement or notice delivered by that Participant will be deemed to apply to all of his or her Rights under the Plan, and (ii) an earlier-granted Right (or a Right with a lower exercise price, if two Rights have identical grant dates) will be exercised to the fullest possible extent before a later-granted Right (or a Right with a higher exercise price if two Rights have identical grant dates) will be exercised.

#### 6. ELIGIBILITY.

(a) Rights may be granted only to Employees of the Company or, as the Board may designate as provided in subparagraph 3(b), to Employees of an Affiliate. Except as provided

in subparagraph 6(b), an Employee shall not be eligible to be granted Rights under the Plan unless, on the Offering Date, such Employee has been in the employ of the Company or the Affiliate, as the case may be, for such continuous period preceding such grant as the Board may require, but in no event shall the required period of continuous employment be equal to or greater than two (2) years.

(b) The Board may provide that each person who, during the course of an Offering, first becomes an Eligible Employee will, on a date or dates specified in the Offering which coincides with the day on which such person becomes an Eligible Employee or which occurs thereafter, receive a Right under that Offering, which Right shall thereafter be deemed to be a part of that Offering. Such Right shall have the same characteristics as any Rights originally granted under that Offering, as described herein, except that:

(i) the date on which such Right is granted shall be the "Offering Date" of such Right for all purposes, including determination of the exercise price of such Right;

(ii) the period of the Offering with respect to such Right shall begin on its Offering Date and end coincident with the end of such Offering; and

(iii) the Board may provide that if such person first becomes an Eligible Employee within a specified period of time before the end of the Offering, he or she will not receive any Right under that Offering.

(c) No Employee shall be eligible for the grant of any Rights under the Plan if, immediately after any such Rights are granted, such Employee owns stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any Affiliate. For purposes of this subparagraph 6(c), the rules of Section 424(d) of the Code shall apply in determining the stock ownership of any Employee, and stock which such Employee may purchase under all outstanding rights and options shall be treated as stock owned by such Employee.

(d) An Eligible Employee may be granted Rights under the Plan only if such Rights, together with any other Rights granted under all Employee Stock Purchase Plans of the Company and any Affiliates, as specified by Section 423(b)(8) of the Code, do not permit such Eligible Employee's rights to purchase Shares of the Company or any Affiliate to accrue at a rate which exceeds twenty five thousand dollars (\$25,000) of the fair market value of such Shares (determined at the time such Rights are granted) for each calendar year in which such Rights are outstanding at any time.

(e) The Board may provide in an Offering that Employees who are highly compensated Employees within the meaning of Section 423(b)(4)(D) of the Code shall not be eligible to participate.

## 7. RIGHTS; PURCHASE PRICE.

(a) On each Offering Date, each Eligible Employee, pursuant to an Offering made under the Plan, shall be granted the Right to purchase up to the number of Shares purchasable either:

(i) with a percentage designated by the Board not exceeding fifteen percent (15%) of such Employee's Earnings (as defined by the Board in each Offering) during the period which begins on the Offering Date (or such later date as the Board determines for a particular Offering) and ends on the date stated in the Offering, which date shall be no later than the end of the Offering; or

(ii) with a maximum dollar amount designated by the Board that, as the Board determines for a particular Offering, (1) shall be withheld, in whole or in part, from such Employee's Earnings (as defined by the Board in each Offering) during the period which begins on the Offering Date (or such later date as the Board determines for a particular Offering) and ends on the date stated in the Offering, which date shall be no later than the end of the Offering and/or (2) shall be contributed, in whole or in part, by such Employee during such period.

(b) The Board shall establish one or more Purchase Dates during an Offering on which Rights granted under the Plan shall be exercised and purchases of Shares carried out in accordance with such Offering.

(c) In connection with each Offering made under the Plan, the Board may specify a maximum amount of Shares that may be purchased by any Participant as well as a maximum aggregate amount of Shares that may be purchased by all Participants pursuant to such Offering. In addition, in connection with each Offering that contains more than one Purchase Date, the Board may specify a maximum aggregate amount of Shares which may be purchased by all Participants on any given Purchase Date under the Offering. If the aggregate purchase of Shares upon exercise of Rights granted under the Offering would exceed any such maximum aggregate amount, the Board shall make a pro rata allocation of the Shares available in as nearly a uniform manner as shall be practicable and as it shall deem to be equitable.

(d) The purchase price of Shares acquired pursuant to Rights granted under the Plan shall be not less than the lesser of:

(i) an amount equal to eighty-five percent (85%) of the fair market value of the Shares on the Offering Date; or

(ii) an amount equal to eighty-five percent (85%) of the fair market value of the Shares on the Purchase Date.

## 8. PARTICIPATION; WITHDRAWAL; TERMINATION.

(a) An Eligible Employee may become a Participant in the Plan pursuant to an Offering by delivering a participation agreement to the Company within the time specified in the

Offering, in such form as the Company provides. Each such agreement shall authorize payroll deductions of up to the maximum percentage specified by the Board of such Employee's Earnings during the Offering (as defined in each Offering). The payroll deductions made for each Participant shall be credited to a bookkeeping account for such Participant under the Plan and either may be deposited with the general funds of the Company or may be deposited in a separate account in the name of, and for the benefit of, such Participant with a financial institution designated by the Company. To the extent provided in the Offering, a Participant may reduce (including to zero) or increase such payroll deductions. To the extent provided in the Offering, a Participant may begin such payroll deductions after the beginning of the Offering. A Participant may make additional payments into his or her account only if specifically provided for in the Offering and only if the Participant has not already had the maximum permitted amount withheld during the Offering.

(b) At any time during an Offering, a Participant may terminate his or her payroll deductions under the Plan and withdraw from the Offering by delivering to the Company a notice of withdrawal in such form as the Company provides. Such withdrawal may be elected at any time prior to the end of the Offering except as provided by the Board in the Offering. Upon such withdrawal from the Offering by a Participant, the Company shall distribute to such Participant all of his or her accumulated payroll deductions (reduced to the extent, if any, such deductions have been used to acquire Shares for the Participant) under the Offering, without interest unless otherwise specified in the Offering, and such Participant's interest in that Offering shall be automatically terminated. A Participant's withdrawal from an Offering will have no effect upon such Participant's eligibility to participate in any other Offerings under the Plan but such Participant will be required to deliver a new participation agreement in order to participate in subsequent Offerings under the Plan.

(c) Rights granted pursuant to any Offering under the Plan shall terminate immediately upon cessation of any participating Employee's employment with the Company or a designated Affiliate for any reason (subject to any post-employment participation period required by law) or other lack of eligibility. The Company shall distribute to such terminated Employee all of his or her accumulated payroll deductions (reduced to the extent, if any, such deductions have been used to acquire Shares for the terminated Employee) under the Offering, without interest unless otherwise specified in the Offering. If the accumulated payroll deductions have been deposited with the Company's general funds, then the distribution shall be made from the general funds of the Company, without interest. If the accumulated payroll deductions have been deposited in a separate account with a financial institution as provided in subparagraph 8(a), then the distribution shall be made from the separate account, without interest unless otherwise specified in the Offering.

(d) Rights granted under the Plan shall not be transferable by a Participant otherwise than by will or the laws of descent and distribution, or by a beneficiary designation as provided in paragraph 15 and, otherwise during his or her lifetime, shall be exercisable only by the person to whom such Rights are granted.

## 9. EXERCISE.

(a) On each Purchase Date specified therefor in the relevant Offering, each Participant's accumulated payroll deductions and other additional payments specifically provided for in the Offering (without any increase for interest) will be applied to the purchase of Shares up to the maximum amount of Shares permitted pursuant to the terms of the Plan and the applicable Offering, at the purchase price specified in the Offering. No fractional Shares shall be issued upon the exercise of Rights granted under the Plan unless specifically provided for in the Offering.

(b) Unless otherwise specifically provided in the Offering, the amount, if any, of accumulated payroll deductions remaining in any Participant's account after the purchase of Shares that is equal to the amount required to purchase one or more whole Shares on the final Purchase Date of the Offering shall be distributed in full to the Participant at the end of the Offering, without interest. If the accumulated payroll deductions have been deposited with the Company's general funds, then the distribution shall be made from the general funds of the Company, without interest. If the accumulated payroll deductions have been deposited in a separate account with a financial institution as provided in subparagraph 8(a), then the distribution shall be made from the separate account, without interest unless otherwise specified in the Offering.

(c) No Rights granted under the Plan may be exercised to any extent unless the Shares to be issued upon such exercise under the Plan (including Rights granted thereunder) are covered by an effective registration statement pursuant to the Securities Act and the Plan is in material compliance with all applicable state, foreign and other securities and other laws applicable to the Plan. If on a Purchase Date in any Offering hereunder the Plan is not so registered or in such compliance, no Rights granted under the Plan or any Offering shall be exercised on such Purchase Date, and the Purchase Date shall be delayed until the Plan is subject to such an effective registration statement and such compliance, except that the Purchase Date shall not be delayed more than twelve (12) months and the Purchase Date shall in no event be more than twenty-seven (27) months from the Offering Date. If, on the Purchase Date of any Offering hereunder, as delayed to the maximum extent permissible, the Plan is not registered and in such compliance, no Rights granted under the Plan or any Offering shall be exercised and all payroll deductions accumulated during the Offering (reduced to the extent, if any, such deductions have been used to acquire Shares) shall be distributed to the Participants, without interest unless otherwise specified in the Offering. If the accumulated payroll deductions have been deposited with the Company's general funds, then the distribution shall be made from the general funds of the Company, without interest. If the accumulated payroll deductions have been deposited in a separate account with a financial institution as provided in subparagraph 8(a), then the distribution shall be made from the separate account, without interest unless otherwise specified in the Offering.

## 10. COVENANTS OF THE COMPANY.

(a) During the terms of the Rights granted under the Plan, the Company shall ensure that the amount of Shares required to satisfy such Rights are available.

(b) The Company shall seek to obtain from each federal, state, foreign or other regulatory commission or agency having jurisdiction over the Plan such authority as may be required to issue and sell Shares upon exercise of the Rights granted under the Plan. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of Shares under the Plan, the Company shall be relieved from any liability for failure to issue and sell Shares upon exercise of such Rights unless and until such authority is obtained.

#### 11. USE OF PROCEEDS FROM SHARES.

Proceeds from the sale of Shares pursuant to Rights granted under the Plan shall constitute general funds of the Company.

#### 12. RIGHTS AS A STOCKHOLDER.

A Participant shall not be deemed to be the holder of, or to have any of the rights of a holder with respect to, Shares subject to Rights granted under the Plan unless and until the Participant's Shares acquired upon exercise of Rights under the Plan are recorded in the books of the Company.

#### 13. ADJUSTMENTS UPON CHANGES IN SECURITIES.

(a) If any change is made in the Shares subject to the Plan, or subject to any Right, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan will be appropriately adjusted in the class(es) and maximum number of Shares subject to the Plan pursuant to subparagraph 4(a), and the outstanding Rights will be appropriately adjusted in the class(es), number of Shares and purchase limits of such outstanding Rights. The Board shall make such adjustments, and its determination shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a transaction that does not involve the receipt of consideration by the Company.)

(b) In the event of: (i) a dissolution, liquidation, or sale of all or substantially all of the assets of the Company; (ii) a merger or consolidation in which the Company is not the surviving corporation; or (iii) a reverse merger in which the Company is the surviving corporation but the Shares outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise, then: (1) any surviving or acquiring corporation shall assume Rights outstanding under the Plan or shall substitute similar rights (including a right to acquire the same consideration paid to Stockholders in the transaction described in this subparagraph 13(b)) for those outstanding under the Plan, or (2) in the event any surviving or acquiring corporation refuses to assume such Rights or to substitute similar rights for those outstanding under the Plan, then, as determined by the Board in its sole discretion such Rights may continue in full force and effect or the Participants' accumulated payroll deductions (exclusive of any accumulated interest which cannot be applied

toward the purchase of Shares under the terms of the Offering) may be used to purchase Shares immediately prior to the transaction described above under the ongoing Offering and the Participants' Rights under the ongoing Offering thereafter terminated.

#### 14. AMENDMENT OF THE PLAN.

(a) The Board at any time, and from time to time, may amend the Plan. However, except as provided in paragraph 13 relating to adjustments upon changes in securities and except as to minor amendments to benefit the administration of the Plan, to take account of a change in legislation or to obtain or maintain favorable tax, exchange control or regulatory treatment for Participants or the Company or any Affiliate, no amendment shall be effective unless approved by the stockholders of the Company to the extent stockholder approval is necessary for the Plan to satisfy the requirements of Section 423 of the Code, Rule 16b-3 under the Exchange Act and any Nasdaq or other securities exchange listing requirements. Currently under the Code, stockholder approval within twelve (12) months before or after the adoption of the amendment is required where the amendment will:

(i) Increase the amount of Shares reserved for Rights under the Plan;

(ii) Modify the provisions as to eligibility for participation in the Plan to the extent such modification requires stockholder approval in order for the Plan to obtain employee stock purchase plan treatment under Section 423 of the Code or to comply with the requirements of Rule 16b-3; or

(iii) Modify the Plan in any other way if such modification requires stockholder approval in order for the Plan to obtain employee stock purchase plan treatment under Section 423 of the Code or to comply with the requirements of Rule 16b-3.

(b) It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide Employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Employee Stock Purchase Plans and/or to bring the Plan and/or Rights granted under it into compliance therewith.

(c) Rights and obligations under any Rights granted before amendment of the Plan shall not be impaired by any amendment of the Plan, except with the consent of the person to whom such Rights were granted, or except as necessary to comply with any laws or governmental regulations, or except as necessary to ensure that the Plan and/or Rights granted under the Plan comply with the requirements of Section 423 of the Code.

#### 15. DESIGNATION OF BENEFICIARY.

(a) A Participant may file a written designation of a beneficiary who is to receive any Shares and/or cash, if any, from the Participant's account under the Plan in the event of such Participant's death subsequent to the end of an Offering but prior to delivery to the Participant of such Shares and cash. In addition, a Participant may file a written designation of a beneficiary



who is to receive any cash from the Participant's account under the Plan in the event of such Participant's death during an Offering.

(b) The Participant may change such designation of beneficiary at any time by written notice. In the event of the death of a Participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Company shall deliver such Shares and/or cash to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its sole discretion, may deliver such Shares and/or cash to the spouse or to any one or more dependents or relatives of the Participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

#### 16. TERMINATION OR SUSPENSION OF THE PLAN.

(a) The Board in its discretion may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate at the time that all of the Shares subject to the Plan's reserve, as increased and/or adjusted from time to time, have been issued under the terms of the Plan. No Rights may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) Rights and obligations under any Rights granted while the Plan is in effect shall not be impaired by suspension or termination of the Plan, except as expressly provided in the Plan or with the consent of the person to whom such Rights were granted, or except as necessary to comply with any laws or governmental regulation, or except as necessary to ensure that the Plan and/or Rights granted under the Plan comply with the requirements of Section 423 of the Code.

#### 17. EFFECTIVE DATE OF PLAN.

The Plan shall become effective as determined by the Board, but no Rights granted under the Plan shall be exercised unless and until the Plan has been approved by the stockholders of the Company within twelve (12) months before or after the date the Plan is adopted by the Board, which date may be prior to the effective date set by the Board.

# **F5 LABS, INC. AMENDED AND RESTATED**

## **DIRECTORS' NONQUALIFIED STOCK OPTION PLAN**

(Revised effective as of October 1, 1998)

This Amended and Restated Nonqualified Stock Option Plan (the "Plan") provides for the grant of options to acquire shares of Common Stock, no par value (the "Common Stock"), of F5 Labs, Inc., a Washington corporation (the "Company"). Stock options granted under this Plan (the "Options" or "Option") are intended to be nonstatutory stock options which do not qualify under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

1. **PURPOSE.** The purpose of this Plan is to compensate certain directors of the Company (the "Optionees" or "Optionee").

2. **ADMINISTRATION.** This Plan shall be administered by the Board of Directors of the Company (the "Board"), except that the Board may, in its discretion, establish a committee composed of members of the Board or other persons to administer this Plan, which committee (the "Committee") may be an executive, compensation or other committee, including a separate committee especially created for this purpose. The Committee shall have such of the powers and authority vested in the Board hereunder as the Board may delegate to it (including the power and authority to interpret any provision of this Plan or of any Option). The members of any such Committee shall serve at the discretion of the Board. The Board, or the Committee if one has been established by the Board, are referred to in this Plan as the "Plan Administrator." Following registration of any of the Company's securities under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), no person shall serve as a member of the Plan Administrator if his or her service would disqualify this Plan from eligibility under Securities and Exchange Commission Rule 16b-3, as amended from time to time, or any successor rule or regulatory requirements; **PROVIDED**, that the Plan Administrator shall consist of at least the minimum number of persons required by Securities and Exchange Commission Rule 16b-3, as amended, or any successor rule or regulatory requirements.

Subject to the provisions of this Plan, and with a view to effecting its purpose, the Plan Administrator shall have sole authority, in its absolute discretion, to: (a) construe and interpret this Plan; (b) define the terms used in this Plan; (c) prescribe, amend and rescind rules and regulations relating to this Plan; (d) correct any defect, supply any omission or reconcile any inconsistency in this Plan; (e) determine the exercise price of each Option, the duration of each Option and the times at which each Option shall become exercisable; (f) determine all other terms and conditions of Options; and (g) make all other determinations necessary or advisable for the administration of this Plan. All decisions, determinations and interpretations made by the Plan Administrator shall be binding and conclusive on all participants in this Plan and on their legal representatives, heirs and beneficiaries.

3. **ELIGIBILITY.** Persons eligible to receive options under this Plan shall be all directors of the Company who are not otherwise employed by the Company or any Related Corporation, as defined below (the "Directors" or "Director"). Options may be granted in substitution for outstanding Options of another corporation in connection with the merger,

consolidation, acquisition of property or stock or other reorganization between such other corporation and the Company or any subsidiary of the Company. Options also may be granted in exchange for outstanding Options.

As used in this Plan, the term "Related Corporation," when referring to a subsidiary corporation, shall mean any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of the granting of the Option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock of one of the other corporations in such chain. When referring to a parent corporation, the term "Related Corporation" shall mean any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if, at the time of granting of the Option, each of the corporations other than the Company owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock of one of the other corporations in such chain.

4. STOCK. Subject to approval of the Plan by shareholders of the Company, each individual who, subsequent to the closing of the Company's Series A Preferred Stock financing and prior to the Company's Series D Preferred Stock financing, becomes a Director of the Company, and who is not otherwise an employee of the Company or any Related Corporation or is not elected as a Director in direct connection with his or her investment in the Company (or with an investment in the Company by an entity with whom he or she is affiliated or by which he or she is designated as a representative), shall automatically be issued options to acquire 42,000 shares of Common Stock of the Company. No options shall be granted under the Plan after the closing of the Company's Series D Preferred Stock financing. Options to purchase up to the maximum number of shares of Common Stock which may be granted pursuant to the Company's Amended and Restated 1996 Stock Option Plan, as such plan may be amended from time to time hereafter (subject to adjustment as provided in the Company's Amended and Restated 1996 Stock Option Plan) in the aggregate may be issued pursuant to the Plan, LESS any shares issuable upon the exercise of Options granted under the Company's Amended and Restated 1996 Stock Option Plan. The number of options available for a grant hereunder is further subject to adjustment as set forth in

Section 5.12 hereof. In the event that any outstanding Option expires or is terminated for any reason, those shares of Common Stock allocable to the unexercised portion of such Option may be subject to one or more other Options issued pursuant to the Plan or the Company's Amended and Restated 1996 Stock Option Plan.

5. TERMS AND CONDITIONS OF OPTIONS. Each Option shall be evidenced by a written agreement (the "Agreement") in the form approved by the Company. Agreements may contain such additional provisions, not inconsistent herewith, as the Company in its discretion may deem advisable. All Options shall also comply with the following requirements:

5.1 NUMBER OF SHARES. Each Agreement shall state the number of shares to which it pertains.

5.2 DATE OF GRANT. Each Option shall state the date the Company and the Director entered into the Agreement (the "Date of Grant"), which shall be a date that is no more

than thirty (30) days following the approval of this Plan by the shareholders of the Company, or, in the case of new Directors, the date the individual becomes a Director, whichever is applicable.

5.3 OPTION PRICE. The exercise price for all Options granted hereunder shall be the fair market value on Date of Grant, as determined by the Plan Administrator.

5.4 VESTING SCHEDULE. All Options shall vest according to the following schedule:

Number of Years Following Date of Grant -----	Percentage of Total Option to Be Exercisable -----
1	33 1/3%
2	66 2/3%
3	100%

5.5 ACCELERATION OF VESTING. Options granted pursuant to the Plan shall become immediately vested and fully exercisable upon the Director's termination as a director of the Company by reason of the death or Disability (as defined in Section 5.6 below) of the Director. The vesting of Options shall also be accelerated under the circumstances described in Sections 5.12 and 5.13 below.

5.6 TERMINATION OF OPTION. A vested Option shall terminate, to the extent not previously exercised, upon the occurrence of the first of the following events:

- (i) ten (10) years from the Date of Grant;
- (ii) the expiration of ninety (90) days from the date of Optionee's termination as a Director of the Company for any reason other than death or Disability (as defined below); or
- (iii) the expiration of one (1) year from the date of death of Optionee or the cessation of Optionee's service as a Director by reason of Disability (as defined below).

"Disability" shall mean that a person is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than twelve (12) months. If Optionee's service as a Director is terminated by death, any Option held by Optionee shall be exercisable only by the person or persons to whom such Optionee's rights under such Option shall pass by Optionee's will or by the laws of descent and distribution of the state or country of Optionee's domicile at the time of death. Each unvested Option granted pursuant hereto shall terminate upon Optionee's termination as a Director for any reason whatsoever, including death or Disability.

**5.7 EXERCISE OF OPTIONS.** Options shall be exercisable, either all or in part, at any time after vesting. If less than all of the shares included in the vested portion of any Option are purchased, the remainder may be purchased at any subsequent time prior to the expiration of the Option term. No portion of any Option of less than one (1) share (as adjusted pursuant to Section 5.12 below) may be exercised; PROVIDED, that if the vested portion of any Option is less than fifty (50) shares, it may be exercised with respect to all shares for which it is vested. Only whole shares may be issued pursuant to an Option, and to the extent that an Option covers less than one share, it is unexercisable. Options or portions thereof may be exercised by giving to the Company an executed notice of election to exercise, which notice shall specify the number of shares to be purchased, and be accompanied by payment in the amount of the aggregate option price for the Common Stock so purchased and in the form specified in Section 5.8 below. The Company shall not be obligated to issue, transfer or deliver a certificate of Common Stock to any Director, or to his personal representative, until the aggregate option price has been paid for all shares for which the Option shall have been exercised and adequate provision has been made by the Optionee for the satisfaction of any tax withholding obligations associated with such exercise. During the lifetime of an Optionee, Options are exercisable only by Optionee.

**5.8 PAYMENT UPON EXERCISE OF OPTION.** Upon exercise of any option, the aggregate option price shall be paid to the Company in cash or by certified or cashier's check. Alternatively, a Director may pay for all or any portion of the aggregate option exercise price (i) by delivering to the Company shares of Common Stock previously held by such Director, (ii) having shares withheld from the amount of shares of Common Stock to be received by the Director or (iii) delivering an irrevocable subscription agreement obligating the Director to take and pay for the shares of common Stock to be purchased within one (1) year of the date of exercise. The shares of Common Stock received or withheld by the Company as payment for shares of Common Stock purchased upon the exercise of Options shall have a fair market value at the date of exercise (as determined in accordance with Section 5.3 above) equal to the aggregate option exercise price (or portion thereof) to be paid by the Director upon exercise.

**5.9 RIGHTS AS A SHAREHOLDER.** An Optionee shall have no rights as a shareholder with respect to any shares covered by the Option until such Optionee becomes a record holder of such shares, irrespective of whether such Optionee has given notice of exercise. Subject to the provisions of Sections 5.12 and 5.13 below, no rights shall accrue to an Optionee and no adjustments shall be made on account of dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights declared on, or created in, the Common Stock for which the record date is prior to the date the Optionee becomes a record holder of the shares of Common Stock covered by the Option, irrespective of whether such Optionee has given notice of exercise.

**5.10 TRANSFER OF OPTION.** Options granted under this Plan and the rights and privileges conferred by this Plan may not be transferred, assigned, pledged or hypothecated in any manner (whether by operation of law or otherwise) other than by will or by applicable laws of descent and distribution, as defined by the Code, or the Employee Retirement Income Security Act, or the rules and regulations thereunder, and shall not be subject to execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of any Option or of any right or privilege conferred by this Plan contrary to the provisions hereof,

or upon the sale, levy or any attachment or similar process upon the rights and privileges conferred by this Plan, such Option shall thereupon terminate and become null and void.

## 5.11 SECURITIES REGULATION AND TAX WITHHOLDING

5.11.1 Shares shall not be issued with respect to an Option unless the exercise of such Option and the issuance and delivery of such shares shall comply with all relevant provisions of law, including, without limitation, any applicable state securities laws, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations thereunder and the requirements of any stock exchange upon which such shares may then be listed, and such issuance shall be further subject to the approval of counsel for the Company with respect to such compliance, including the availability of an exemption from registration for the issuance and sale of such shares. The inability of the Company to obtain from any regulatory body the authority deemed by the Company to be necessary for the lawful issuance and sale of any shares under this Plan, or the unavailability of an exemption from registration for the issuance and sale of any shares under this Plan, shall relieve the Company of any liability with respect to the non-issuance or sale of such shares.

As a condition to the exercise of an Option, the Company may require the Optionee to represent and warrant in writing at the time of such exercise that the shares are being purchased only for investment and without any then-present intention to sell or distribute such shares. At the option of the Company, a stop-transfer order against such shares may be placed on the stock books and records of the Company, and a legend indicating that the stock may not be pledged, sold or otherwise transferred unless an opinion of counsel is provided stating that such transfer is not in violation of any applicable law or regulation, may be stamped on the certificates representing such shares in order to assure an exemption from registration. The Company also may require such other documentation as may from time to time be necessary to comply with federal and state securities laws. **THE COMPANY HAS NO OBLIGATION TO UNDERTAKE REGISTRATION OF OPTIONS OR THE SHARES OF STOCK ISSUABLE UPON THE EXERCISE OF OPTIONS.**

5.11.2 As a condition to the exercise of any Option granted under this Plan, the Optionee shall make such arrangements as the Company may require for the satisfaction of any federal, state or local withholding tax obligations that may arise in connection with such exercise.

5.11.3 The issuance, transfer or delivery of certificates of Common Stock pursuant to the exercise of Options may be delayed, at the discretion of the Board, until the Company is satisfied that the applicable requirements of the federal and state securities laws and the withholding provisions of the Code have been met.

## 5.12 STOCK DIVIDEND, REORGANIZATION OR LIQUIDATION

5.12.1 If (i) the Company shall at any time be involved in a transaction described in Section 424(a) of the Code (or any successor provision) or any "corporate transaction" described in the regulations thereunder; (ii) the Company shall declare a dividend payable in, or shall subdivide or combine, its Common Stock or (iii) any other event with substantially the same effect shall occur, the number of shares of Common Stock and/or the exercise price per share of each outstanding Option shall be proportionately adjusted so as to preserve the rights of the Optionee substantially proportionate to the rights of the Optionee prior to such event, and to the extent that such action shall include an increase or decrease in the number of shares of Common Stock subject to outstanding Options, the number of shares available under Section 4 of this Plan shall automatically be increased or decreased, as the case may be, proportionately, without further action on the part of the Company or the Company's shareholders. For example, in the event the Company declares a 2-for-1 stock dividend (i) the number of shares of Common Stock authorized for issuance under this Plan pursuant to section 4 above shall automatically be increased by 600,000 shares of Common Stock to an aggregate of 900,000 shares of Common Stock and (ii) the number of shares issuable upon exercise of each Option then outstanding shall automatically be tripled and the exercise price per share shall automatically be reduced by two-thirds.

5.12.2 If the Company is liquidated or dissolved, the holders of any outstanding Options may exercise all or any part of the unvested portion of the Options held by them; PROVIDED, that such Options must be exercised prior to the effective date of such liquidation or dissolution. If the Option holders do not exercise their Options prior to such effective date, each outstanding Option shall terminate as of the effective date of the liquidation or dissolution.

5.12.3 The grant of an Option shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, to merge, consolidate or dissolve, to liquidate or to sell or transfer all or any part of its business or assets.

## 5.13 CHANGE IN CONTROL; DECLARATION OF EXTRAORDINARY DIVIDEND

5.13.1 CHANGE IN CONTROL. If at any time there is a Change in Control (as defined below) of the Company, all Options shall accelerate and become fully vested and immediately exercisable for the duration of the Option term. For purposes of this Subsection 5.13.1, "Change in Control" shall mean either one of the following: (i) When any "person," as such term is used in sections 13(d) and 14(d) of the Exchange Act (other than a shareholder of the Company on the date of this Plan, the Company, a Subsidiary or an employee benefit plan of the Company, including any trustee of such plan acting as trustee) becomes, after the date of this Plan, the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities; or (ii) the occurrence of a transaction requiring shareholder approval, and involving the sale of all or substantially all of the assets of the Company or the merger of the Company with or into another corporation.

5.13.2 DECLARATION OF EXTRAORDINARY DIVIDEND. If at any time the Company declares an Extraordinary Dividend (as defined below), all Options shall accelerate and thereupon become fully vested and immediately exercisable for the duration of the Option term. For purposes of this Subsection 4.13.2, "Extraordinary Dividend" shall mean a cash dividend payable to holders of record of the Common Stock in an amount in excess of ten percent (10%) of the then fair market value of the Company's Common Stock. The fair market value of the Company's Common Stock shall be determined in good faith by the Board.

6. EFFECTIVE DATE; TERM. Subject to approval of this Plan by shareholders of the Company, this Plan shall be effective as of the date which is the first Date of Grant specified in Section 5.2 above, and Options may be issued then and from time to time thereafter until this Plan is terminated by the Company. Termination of this Plan shall not terminate any Option granted prior to such termination.

7. NO OBLIGATIONS TO EXERCISE OPTION. The granting of an Option shall impose no obligation upon the Optionee to exercise such Option.

8. APPLICATION OF FUNDS. The proceeds received by the Company from the sale of Common Stock, pursuant to the exercise of Options granted hereunder, will be used for general corporate purposes.

9. INDEMNIFICATION OF BOARD. In addition to all other rights or indemnification they may have as directors of the Company or as members of the Board, members of the Board shall be indemnified by the Company for all reasonable expenses and liabilities of any type and nature, including reasonable attorneys fees, incurred in connection with any action, suit or proceeding to which they or any of them are a party by reason of, or in connection with, the Plan or any Option granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company), except to the extent that such expenses relate to matters for which it is adjudged that such Board members are liable for willful misconduct; PROVIDED, that within fifteen (15) days after the institution of any such action, suit or proceeding, member(s) of the Board shall, in writing, notify the Company of such action, suit or proceeding, so that the Company may have the opportunity to make appropriate arrangements to prosecute or defend the same.

10. AMENDMENT OF PLAN. The Plan Administrator may, at any time, modify, amend or terminate this Plan and Options granted under this Plan, including, without limitation, such modifications or amendments as are necessary to maintain compliance with applicable statutes, rules or regulations; PROVIDED, that no amendment with respect to an outstanding Option shall be made over the objection of the Optionee thereof and PROVIDED FURTHER, that after registration of any of the Company's securities under Section 12 of the Securities Exchange Act of 1934, as amended: (i) the approval of the holders of a majority of the Company's outstanding shares of voting capital stock represented at a meeting at which a quorum is present is required within twelve (12) months before or after the adoption by the Board of any amendment that will permit the granting of Options to a class of persons other than those currently eligible to receive Options under this Plan or that would cause this Plan to no longer comply with Securities and Exchange



Commission Rule 16b-3, as amended, or any successor rule or other regulatory requirements and (ii) this Plan shall not be amended more than once every six

(6) months, other than to comport with changes in the Code, the Employee Retirement Security Act, or the rules thereunder.

**F5 LABS, INC.**

**NON-EMPLOYEE DIRECTOR STOCK OPTION AGREEMENT**

F5 LABS, INC. ("F5"), desiring to afford an opportunity to the Optionee named below to purchase certain shares of F5's common stock, no par value (the "Common Stock"), to provide the Optionee with incentive as a director of F5, has granted to Optionee, and the Optionee has accepted, an option (this "Option") to purchase the number of such shares optioned as specified below, at the option exercise price specified below, subject to and upon the following terms and conditions:

1. IDENTIFYING PROVISIONS. As used in this Option, the following terms shall have the following respective meanings:

(a) Optionee:

(b) Date of Grant:

(c) Number of shares of Common Stock subject to this Option:

(d) Option exercise price per share:

(e) Expiration Date: , unless sooner terminated as specified herein.

This Option is granted pursuant to F5's Amended and Restated Directors' Nonqualified Stock Option Plan (the "Plan"). Capitalized terms not specified herein shall have the meanings ascribed to such terms under the Plan. This Option is not intended to be and shall not be treated as an incentive stock option under Section 422 of the Internal Revenue Code (the "Code").

2. TIMING OF PURCHASES. Subject to the provisions for termination and acceleration herein, this Option shall become exercisable in installments according to the following schedule:

Number of Years Following Date of Grant -----	Percentage of Total Option To be Exercisable -----
1	33 1/3%
2	66 2/3%
3	100 %

3. TERM OF OPTION. This Option shall terminate, to the extent not previously exercised, upon the occurrence of the first of the following events:

(i) the Expiration Date; (ii) the expiration of ninety (90) days from the date of an Optionee's cessation of service as a director of F5 for any reason other than death or Disability (as defined in the Plan); or (iii) the

Directors' Nonqualified Non-Employee Director Stock Option Plan - 1 - Stock Option Agreement

expiration of one (1) year from (A) the date of death of the Optionee or (B) cessation of an Optionee's service as a director by reason of Disability. If an Optionee's service as a director is terminated by death, any Option held by the Optionee shall be exercisable only by the person or persons to whom such Optionee's rights under this Option shall pass by the Optionee's will or by the laws of descent and distribution of the state or county of the Optionee's domicile at the time of death. Unless accelerated in accordance with Section 4 below, unvested portions of this Option shall terminate immediately upon cessation of Optionee's service as a director of F5.

4. **ACCELERATION OF VESTING.** If Optionee's service as a director of F5 terminates by reason of death or Disability, this Option shall become fully vested and exercisable and may thereafter be exercised during the term of the Option set forth in Section 3 above.

5. **NONTRANSFERABLE.** This Option may not be transferred, assigned, pledged or hypothecated in any manner (whether by operation of law or otherwise) other than by will or by applicable laws of descent and distribution, as defined by the Code, or the Employee Retirement Income Security Act, or the rules and regulations thereunder, and shall not be subject to execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this Option or of any right or privilege conferred hereunder contrary to the provisions hereof or of the Plan, or upon the sale, levy or any attachment or similar process upon the rights and privileges conferred by this Option, this Option shall thereupon terminate and become null and void.

6. **EXERCISE OF OPTIONS.** Vested portions of this Option shall be exercisable at any time after vesting until termination as provided herein. Optionee acknowledges and agrees that Optionee must comply with the six (6) month holding period or any other requirements of Section 16 (b) of the Exchange Act and Rule 16b-3 thereunder. If fewer than all of the shares included in the vested portion of this Option are purchased, the remainder may be purchased at any subsequent time prior to the termination as provided herein. No portion of this Option for fewer than fifty (50) shares may be exercised; PROVIDED, that if the vested portion of this Option is fewer than fifty (50) shares, it may be exercised with respect to all shares for which it is vested. Only whole shares may be issued pursuant to this Option, and to the extent that it covers less than one (1) share, it is unexercisable. This Option or portions hereof hereof may be exercised by giving to F5 an executed notice of election to exercise, which notice shall specify the number of shares to be purchased, and be accompanied by payment in the amount of the aggregate exercise price for the Common Stock so purchased, which payment shall be in the form specified in Section 7 below. The Company shall not be obligated to issue, transfer or deliver a certificate of Common Stock to Optionee, or to his or her personal representative, until the aggregate exercise price has been paid for all shares for which the Option shall have been exercised and adequate provision has been made by Optionee for satisfaction of any tax withholding obligations associated with such exercise. This Option is exercisable only by Optionee during Optionee's lifetime.

7. **PAYMENT UPON EXERCISE OF OPTION.** Upon the exercise of all or any portion of this Option, the aggregate exercise price shall be paid to F5 in cash or by certified or cashier's check. Alternatively, an Optionee may pay for all or any portion of the aggregate exercise price by

Directors' Nonqualified Non-Employee Director Stock Option Plan - 2 - Stock Option Agreement

(i) delivering to F5 shares of Common Stock previously held by such Optionee, (ii) having shares withheld from the amount of shares of Common Stock to be received by the Optionee, or (iii) delivering an irrevocable subscription agreement obligating the Optionee to take and pay for the shares of Common Stock to be purchased within one (1) year of the date of exercise. The shares of Common Stock received or withheld by F5 as payment for shares of Common Stock purchased upon the exercise of Options shall have a fair market value at the date of exercise (as determined pursuant to Section 5.3 of the Plan) equal to the aggregate exercise price (or portion thereof) to be paid by the Optionee upon such exercise.

8. **RIGHTS AS A SHAREHOLDER.** Optionee shall have no rights as a shareholder with respect to any shares covered by this Option until such Optionee becomes a record holder of such shares, irrespective of whether such Optionee has given notice of exercise. Subject to the provisions of Section 9 below, no rights shall accrue to Optionee and no adjustments shall be made on account of dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights declared on, or created in, the Common Stock for which the record date is prior to the date the Optionee becomes a record holder of the shares of Common Stock covered by this Option, irrespective of whether such Optionee has given notice of exercise.

9. **STOCK DIVIDEND, REORGANIZATION OR LIQUIDATION; CHANGE IN CONTROL AND CORPORATE REORGANIZATION.** The number of shares of Common Stock subject to this option, the vesting schedule herein, and the other terms and conditions of this Option are subject to adjustment in accordance with Section 5.12 and 5.13 of the Plan.

10. **REQUIREMENTS OF LAW AND OF STOCK EXCHANGES.** By accepting this Option, the Optionee represents and agrees for Optionee and Optionee's transferees by will or the laws of descent and distribution that, unless a registration statement under the Securities Act of 1933 is in effect as to shares purchased upon any exercise of this Option, (i) any and all shares so purchased shall be acquired for his personal account without any intention of selling or distributing all or any part of such stock, and (ii) each Notice of the exercise of any portion of this Option shall be accompanied by a representation and warranty in writing, signed by the person entitled to exercise the same, that the shares are being so acquired for his personal account without any intention of selling or distributing all or any part of such stock, and that in no event will he sell or distribute all or any part of such shares unless, in the opinion of counsel satisfactory to F5, such shares may be legally sold or distributed without registration under the Securities Act of 1933, as amended, and applicable state statutes, or unless such shares have been registered and qualified under then applicable federal and state statutes, and if necessary an appropriate registration statement shall then be in effect.

11. **STOCK OPTION PLAN.** This Option is subject to, and F5 and the Optionee agree to be bound by, all of the terms and conditions of the Plan, as the same shall have been amended from time to time in accordance with the terms thereof, provided that no such amendment shall deprive Optionee, without his or her consent, of this Option or any of his or her rights hereunder. A copy of the Plan in its present form is attached to this Option. In the event of any conflict between this Option and the Plan, the Plan shall control.

Directors' Nonqualified Non-Employee Director Stock Option Plan - 3 - Stock Option Agreement

12. NOTICES. Any notice to F5 shall be addressed in care of its Secretary at its principal office, and any notice to be given to Optionee shall be addressed to the address given beneath Optionee's signature hereto or at such other address as Optionee may hereafter designate in writing to F5. Any such notice shall be deemed duly given when enclosed in a properly sealed envelope or wrapper addressed as aforesaid, registered or certified, and deposited, postage and registry or certification fee prepaid, in a post office or branch post office regularly maintained by the United States Postal Service.

13. LAWS APPLICABLE TO CONSTRUCTION. This Option shall be construed and enforced in accordance with the laws of the State of Washington.

IN WITNESS WHEREOF, F5 has granted this Option in accordance with the Plan as of the Date of Grant specified above.

**F5 LABS, INC.**

By

Its:

The undersigned acknowledges receipt of this Option and the Plan and understands that all rights and liabilities with respect to this Option are set forth herein and in the Plan.

\_\_\_\_\_  
**Optionee (signature)**  
\_\_\_\_\_  
\_\_\_\_\_

**Address**

**F5 LABS, INC.**

**AMENDED AND RESTATED**

**1996 STOCK OPTION PLAN**

This Amended and Restated 1996 Stock Option Plan (the "Plan") provides for the grant of options to acquire shares of Common Stock, no par value (the "Common Stock"), of F5 Labs, Inc., a Washington corporation (the "Company"). Stock options granted under this Plan that qualify under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), are referred to in this Plan as "Incentive Stock Options." Incentive Stock Options and stock options that do not qualify under Section 422 of the Code ("Non-Qualified Stock Options") granted under this Plan are referred to as "Options."

1. **PURPOSES.** The purposes of this Plan are to retain the services of valued key employees and consultants of the Company, and such other persons as the Plan Administrator shall select in accordance with Section 3 below, to encourage such persons to acquire a greater proprietary interest in the Company, thereby strengthening their incentive to achieve the objectives of the shareholders of the Company, and to serve as an aid and inducement in the hiring of new employees, consultants and other persons selected by the Plan Administrator.

2. **ADMINISTRATION.** This Plan shall be administered by the Board of Directors of the Company (the "Board"), except that the Board may, in its discretion, establish a committee composed of members of the Board or other persons to administer this Plan, which committee (the "Committee") may be an executive, compensation or other committee, including a separate committee especially created for this purpose. The Committee shall have such of the powers and authority vested in the Board hereunder as the Board may delegate to it (including the power and authority to interpret any provision of this Plan or of any Option). The members of any such Committee shall serve at the discretion of the Board. The Board, or the Committee if one has been established by the Board, are referred to in this Plan as the "Plan Administrator." Following registration of any of the Company's securities under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), no person shall serve as a member of the Plan Administrator if his or her service would disqualify this Plan from eligibility under Securities and Exchange Commission Rule 16b-3, as amended from time to time, or any successor rule or regulatory requirements; PROVIDED, that the Plan Administrator shall consist of at least the minimum number of persons required by Securities and Exchange Commission Rule 16b-3, as amended, or any successor rule or regulatory requirements.

Subject to the provisions of this Plan, and with a view to effecting its purpose, the Plan Administrator shall have sole authority, in its absolute discretion, to: (a) construe and interpret this Plan; (b) define the terms used in this Plan; (c) prescribe, amend and rescind rules and regulations relating to this Plan; (d) correct any defect, supply any omission or reconcile any inconsistency in this Plan; (e) determine the individuals to whom Options shall be granted under this Plan and whether the Option is an Incentive Stock Option or a Non-Qualified Stock Option;

(f) determine the time or times at which Options shall be granted under this Plan; (g) determine the number of shares of Common Stock subject to each Option, the exercise price of each Option, the duration of each Option and the times at which each Option shall become exercisable; (h) determine all other terms and conditions of Options; and (i) make all other determinations necessary or advisable for the administration of this Plan. All decisions, determinations and interpretations made by the Plan Administrator shall be binding and conclusive on all participants in this Plan and on their legal representatives, heirs and beneficiaries.

3. **ELIGIBILITY.** Incentive Stock Options may be granted to any individual who, at the time the Option is granted, is an employee of the Company or any Related Corporation (as defined below), including employees who are directors of the Company ("Employees"). Non-Qualified Stock Options may be granted to Employees and to such other persons other than directors who are not Employees as the Plan Administrator shall select. Options may be granted in substitution for outstanding Options of another corporation in connection with the merger, consolidation, acquisition of property or stock or other reorganization between such other corporation and the Company or any subsidiary of the Company. Options also may be granted in exchange for outstanding Options. Any person to whom an Option is granted under this Plan is referred to as an "Optionee."

As used in this Plan, the term "Related Corporation," when referring to a subsidiary corporation, shall mean any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of the granting of the Option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock of one of the other corporations in such chain. When referring to a parent corporation, the term "Related Corporation" shall mean any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if, at the time of granting of the Option, each of the corporations other than the Company owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock of one of the other corporations in such chain.

4. **STOCK.** Subject to approval of the Plan by shareholders of the Company, options to purchase a maximum of 300,000 shares of the Company's authorized but unissued, or reacquired, Common Stock may be issued pursuant to the Plan, subject to adjustment as provided in Section 5.13.1 below, LESS any shares issuable upon the exercise of Options granted pursuant to the Company's Amended and Restated Directors' Non-qualified Stock Option Plan; PROVIDED, that any shares of Common Stock received or withheld by the Company as payment for shares of Common Stock purchased upon exercise of Options pursuant to Section 5.9 below shall be added to the number of such shares as to which Options may be granted. The number of shares with respect to which Options may be granted hereunder is subject to adjustment as set forth in Section 5.13 below. In the event that any outstanding Option expires or is terminated for any reason, the shares of Common Stock allocable to the unexercised portion of such Option may again be subject to an Option to the same Optionee or to a different person eligible under Section 3 above.

5. TERMS AND CONDITIONS OF OPTIONS. Each Option granted under this Plan shall be evidenced by a written agreement approved by the Plan Administrator (the "Agreement"). Agreements may contain such additional provisions, not inconsistent with this Plan, as the Plan Administrator in its discretion may deem advisable. All Options also shall comply with the following requirements:

5.1 NUMBER OF SHARES AND TYPE OF OPTION. Each Agreement shall state the number of shares of Common Stock to which it pertains and whether the Option is intended to be an Incentive Stock Option or a Non-Qualified Stock Option. In the absence of action to the contrary by the Plan Administrator in connection with the grant of an Option, all Options shall be Non-Qualified Stock Options. The aggregate fair market value (determined at the Date of Grant, as defined below) of the stock with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year (granted under this Plan and all other Incentive Stock Option plans of the Company, a Related Corporation or a predecessor corporation) shall not exceed such limit as may be prescribed by the Code as it may be amended from time to time. Any Option which exceeds the annual limit shall not be void but rather shall be a Non-Qualified Stock Option.

5.2 DATE OF GRANT. Each Agreement shall state the date the Plan Administrator has deemed to be the effective date of the Option for purposes of this Plan (the "Date of Grant").

5.3 OPTION PRICE. Each Agreement shall state the price per share of Common Stock at which it is exercisable. The exercise price shall be fixed by the Plan Administrator at whatever price the Plan Administrator may determine in the exercise of its sole discretion; PROVIDED, that the per share exercise price for any Option granted following the effective date of registration of any of the Company's securities under Section 12 of the Securities Exchange Act of 1934 shall not be less than the fair market value per share of the Common Stock at the Date of Grant as determined by the Plan Administrator in good faith; PROVIDED FURTHER, that the per share exercise price for an Incentive Stock Option shall not be less than the fair market value per share of the Common Stock at the Date of Grant as determined by the Plan Administrator in good faith; PROVIDED FURTHER, that with respect to Incentive Stock Options granted to greater-than-ten-percent (>10%) shareholders of the Company (as determined with reference to Section 424(d) of the Code), the exercise price per share shall not be less than one hundred ten percent (110%) of the fair market value per share of the Common Stock at the Date of Grant; and, PROVIDED FURTHER, that Incentive Stock Options granted in substitution for outstanding Options of another corporation in connection with the merger, consolidation, acquisition of property or stock or other reorganization involving such other corporation and the Company or any subsidiary of the Company may be granted with an exercise price equal to the exercise price for the substituted Option of the other corporation, subject to any adjustment consistent with the terms of the transaction pursuant to which the substitution is to occur.

5.4 DURATION OF OPTIONS. At the time of the grant of the Option, the Plan Administrator shall designate, subject to Section 5.7 below, the expiration date of the Option, which date shall not be later than ten (10) years from the Date of Grant in the case of Incentive



Stock Options; PROVIDED, that the expiration date of any Incentive Stock Option granted to a greater-than-ten-percent (>10%) shareholder of the Company (as determined with reference to Section 424(d) of the Code) shall not be later than five (5) years from the Date of Grant. In the absence of action to the contrary by the Plan Administrator in connection with the grant of a particular Option, and except in the case of Incentive Stock Options as described above, all Options granted under this Plan shall expire ten (10) years from the Date of Grant.

5.5 VESTING SCHEDULE. No Option shall be exercisable until it has vested. The vesting schedule for each Option shall be specified by the Plan Administrator at the time of grant of the Option; provided, that if no vesting schedule is specified at the time of grant, the Option shall vest according to the following schedule:

NUMBER OF YEARS FOLLOWING DATE OF GRANT	PERCENTAGE OF TOTAL OPTION TO BE EXERCISABLE
1	25%
2	50%
3	75%
4	100%

5.6 ACCELERATION OF VESTING. The vesting of one or more outstanding Options may be accelerated by the Plan Administrator at such times and in such amounts as it shall determine in its sole discretion. If an Employee Optionee's employment terminates by reason of death or Disability (as defined in Section 5.7 below), any Option held by such Employee Optionee who has been Continuously Employed by the Company or Related Corporation for a minimum of two (2) years shall become fully vested and exercisable and may thereafter be exercised during the term of the Option set forth in Section 5.7 below. "Continuously Employed" shall mean the absence of any interruption or termination of service. Continuous Employment with the Company or Related Corporation shall not be considered interrupted in the case of sick leave, military leave or any other leave of absence approved by the Company or Related Corporation or in the case of transfers between locations of the Company or between the Company, Related Corporations or their successors, provided that the Optionee continues to be an employee of the Company or any Related Corporation. The vesting of Options also shall be accelerated under the circumstances described in Sections 5.13 and 5.14 below.

5.7 TERM OF OPTION. Vested Options shall terminate, to the extent not previously exercised, upon the occurrence of the first of the following events:  
(i) the expiration of the Option, as designated by the Plan Administrator in accordance with Section 5.4 above; (ii) the expiration of ninety (90) days from the date of an Optionee's termination of employment or contractual relationship with the Company or any Related Corporation for any reason whatsoever other than death or Disability (as defined below) unless, in the case of a Non-Qualified Stock Option, the exercise period is extended by the Plan Administrator until a date not later than the expiration date of the Option; or (iii) the expiration of one (1) year from (A) the date of death of the Optionee or (B) cessation of an Optionee's employment or contractual relationship by reason of Disability (as defined below) unless, in the case of a Non-Qualified Stock Option, the exercise period is extended by the Plan Administrator until a date not later than the expiration date of the Option. If an Optionee's employment or contractual relationship is terminated by death, any

Option held by the Optionee shall be exercisable only by the person or persons to whom such Optionee's rights under such Option shall pass by the Optionee's will or by the laws of descent and distribution of the state or county of the Optionee's domicile at the time of death. "Disability" shall mean that a person is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than twelve (12) months. The Plan Administrator shall determine whether an Optionee has incurred a Disability on the basis of medical evidence acceptable to the Plan Administrator. Upon making a determination of Disability, the Committee shall, for purposes of the Plan, determine the date of an Optionee's termination of employment or contractual relationship.

Unless accelerated in accordance with Section 5.6 above, unvested Options shall terminate immediately upon termination of employment of the Optionee by the Company for any reason whatsoever, including death or Disability.

If, in the case of an Incentive Stock Option, an Optionee's relationship with the Company changes (e.g., from an Employee to a non-Employee, such as a consultant), such change shall not constitute a termination of an Optionee's employment with the Company but rather the Optionee's Incentive Stock Option. For purposes of this Section 5.7, transfer of employment between or among the Company and/or any Related Corporation shall not be deemed to constitute a termination of employment with the Company or any Related Corporation. For purposes of this Section 5.7, employment shall be deemed to continue while the Optionee is on military leave, sick leave or other bona fide leave of absence (as determined by the Plan Administrator). The foregoing notwithstanding, with respect to Incentive Stock Options, employment shall not be deemed to continue beyond the first ninety (90) days of such leave, unless the Optionee's re-employment rights are guaranteed by statute or by contract.

**5.8 EXERCISE OF OPTIONS.** Options shall be exercisable, either all or in part, at any time after vesting, until termination; PROVIDED, that after registration of any of the Company's securities under Section 12 of the Exchange Act, Optionee must comply with the six (6) month holding period requirements of

Section 16(b) of the Exchange Act and Rule 16b-3 thereunder. If less than all of the shares included in the vested portion of any Option are purchased, the remainder may be purchased at any subsequent time prior to the expiration of the Option term. No portion of any Option for less than fifty (50) shares (as adjusted pursuant to Section 5.13 below) may be exercised; PROVIDED, that if the vested portion of any Option is less than fifty (50) shares, it may be exercised with respect to all shares for which it is vested. Only whole shares may be issued pursuant to an Option, and to the extent that an Option covers less than one (1) share, it is unexercisable. Options or portions thereof may be exercised by giving to the Company an executed notice of election to exercise, which notice shall specify the number of shares to be purchased, and be accompanied by payment in the amount of the aggregate exercise price for the Common Stock so purchased, which payment shall be in the form specified in Section 5.9 below. The Company shall not be obligated to issue, transfer or deliver a certificate of Common Stock to any Optionee, or to his personal representative, until the aggregate exercise price has been paid for all shares for which the Option shall have been exercised and adequate provision has been made by the Optionee for satisfaction of any tax withholding obligations

associated with such exercise. During the lifetime of an Optionee, Options are exercisable only by the Optionee.

**5.9 PAYMENT UPON EXERCISE OF OPTION.** Upon the exercise of any Option, the aggregate exercise price shall be paid to the Company in cash or by certified or cashier's check. In addition, upon approval of the Plan Administrator, an Optionee may pay for all or any portion of the aggregate exercise price by (i) delivering to the Company shares of Common Stock previously held by such Optionee, (ii) having shares withheld from the amount of shares of Common Stock to be received by the Optionee, (iii) delivering an irrevocable subscription agreement obligating the Optionee to take and pay for the shares of Common Stock to be purchased within one (1) year of the date of such exercise or (iv) complying with any other payment mechanisms as the Plan Administrator may approve from time to time. The shares of Common Stock received or withheld by the Company as payment for shares of Common Stock purchased upon the exercise of Options shall have a fair market value at the date of exercise (as determined by the Plan Administrator) equal to the aggregate exercise price (or portion thereof) to be paid by the Optionee upon such exercise.

**5.10 RIGHTS AS A SHAREHOLDER.** An Optionee shall have no rights as a shareholder with respect to any shares covered by an Option until such Optionee becomes a record holder of such shares, irrespective of whether such Optionee has given notice of exercise. Subject to the provisions of Sections 5.13 and 5.14 below, no rights shall accrue to an Optionee and no adjustments shall be made on account of dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights declared on, or created in, the Common Stock for which the record date is prior to the date the Optionee becomes a record holder of the shares of Common Stock covered by the Option, irrespective of whether such Optionee has given notice of exercise.

**5.11 TRANSFER OF OPTION.** Options granted under this Plan and the rights and privileges conferred by this Plan may not be transferred, assigned, pledged or hypothecated in any manner (whether by operation of law or otherwise) other than by will or by applicable laws of descent and distribution, as defined by the Code, or the Employee Retirement Income Security Act, or the rules and regulations thereunder, and shall not be subject to execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of any Option or of any right or privilege conferred by this Plan contrary to the provisions hereof, or upon the sale, levy or any attachment or similar process upon the rights and privileges conferred by this Plan, such Option shall thereupon terminate and become null and void.

#### **5.12 SECURITIES REGULATION AND TAX WITHHOLDING**

**5.12.1** Shares shall not be issued with respect to an Option unless the exercise of such Option and the issuance and delivery of such shares shall comply with all relevant provisions of law, including, without limitation, any applicable state securities laws, the Securities Act of 1933, as amended, the Exchange Act, as amended, the rules and regulations thereunder and the requirements of any stock exchange upon which such shares may then be listed, and such issuance shall be further subject to the approval of counsel for the Company with

respect to such compliance, including the availability of an exemption from registration for the issuance and sale of such shares. The inability of the Company to obtain from any regulatory body the authority deemed by the Company to be necessary for the lawful issuance and sale of any shares under this Plan, or the unavailability of an exemption from registration for the issuance and sale of any shares under this Plan, shall relieve the Company of any liability with respect to the non-issuance or sale of such shares.

As a condition to the exercise of an Option, the Plan Administrator may require the Optionee to represent and warrant in writing at the time of such exercise that the shares are being purchased only for investment and without any then-present intention to sell or distribute such shares. At the option of the Plan Administrator, a stop-transfer order against such shares may be placed on the stock books and records of the Company, and a legend indicating that the stock may not be pledged, sold or otherwise transferred unless an opinion of counsel is provided stating that such transfer is not in violation of any applicable law or regulation, may be stamped on the certificates representing such shares in order to assure an exemption from registration. The Plan Administrator also may require such other documentation as may from time to time be necessary to comply with federal and state securities laws. **THE COMPANY HAS NO OBLIGATION TO UNDERTAKE REGISTRATION OF OPTIONS OR THE SHARES OF STOCK ISSUABLE UPON THE EXERCISE OF OPTIONS.**

5.12.2 As a condition to the exercise of any Option granted under this Plan, the Optionee shall make such arrangements as the Plan Administrator may require for the satisfaction of any federal, state or local withholding tax obligations that may arise in connection with such exercise.

5.12.3 The issuance, transfer or delivery of certificates of Common Stock pursuant to the exercise of Options may be delayed, at the discretion of the Plan Administrator, until the Plan Administrator is satisfied that the applicable requirements of the federal and state securities laws and the withholding provisions of the Code have been met.

### 5.13 STOCK DIVIDEND, REORGANIZATION OR LIQUIDATION

5.13.1 If (i) the Company shall at any time be involved in a transaction described in Section 424(a) of the Code (or any successor provision) or any "corporate transaction" described in the regulations thereunder, (ii) the Company shall declare a dividend payable in, or shall subdivide or combine, its Common Stock or (iii) any other event with substantially the same effect shall occur, then the Plan Administrator shall proportionately adjust the number of shares of Common Stock authorized for issuance under this Plan pursuant to Section 4 above, and shall further proportionately adjust the number of shares of Common Stock and/or the exercise price per share with respect to each Option then outstanding so as to preserve the rights of the Optionee substantially proportionate to the rights of the Optionee prior to such event, all without further action on the part of the Plan Administrator, the Company or the Company's shareholders. For example, in the event the Company declares a 2-for-1 stock dividend (i) the number of shares of Common Stock authorized for issuance under this Plan pursuant to section 4 above shall automatically be increased by 600,000 shares of Common

Stock to an aggregate of 900,000 shares of Common Stock and (ii) the number of shares issuable upon exercise of each Option then outstanding shall automatically be tripled and the exercise price per share shall automatically be reduced by two-thirds.

5.13.2 If the Company is liquidated or dissolved, the Plan Administrator shall allow the holders of any outstanding Options to exercise all or any part of the unvested portion of the Options held by them; PROVIDED, that such Options must be exercised prior to the effective date of such liquidation or dissolution. If the Option holders do not exercise their Options prior to such effective date, each outstanding Option shall terminate as of the effective date of the liquidation or dissolution.

5.13.3 The foregoing adjustments in the shares subject to Options shall be made by the Plan Administrator, or by any successor administrator of this Plan, or by the applicable terms of any assumption or substitution document.

5.13.4 The grant of an Option shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, to merge, consolidate or dissolve, to liquidate or to sell or transfer all or any part of its business or assets.

#### 5.14 CHANGE IN CONTROL; DECLARATION OF EXTRAORDINARY DIVIDEND

5.14.1 CHANGE IN CONTROL. If at any time there is a Change in Control (as defined below) of the Company, all Options shall accelerate and become fully vested and immediately exercisable for the duration of the Option term. For purposes of this Subsection 5.14.1, "Change in Control" shall mean either one of the following: (i) When any "person," as such term is used in sections 13(d) and 14(d) of the Exchange Act (other than a shareholder of the Company on the date of this Plan, the Company, a Subsidiary or an employee benefit plan of the Company, including any trustee of such plan acting as trustee) becomes, after the date of this Plan, the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities; or (ii) the occurrence of a transaction requiring shareholder approval, and involving the sale of all or substantially all of the assets of the Company or the merger of the Company with or into another corporation.

5.14.2 DECLARATION OF EXTRAORDINARY DIVIDEND. If at any time the Company declares an Extraordinary Dividend (as defined below), all Options shall accelerate and thereupon become fully vested and immediately exercisable for the duration of the Option term. For purposes of this Subsection 5.14.2, "Extraordinary Dividend" shall mean a cash dividend payable to holders of record of the Common Stock in an amount in excess of ten percent (10%) of the then fair market value of the Company's Common Stock. The fair market value of the Company's Common Stock shall be determined in good faith by the Board.

6. EFFECTIVE DATE; TERM. This Plan shall be effective as of the date of approval by the shareholders of the Company. Incentive Stock Options may be granted by the Plan

Administrator from time to time thereafter until ten (10) years after such approval. Non-Qualified Stock Options may be granted until this Plan is terminated by the Board in its sole discretion. Termination of this Plan shall not terminate any Option granted prior to such termination.

7. NO OBLIGATIONS TO EXERCISE OPTION. The grant of an Option shall impose no obligation upon the Optionee to exercise such Option.

8. NO RIGHT TO OPTIONS OR TO EMPLOYMENT. The grant of any Options under this Plan shall be exclusively within the discretion of the Plan Administrator, and nothing contained in this Plan shall be construed as giving any person any right to participate under this Plan. The Plan shall not confer on any Optionee any right with respect to continuation of any employment or contractual relationship with the Company or any Related Corporation, nor shall it interfere in any way with the Company's or, where applicable, a Related Corporation's right to terminate any Optionee's employment or contractual relationship at any time, which right is hereby reserved.

9. APPLICATION OF FUNDS. The proceeds received by the Company from the sale of Common Stock issued upon the exercise of Options shall be used for general corporate purposes, unless otherwise directed by the Board.

10. INDEMNIFICATION OF PLAN ADMINISTRATOR. In addition to all other rights of indemnification they may have as members of the Board, members of the Plan Administrator shall be indemnified by the Company for all reasonable expenses and liabilities of any type or nature, including reasonable attorneys' fees, incurred in connection with any action, suit or proceeding to which they or any of them are a party by reason of, or in connection with, this Plan or any Option granted under this Plan, and against all amounts paid by them in settlement thereof (provided that such settlement is approved by independent legal counsel selected by the Company), except to the extent that such expenses relate to matters for which it is adjudged that such Plan Administrator member is liable for willful misconduct; PROVIDED, that within fifteen (15) days after the institution of any such action, suit or proceeding, the Plan Administrator member involved therein shall, in writing, notify the Company of such action, suit or proceeding, so that the Company may have the opportunity to make appropriate arrangements to prosecute or defend the same.

11. AMENDMENT OF PLAN. The Plan Administrator may, at any time, modify, amend or terminate this Plan and Options granted under this Plan, including, without limitation, such modifications or amendments as are necessary to maintain compliance with applicable statutes, rules or regulations; PROVIDED, that no amendment with respect to an outstanding Option shall be made over the objection of the Optionee thereof; and PROVIDED FURTHER, that, following registration of any of the Company's securities under Section 12 of the Exchange Act, the approval of the holders of a majority of the Company's outstanding shares of voting capital stock represented at a meeting at which a quorum is present is required within twelve (12) months before or after the adoption by the Plan Administrator of any amendment that will permit the granting of Options to a class of persons other than those currently eligible to receive Options under this Plan or that would cause this Plan to no longer comply with Securities and Exchange

Commission Rule 16b-3, as amended, or any successor rule or other regulatory requirements. Without limiting the generality of the foregoing, the Plan Administrator may modify grants to persons who are eligible to receive Options under this Plan who are foreign nationals or employed outside the United States to recognize differences in local law, tax policy or custom.

**F5 LABS, INC.**

**EMPLOYEE STOCK OPTION AGREEMENT**

F5 Labs, Inc., a Washington corporation (the "Company"), has granted to the Optionee specified below, an option (the "Option") to purchase shares of the Company's common stock, no par value (the "Common Stock") on the terms specified herein, and the Optionee has accepted, subject to the following terms and conditions. This Option, is granted pursuant to the Company's Amended and Restated 1996 Stock Option Plan (the "Plan"). Capitalized terms not specified herein shall have the meanings ascribed to such terms under the Plan.

1. IDENTIFYING PROVISIONS. As used in this Option, the following terms shall have the following respective meanings:

(a) Optionee:

(b) Date of Grant:

(b) Number of shares of Common Stock subject to this Option:

(d) Option exercise price per share: \$

(e) Expiration Date: ExpDate ~, unless sooner terminated as specified herein

(f) Option Type: (ISO /NQ)

2. VESTING SCHEDULE. Subject to the provisions for termination and acceleration herein, this Option shall vest and become exercisable with respect to 25% of the optioned shares one year after the Date of Grant and thereafter in a series of equal and consecutive monthly installments of the optioned shares over the following three (3) year period.

3. TERM OF OPTION. Vested portions of this Option shall terminate, to the extent not previously exercised, upon the occurrence of the first of the following events: (i) the Expiration Date; (ii) the expiration of ninety (90) days from the date of an Optionee's termination of employment with the Company for any reason other than death or Disability (as provided below); or (iii) the expiration of one (1) year from (A) the date of death of the Optionee or (B) cessation of an Optionee's employment by reason of Disability (as defined in the Plan). If an Optionee's employment is terminated by death, any Option held by the Optionee shall be exercisable only by the person or persons to whom such Optionee's rights under this Option shall pass by the Optionee's will or by the laws of descent and distribution of the state or county of the Optionee's domicile at the time of death. Unless accelerated in accordance with Section 4 below, unvested portions of this Option shall terminate immediately upon termination of employment of the Optionee by the Company for any reason whatsoever, including death or Disability.

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4. **ACCELERATION OF VESTING.** If Optionee's employment terminates by reason of death or Disability, and Optionee has been Continuously Employed (as defined in the Plan) by the Company for a minimum of two (2) years, this Option shall become fully vested and exercisable and may thereafter be exercised during the term of the Option set forth in Section 3 above.

5. **NONTRANSFERABLE.** This Option may not be transferred, assigned, pledged or hypothecated in any manner (whether by operation of law or otherwise) other than by will or by applicable laws of descent and distribution, as defined by the Code, or the Employee Retirement Income Security Act, or the rules and regulations thereunder, and shall not be subject to execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this Option or of any right or privilege conferred hereunder contrary to the provisions hereof or of the Plan, or upon the sale, levy or any attachment or similar process upon the rights and privileges conferred by this Option, this Option shall thereupon terminate and become null and void.

6. **EXERCISE OF OPTIONS.** Vested portions of this Option shall be exercisable at any time after vesting until termination as provided herein. If less than all of the shares included in the vested portion of this Option are purchased, the remainder may be purchased at any subsequent time prior to the termination as provided herein. No portion of this Option for less than fifty (50) shares may be exercised; PROVIDED, that if the vested portion of this Option is less than fifty (50) shares, it may be exercised with respect to all shares for which it is vested. Only whole shares may be issued pursuant to this Option, and to the extent that it covers less than one (1) share, it is unexercisable. This Option or portions hereof may be exercised by giving to the Company an executed notice of election to exercise, which notice shall specify the number of shares to be purchased, and be accompanied by payment in the amount of the aggregate exercise price for the Common Stock so purchased, which payment shall be in the form specified in Section 7 below. The Company shall not be obligated to issue, transfer or deliver a certificate of Common Stock to Optionee, or to his or her personal representative, until the aggregate exercise price has been paid for all shares for which the Option shall have been exercised and adequate provision has been made by Optionee for satisfaction of any tax withholding obligations associated with such exercise. This Option is exercisable only by Optionee during Optionee's lifetime.

7. **PAYMENT UPON EXERCISE OF OPTION.** Upon the exercise of all or any portion of this Option, the aggregate exercise price shall be paid to the Company in cash or by certified or cashier's check. In addition, upon approval of the Plan Administrator, an Optionee may pay for all or any portion of the aggregate exercise price by (i) delivering to the Company shares of Common Stock previously held by such Optionee, (ii) having shares withheld from the amount of shares of Common Stock to be received by the Optionee, (iii) delivering an irrevocable subscription agreement obligating the Optionee to take and pay for shares of Common Stock to be purchased within one (1) year of the date of exercise; or (iv) complying with any other payment mechanisms as the Plan Administrator may approve from time to time. The shares of Common Stock received or withheld by the Company as payment for shares of Common Stock purchased upon the exercise of Options shall have a fair market value at the date of exercise (as determined by the Plan Administrator) equal to the aggregate exercise price (or portion thereof) to be paid by the Optionee upon such exercise.

8. **RIGHTS AS A SHAREHOLDER.** Optionee shall have no rights as a shareholder with respect to any shares covered by this Option until such Optionee becomes a record holder of such shares, irrespective of whether such Optionee has given notice of exercise. Subject to the provisions of Section 9 below, no rights shall accrue to Optionee and no adjustments shall be made on account of dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights declared on, or created in, the Common Stock for which the record date is prior to the date the Optionee

becomes a record holder of the shares of Common Stock covered by this Option, irrespective of whether such Optionee has given notice of exercise.

**9. STOCK DIVIDEND, REORGANIZATION OR LIQUIDATION; CHANGE IN CONTROL AND CORPORATE REORGANIZATION.** The number of shares of Common Stock subject to this option, the vesting schedule herein, and the other terms and conditions of this Option are subject to adjustment in accordance with Section 5.13 and 5.14 of the Plan.

**10. REQUIREMENTS OF LAW AND OF STOCK EXCHANGES.** By accepting this Option, the Optionee represents and agrees for Optionee and Optionee's transferees by will or the laws of descent and distribution that, unless a registration statement under the Securities Act of 1933, as amended, ("Securities Act") is in effect as to shares purchased upon any exercise of this Option, (i) any and all shares so purchased shall be acquired for his or her personal account without any intention of selling or distributing all or any part of such stock, and (ii) at the request of the Plan Administrator, Optionee shall supply with each notice of exercise of any portion of this Option a representation and warranty in writing, signed by the person entitled to exercise the same, that in no event will he or she sell or distribute all or any part of such shares unless, in the opinion of counsel satisfactory to the Company, such shares may be legally sold or distributed without registration under the Securities Act and applicable state statutes, or unless such shares have been registered and qualified under then applicable federal and state statutes, and if necessary an appropriate registration statement shall then be in effect.

**11. ADDITIONAL STOCK SALE RESTRICTIONS.** Optionee acknowledges that Optionee will not be able to resell any shares of Common Stock issued upon exercise of the Options for at least ninety (90) days after the stock of the Company becomes publicly traded (I.E., subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended) under Rule 701, and that more restrictive conditions apply to affiliates of the Company under Rule 144. Optionee agrees that, if required by the Company (or a representative of the underwriters) in connection with the first underwritten registration of the offering of any securities of the Company under the Securities Act, Optionee will not sell, dispose of, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, of any shares of Common Stock or other securities of the Company held by Optionee, for a period of time specified by the underwriter(s) (not to exceed one hundred eighty (180) days) following the effective date of the registration statement of the Company filed under the Securities Act. In addition, Optionee acknowledges and agrees that Optionee must comply with the six (6) month holding period or any other requirements of Section 16(b) of the Exchange Act of 1934, as amended, and Rule 16b-3 thereunder, if applicable.

**12. STOCK OPTION PLAN.** This Option is subject to, and the Company and the Optionee agrees to be bound by, all of the terms and conditions of the Plan, as the same shall have been amended from time to time in accordance with the terms thereof, provided that no such amendment shall deprive Optionee, without his or her consent, of this Option or any of his or her rights hereunder. Pursuant to the Plan, the board of directors of the Company or its Committee established for such purposes is vested with final authority to interpret and construe the Plan and this Option, and is authorized to adopt rules and regulations for carrying out the Plan. A copy of the Plan in its present form is available upon request from the Company. In the event of any conflict between this Option and the Plan, the Plan shall control.

**13. NOTICES.** Any notice to the Company shall be addressed in care of its Secretary at its principal office, and any notice to be given to Optionee shall be addressed to the address given beneath Optionee's signature hereto or at such other address as Optionee may hereafter designate in writing to the

Company. Any such notice shall be deemed duly given when enclosed in a properly sealed envelope or wrapper addressed as aforesaid, registered or certified, and deposited, postage and registry or certification fee prepaid, in a post office or branch post office regularly maintained by the United States Postal Service.

14. LAWS APPLICABLE TO CONSTRUCTION. This Option shall be construed and enforced in accordance with the laws of the State of Washington.

IN WITNESS WHEREOF, the Company has granted this Option as of the Date of Grant specified above.

**F5 LABS, INC.**

By

Brian Dixon Vice President of Finance

**OPTIONEE:**

----- Signature	----- Date
Address:	

**Address ~**

Amended and Restated - 4 - 1996 Stock Option Plan Stock Option Agreement

**F5 NETWORKS, INC.**

**1999 NON-EMPLOYEE DIRECTORS' STOCK OPTION PLAN**

**ADOPTED BY THE BOARD OF DIRECTORS APRIL 5, 1999**  
**APPROVED BY STOCKHOLDERS \_\_\_\_\_, 199\_\_**

**EFFECTIVE DATE: APRIL 5, 1999**  
**TERMINATION DATE: APRIL 4, 2009**

**1. PURPOSES.**

- (a) **ELIGIBLE OPTION RECIPIENTS.** The persons eligible to receive Options are the Non-Employee Directors of the Company.
- (b) **AVAILABLE OPTIONS.** The purpose of the Plan is to provide a means by which Non-Employee Directors may be given an opportunity to benefit from increases in value of the Common Stock through the granting of Nonstatutory Stock Options.
- (c) **GENERAL PURPOSE.** The Company, by means of the Plan, seeks to retain the services of its Non-Employee Directors, to secure and retain the services of new Non-Employee Directors and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Affiliates.

**2. DEFINITIONS.**

- (a) **"AFFILIATE"** means any parent corporation or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.
- (b) **"ANNUAL GRANT"** means an Option granted annually to all Non-Employee Directors who meet the specified criteria pursuant to subsection 6(b) of the Plan.
- (c) **"ANNUAL MEETING"** means the annual meeting of the stockholders of the Company.
- (d) **"BOARD"** means the Board of Directors of the Company.
- (e) **"CODE"** means the Internal Revenue Code of 1986, as amended.
- (f) **"COMMON STOCK"** means the common stock of the Company.
- (g) **"COMPANY"** means F5 Networks, Inc., a Washington corporation.
- (h) **"CONSULTANT"** means any person, including an advisor, (i) engaged by the Company or an Affiliate to render consulting or advisory services and who is compensated for such services or (ii) who is a member of the Board of Directors of an Affiliate. However, the

term "Consultant" shall not include either Directors of the Company who are not compensated by the Company for their services as Directors or Directors of the Company who are merely paid a director's fee by the Company for their services as Directors.

(i) "CONTINUOUS SERVICE" means that the Optionholder's service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. The Optionholder's Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which the Optionholder renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Optionholder renders such service, provided that there is no interruption or termination of the Optionholder's Continuous Service. For example, a change in status from a Non-Employee Director of the Company to a Consultant of an Affiliate or an Employee of the Company will not constitute an interruption of Continuous Service. The Board or the chief executive officer of the Company, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave.

(j) "DIRECTOR" means a member of the Board of Directors of the Company.

(k) "DISABILITY" means the inability of a person, in the opinion of a qualified physician acceptable to the Company, to perform the major duties of that person's position with the Company or an Affiliate of the Company because of the sickness or injury of the person.

(l) "EMPLOYEE" means any person employed by the Company or an Affiliate. Mere service as a Director or payment of a director's fee by the Company or an Affiliate shall not be sufficient to constitute "employment" by the Company or an Affiliate.

(m) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

(n) "FAIR MARKET VALUE" means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on the Nasdaq National Market or the Nasdaq SmallCap Market, the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable.

(ii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined in good faith by the Board.

(o) "INITIAL GRANT" means an Option granted to a Non-Employee Director who meets the specified criteria pursuant to subsection 6(a) of the Plan.

(p) "IPO DATE" means the effective date of the initial public offering of the Common Stock.

(q) "NON-EMPLOYEE DIRECTOR" means a Director who is not employed by the Company or an Affiliate, and who is not elected or appointed as a Director in direct connection with such Director's investment in the Company or with an investment in the Company by an entity with whom such Director is affiliated or by which such Director is designated as a representative.

(r) "NONSTATUTORY STOCK OPTION" means an Option not intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(s) "OFFICER" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(t) "OPTION" means a Nonstatutory Stock Option granted pursuant to the Plan.

(u) "OPTION AGREEMENT" means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an individual Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

(v) "OPTIONHOLDER" means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(w) "PLAN" means this F5 Networks, Inc. 1999 Non-Employee Directors' Stock Option Plan.

(x) "RULE 16b-3" means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

(y) "SECURITIES ACT" means the Securities Act of 1933, as amended.

### 3. ADMINISTRATION.

(a) ADMINISTRATION BY BOARD. The Board shall administer the Plan. The Board may not delegate administration of the Plan to a committee.

(b) POWERS OF BOARD. The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine the provisions of each Option to the extent not specified in the Plan.

(ii) To construe and interpret the Plan and Options granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any

Option Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iii) To amend the Plan or an Option as provided in Section 12.

(iv) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company which are not in conflict with the provisions of the Plan.

#### 4. SHARES SUBJECT TO THE PLAN.

(a) SHARE RESERVE. Subject to the provisions of Section 11 relating to adjustments upon changes in stock, the stock that may be issued pursuant to Options shall not exceed in the aggregate one hundred thousand (100,000) shares of Common Stock.

(b) REVERSION OF SHARES TO THE SHARE RESERVE. If any Option shall for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full, the stock not acquired under such Option shall revert to and again become available for issuance under the Plan.

(c) SOURCE OF SHARES. The stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

#### 5. ELIGIBILITY.

Nondiscretionary Options as set forth in section 6 shall be granted under the Plan to all Non-Employee Directors.

#### 6. NON-DISCRETIONARY GRANTS.

(a) INITIAL GRANTS. Without any further action of the Board, each Non-Employee Director shall be granted the following Options:

(i) After the IPO Date, each person who is elected or appointed for the first time to be a Non-Employee Director automatically shall, upon the date of his or her initial election or appointment to be a Non-Employee Director by the Board or stockholders of the Company, be granted an Initial Grant to purchase five thousand (5,000) shares of Common Stock on the terms and conditions set forth herein.

(b) ANNUAL GRANTS. On the day following each Annual Meeting commencing with the Annual Meeting in 2000, each person who is then a Non-Employee Director and has been a Non-Employee Director for at least six (6) months automatically shall be granted an Annual Grant to purchase five thousand (5,000) shares of Common Stock on the terms and conditions set forth herein.

## 7. OPTION PROVISIONS.

Each Option shall be in such form and shall contain such terms and conditions as required by the Plan. Each Option shall contain such additional terms and conditions, not inconsistent with the Plan, as the Board shall deem appropriate. Each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

(a) **TERM.** No Option shall be exercisable after the expiration of ten (10) years from the date it was granted.

(b) **EXERCISE PRICE.** The exercise price of each Option shall be one hundred percent (100%) of the Fair Market Value of the stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, an Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(c) **CONSIDERATION.** The purchase price of stock acquired pursuant to an Option may be paid, to the extent permitted by applicable statutes and regulations, in any combination of (i) cash or check, (ii) delivery to the Company of other Common Stock, (ii) deferred payment or (iv) any other form of legal consideration that may be acceptable to the Board and provided in the Option Agreement.

In the case of any deferred payment arrangement, interest shall be compounded at least annually and shall be charged at the minimum rate of interest necessary to avoid the treatment as interest, under any applicable provisions of the Code, of any amounts other than amounts stated to be interest under the deferred payment arrangement.

(d) **TRANSFERABILITY.** An Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(e) **VESTING.** Options shall be fully vested and exercisable upon receipt.

(f) **TERMINATION OF CONTINUOUS SERVICE.** In the event an Optionholder's Continuous Service terminates (other than upon the Optionholder's death or Disability), the Optionholder may exercise his or her Option but only within such period of time ending on the earlier of (i) the date three (3) months following the termination of the Optionholder's Continuous Service, or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified in the Option Agreement, the Option shall terminate.



(g) **EXTENSION OF TERMINATION DATE.** If the exercise of the Option following the termination of the Optionholder's Continuous Service (other than upon the Optionholder's death or Disability) would be prohibited at any time solely because the issuance of shares would violate the registration requirements under the Securities Act, then the Option shall terminate on the earlier of (i) the expiration of the term of the Option set forth in subsection 7(a) or (ii) the expiration of a period of three (3) months after the termination of the Optionholder's Continuous Service during which the exercise of the Option would not be in violation of such registration requirements.

(h) **DISABILITY OF OPTIONHOLDER.** In the event an Optionholder's Continuous Service terminates as a result of the Optionholder's Disability, the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise it as of the date of termination), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified herein, the Option shall terminate.

(i) **DEATH OF OPTIONHOLDER.** In the event (i) an Optionholder's Continuous Service terminates as a result of the Optionholder's death or (ii) the Optionholder dies within the three-month period after the termination of the Optionholder's Continuous Service for a reason other than death, then the Option may be exercised by the Optionholder's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the Option upon the Optionholder's death, but only within the period ending on the earlier of (1) the date eighteen (18) months following the date of death or (2) the expiration of the term of such Option as set forth in the Option Agreement. If, after death, the Option is not exercised within the time specified herein, the Option shall terminate.

## 8. COVENANTS OF THE COMPANY.

(a) **AVAILABILITY OF SHARES.** During the terms of the Options, the Company shall keep available at all times the number of shares of Common Stock required to satisfy such Options.

(b) **SECURITIES LAW COMPLIANCE.** The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Options and to issue and sell shares of Common Stock upon exercise of the Options; provided, however, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Option or any stock issued or issuable pursuant to any such Option. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell stock upon exercise of such Options unless and until such authority is obtained.

## 9. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of stock pursuant to Options shall constitute general funds of the Company.

## 10. MISCELLANEOUS.

(a) **STOCKHOLDER RIGHTS.** No Optionholder shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares subject to such Option unless and until such Optionholder has satisfied all requirements for exercise of the Option pursuant to its terms.

(b) **NO SERVICE RIGHTS.** Nothing in the Plan or any instrument executed or Option granted pursuant thereto shall confer upon any Optionholder any right to continue to serve the Company as a Non-Employee Director or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate or (iii) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

(c) **INVESTMENT ASSURANCES.** The Company may require an Optionholder, as a condition of exercising or acquiring stock under any Option, (i) to give written assurances satisfactory to the Company as to the Optionholder's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Option; and (ii) to give written assurances satisfactory to the Company stating that the Optionholder is acquiring the stock subject to the Option for the Optionholder's own account and not with any present intention of selling or otherwise distributing the stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (iii) the issuance of the shares upon the exercise or acquisition of stock under the Option has been registered under a then currently effective registration statement under the Securities Act or (iv) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the stock.

(d) **WITHHOLDING OBLIGATIONS.** The Optionholder may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of stock under an Option by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Optionholder by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares from the shares of the Common Stock otherwise issuable to the Optionholder as a result of the exercise or acquisition

of stock under the Option; or (iii) delivering to the Company owned and unencumbered shares of the Common Stock.

#### 11. ADJUSTMENTS UPON CHANGES IN STOCK.

(a) CAPITALIZATION ADJUSTMENTS. If any change is made in the stock subject to the Plan, or subject to any Option, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan will be appropriately adjusted in the class(es) and maximum number of securities subject both to the Plan pursuant to subsection 4(a) and to the nondiscretionary Options specified in Section 5, and the outstanding Options will be appropriately adjusted in the class(es) and number of securities and price per share of stock subject to such outstanding Options. The Board shall make such adjustments, and its determination shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a transaction "without receipt of consideration" by the Company.)

(b) CHANGE IN CONTROL--DISSOLUTION OR LIQUIDATION. In the event of a dissolution or liquidation of the Company, then all outstanding Options shall terminate immediately prior to such event.

(c) CHANGE IN CONTROL--ASSET SALE, MERGER, CONSOLIDATION OR REVERSE MERGER.

(i) In the event of (i) a sale of all or substantially all of the assets of the Company, (ii) a merger or consolidation in which the Company is not the surviving corporation or (iii) a reverse merger in which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise, then any surviving corporation or acquiring corporation shall assume any Options outstanding under the Plan or shall substitute similar Options (including an option to acquire the same consideration paid to the stockholders in the transaction described in this subsection 11(c) for those outstanding under the Plan.

(ii) For purposes of subsection 11(c) an Option shall be deemed assumed if, following the change in control, the Option confers the right to purchase in accordance with its terms and conditions, for each share of Common Stock subject to the Option immediately prior to the change in control, the consideration (whether stock, cash or other securities or property) to which a holder of a share of Common Stock on the effective date of the change in control was entitled.

#### 12. AMENDMENT OF THE PLAN AND OPTIONS.

(a) AMENDMENT OF PLAN. The Board at any time, and from time to time, may amend the Plan. However, except as provided in Section 11 relating to adjustments upon changes in

stock, no amendment shall be effective unless approved by the stockholders of the Company to the extent stockholder approval is necessary to satisfy the requirements of Rule 16b-3 or any Nasdaq or securities exchange listing requirements.

(b) STOCKHOLDER APPROVAL. The Board may, in its sole discretion, submit any other amendment to the Plan for stockholder approval.

(c) NO IMPAIRMENT OF RIGHTS. Rights under any Option granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless (i) the Company requests the consent of the Optionholder and (ii) the Optionholder consents in writing.

(d) AMENDMENT OF OPTIONS. The Board at any time, and from time to time, may amend the terms of any one or more Options; provided, however, that the rights under any Option shall not be impaired by any such amendment unless (i) the Company requests the consent of the Optionholder and (ii) the Optionholder consents in writing.

### 13. TERMINATION OR SUSPENSION OF THE PLAN.

(a) PLAN TERM. The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate on the day before the tenth

(10th) anniversary of the date the Plan is adopted by the Board or approved by the stockholders of the Company, whichever is earlier. No Options may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) NO IMPAIRMENT OF RIGHTS. Suspension or termination of the Plan shall not impair rights and obligations under any Option granted while the Plan is in effect except with the written consent of the Optionholder.

### 14. EFFECTIVE DATE OF PLAN.

The Plan shall become effective on the IPO Date, but no Option shall be exercised unless and until the Plan has been approved by the stockholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

### 15. CHOICE OF LAW.

All questions concerning the construction, validity and interpretation of this Plan shall be governed by the law of the State of Washington, without regard to such state's conflict of laws rules.

# **F5 NETWORKS, INC.**

## **1999 NON-EMPLOYEE DIRECTORS' STOCK OPTION PLAN**

### **STOCK OPTION AGREEMENT**

Pursuant to the Stock Option Grant Notice ("Grant Notice") and this Stock Option Agreement, F5 Networks, Inc. (the "Company") has granted you an option under its 1999 Non-Employee Directors' Stock Option Plan (the "Plan") to purchase 5,000 shares of the Company's Common Stock at the exercise price indicated in the Grant Notice. Your option is granted in connection with and in furtherance of the Company's compensatory benefit plan for the Non-Employee Directors of the Company. Defined terms not explicitly defined in this Stock Option Agreement but defined in the Plan shall have the same definitions as in the Plan.

The details of your option are as follows:

1. **VESTING.** Your option is fully vested.
2. **NUMBER OF SHARES AND EXERCISE PRICE.** The 5,000 shares subject to your option and your exercise price per share referenced in the Grant Notice may be adjusted from time to time for Capitalization Adjustments, as provided in the Plan.
3. **METHOD OF PAYMENT.** Payment of the exercise price is due in full upon exercise of all or any part of your option. You may elect to make payment of the exercise price in cash or by check or by one or more of the following:
  - (a) Provided that at the time of exercise the Common Stock is publicly traded and quoted regularly in THE WALL STREET JOURNAL, then pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board which, prior to the issuance of Common Stock, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds (a "cashless exercise").
  - (b) Provided that at the time of exercise the Common Stock is publicly traded and quoted regularly in THE WALL STREET JOURNAL, then by delivery of already-owned shares of Common Stock (valued at their Fair Market Value on the date of exercise) if (i) either you have held the already-owned shares for the period required to avoid a charge to the Company's reported earnings (generally six months) or you did not acquire the already-owned shares, directly or indirectly from the Company, and (ii) you own the already-owned shares free and clear of any liens, claims, encumbrances or security interests. "Delivery" for these purposes shall include delivery to the Company of your attestation of ownership of such shares of Common Stock in a form approved by the Company. Notwithstanding the foregoing, your option may not be exercised by tender to the Company of Common Stock to the extent such tender would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company's stock.

(c) Provided there has been a change in control described in subsection 11(c) of the Plan and the surviving corporation or acquiring corporation refuses to assume your option or to substitute a similar option for your option, then by authorizing the Company to withhold shares from the shares of the Common Stock otherwise issuable to you as a result of the exercise of your option. Notwithstanding the foregoing, your option may not be exercised by withholding of shares of Common Stock to the extent such withholding would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company's stock.

4. **WHOLE SHARES.** Your option may only be exercised for whole shares.

5. **SECURITIES LAW COMPLIANCE.** Notwithstanding anything to the contrary contained herein, your option may not be exercised unless the shares issuable upon exercise of your option are then registered under the Securities Act or, if such shares are not then so registered, the Company has determined that such exercise and issuance would be exempt from the registration requirements of the Securities Act. The exercise of your option must also comply with other applicable laws and regulations governing the option, and the option may not be exercised if the Company determines that the exercise would not be in material compliance with such laws and regulations.

6. **TERM.** The term of your option commences on the Date of Grant and expires upon the EARLIEST of the following:

(a) three (3) months after the termination of your Continuous Service for any reason other than death or Disability,;

(b) twelve (12) months after the termination of your Continuous Service due to Disability;

(c) eighteen (18) months after your death if you die either during your Continuous Service or within three (3) months after your Continuous Service terminates for reason other than Cause;

(d) the Expiration Date indicated in the Grant Notice; or

(e) the tenth (10th) anniversary of the Date of Grant.

7. **EXERCISE.**

(a) You may exercise your option during its term by delivering a Notice of Exercise (in a form designated by the Company) together with the exercise price to the Secretary of the Company, or to such other person as the Company may designate, during regular business hours, together with such additional documents as the Company may then require.

(b) By exercising your option you agree that, as a condition to any exercise of your option, the Company may require you to enter an arrangement providing for the payment by

you to the Company of any tax withholding obligation of the Company arising by reason of (1) the exercise of your option or (2) the disposition of shares acquired upon such exercise.

8. **TRANSFERABILITY.** Your option is not transferable, except by will or by the laws of descent and distribution, and is exercisable during your life only by you. Notwithstanding the foregoing, by delivering written notice to the Company, in a form satisfactory to the Company, you may designate a third party who, in the event of your death, shall thereafter be entitled to exercise your option.

9. **OPTION NOT A SERVICE CONTRACT.** Your option is not a service contract, and nothing in your option shall obligate the Company or an Affiliate, their respective shareholders, Boards of Directors, officers or employees to continue any relationship that you might have as a Director.

10. **WITHHOLDING OBLIGATIONS.**

(a) At the time your option is exercised, in whole or in part, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and any other amounts payable to you, and otherwise agree to make adequate provision for (including by means of a "cashless exercise" pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or an Affiliate, if any, which arise in connection with your option.

(b) Your option is not exercisable unless the tax withholding obligations of the Company and/or any Affiliate are satisfied. Accordingly, you may not be able to exercise your option when desired even though your option is vested.

11. **NOTICES.** Any notices provided for in your option or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

12. **GOVERNING PLAN DOCUMENT.** Your option is subject to all applicable provisions of the Plan, which are hereby made a part of your option, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of your option and those of the Plan, the provisions of the Plan shall control.

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## OFFICE REFERENCE PAGE

BUILDING:	FIRST WEST BUILDING
LANDLORD:	FIRST WEST BUILDING L.L.C. A Washington Limited Liability Company
LANDLORD'S ADDRESS:	13027 19th Avenue S.E., Suite B-2 Everett, Washington 98208
TENANT:	F5 Labs, Inc.
TENANT'S ADDRESS:	200 First Avenue West, Suite 500 Seattle, Washington 98109
LEASE REFERENCE DATE:	October 9, 1997
PREMISES:	Suite 500 (See Exhibit B for outline of Premises attached hereto and incorporated herein by reference)
USE:	CORPORATE OFFICE and limited product storage
PREMISES RENTABLE AREA:	Approximately 6,769 square feet according to BOMA
COMMENCEMENT DATE:	November 24 1997 or upon substantial completion of tenant improvements, whichever is later.
TERMINATION DATE:	October 31, 2000
TERM OF LEASE:	Three (3) years and one-half (1/2) months beginning on the Commencement Date ending on the Termination Date (unless sooner terminated pursuant to the Lease).
ANNUAL BASE RENT:	\$113,380.80
MONTHLY BASE RENT:	\$9,448.40
TENANT PROPOTIONATE SHARE:	9.56%
BASE YEAR (DIRECT EXPENSES AND TAXES):	1998
SECURITY DEPOSIT:	\$38,780.74

Landlord shall apply \$9,589.42 to the 13th month, \$9,730.44 to the 25th month and \$9,730.44 to the 36th month given the Tenant has made all prior rent payments in a timely manner pursuant to paragraph 3 of the Lease.

CPI ESCALATION PERCENTAGE:	N/A
ADDITIONAL TERMS AND CONDITIONS:	EXHIBIT D - Tenant improvements EXHIBIT E - Additional terms
REAL ESTATE BROKER DUE COMMISSION:	Pursuant to terms of agreement with Colliers, Macaulay Nicolls.

The Reference Page information is incorporated into and made a part of the Lease. In the event of any conflict between any Reference Page information and the Lease, the Lease shall control. This Lease includes Exhibits A through E, all of which are made a part hereof.

LANDLORD: FIRST AVENUE WEST BUILDING A Washington Limited Liability Company	TENANT: F5 Labs, Inc. A Washington Corporation
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BY: /s/ Frederick W. Hines, Jr.  
-----  
Frederick W. Hines, Jr.  
ITS: Management Agent

BY: -----  
Jeffrey S. Hussey  
ITS: President and CEO

Date: 10/21/97  
-----

Date: -----

BY: /s/ Brian R. Dixon  
-----  
Brian R. Dixon  
ITS: Vice President of Finance

Date: 10/21/97  
-----

## LEASE

Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the premises set forth and described on the Reference Page. The Reference Page, including all terms defined thereon, is hereby incorporated as part of the Lease.

### 1. USE AND RESTRICTIONS ON USE.

The Premises are to be used solely for the purposes stated on the Reference Page. Tenant shall not do or permit anything to be done in or about the Premises which will in any way obstruct or interfere with the rights of other tenants or occupants of the Building or injure, annoy, or disturb them or allow the Premises to be used for any unlawful purpose. Tenant shall not commit or suffer the commission of any waste in, on, or about the Premises. Tenant shall not do or permit anything to be done on or about the Premises or bring or keep anything therein which will in any way increase the rate of fire insurance upon the Building or any of its contents.

### 2. TERM.

The term of this Lease shall be as indicated on the Reference Page (unless sooner terminated as herein provided) . Tenant agrees that in the event of the inability of Landlord to deliver possession of the Premises on the Commencement Date, Landlord shall not be liable for any damage thereby, but Tenant shall not be liable for any rent until the time when Landlord can, after notice to Tenant, deliver possession of the Premises to Tenant. The Tenant shall have the opportunity to inspect the Premises prior to acceptance to identify any items not in agreement with Exhibit B and D. The Tenant will accept the Premises upon "Substantial completion" which is the date upon which Tenant has had the opportunity to inspect the Premises before the Commencement Date as mentioned above. The Termination Date of the Lease should be extended for any period of delay of delivery of the Premises past the scheduled Commencement Date (November 24, 1997). The Tenant should have the right to terminate the Lease if the Premises are not delivered within thirty (30) days of the scheduled Commencement Date unless such delays are caused by the matters listed as beyond the reasonable control of the Landlord and Tenant is notified by Landlord in writing as to such delays. If Landlord is unable to deliver possession of the Premises within (30) thirty days of the Commencement Date (other than as a result of strikes, shortages of materials or similar matters beyond the reasonable control of Landlord and Tenant is notified by Landlord in writing as to such delay), Tenant shall have the option to terminate this Lease unless said delay is as a result of: (a) Tenant's failure to agree to plans and specifications; (b) Tenant's request for materials, finishes or installations other than Landlord's standard; (c) Tenant's change in plans; or (d) performance or completion by a party employed by Tenant. If said delay is the result of any of the foregoing, the Commencement Date and the payment of rent hereunder shall be accelerated by the number of days of such delay.

In the event Landlord shall permit Tenant to occupy the Premises prior to the Commencement Date, such occupancy shall be subject to all the provisions of this Lease. Said early possession shall not advance the Termination Date.

### 3. RENT.

Tenant agrees to pay to Landlord the Annual Rent by paying the Monthly Installment of Rent on or before the first day of each full calendar month during the Term, except that the first month's rent shall be paid upon the execution hereof. Rent for any period during the Term which is less than one full month shall be a prorated portion of the Monthly Installment of Rent based upon a thirty (30) day month. Said rent

shall be paid to Landlord, without deduction or offset and without notice or demand at the Landlord's address, as set forth on the Reference Page, or to such other person or at such other place as Landlord may from time to time designate in writing.

Tenant recognizes that late payment of any rent or other sum due hereunder will result in administrative expense to Landlord, the extent of which additional expense is extremely difficult and economically impractical to ascertain. Tenant therefore agrees that if rent or any other sum is due and payable pursuant to this Lease, and when such amount remains due and unpaid ten (10) days after said amount is due, such amount shall be increased by a late charge in an amount equal to the greater of: (a) \$50.00, or (b) a sum equal to 5% of the unpaid rent or other payment. The amount of the late charge to be paid by Tenant shall be reassessed and added to Tenant's obligation for each successive monthly period until paid. The provisions of this Article in no way relieves Tenant of the obligation to pay rent or other payments on or before the date on which they are due, nor do the terms of this Article in any way affect Landlord's remedies pursuant to Article 20 of this Lease in the event said rent or other payment is unpaid after the date due.

No security or guarantee which may now or hereafter be furnished to Landlord for the payment of rent or the performance of Tenant's other obligations under this Lease shall in any way constitute a bar to the recovery of the Premises or defense to any action in unlawful detainer or to any other action which Landlord may bring for a breach of any of the terms, covenants or conditions of this Lease.

#### 4. DIRECT EXPENSES.

Tenant shall reimburse Landlord for the following expenditures in the manner set forth in Article 39. All direct costs of operation, maintenance, repair and management of the Building, the grounds and parking areas (including the amount of any credits which Landlord may grant to any tenant in lieu of providing any services or paying any costs described herein), as determined in accordance with generally accepted accounting principles, including the following costs by way of illustration, but not limitation: water and sewer charges; insurance premiums of or relating to all insurance policies and endorsements deemed by Landlord to be reasonably necessary or desirable and relating in any manner to the protection, preservation or operation of the Building, the grounds or parking areas, or any part thereof; utility costs, including but not limited to, the cost of heat, light, power, steam, gas and waste disposal; the cost of janitorial services; the cost of security and alarm services; the cost of general landscape maintenance; the cost of maintaining, repairing and operating the garage and or parking lot and any driveway areas; window cleaning costs; labor costs; costs and expenses of managing the Building, including reasonable management fees, if any; air conditioning costs, elevator maintenance fees and supplies; material costs; equipment costs and the cost of service agreements on equipment; tool costs; licenses, permits and inspection fees; wages and salaries, employee benefits and payroll taxes, accounting and legal fees; and any sales, use or service taxes incurred in connection therewith. Landlord shall be entitled to amortize and include in Direct Expenses an allocable portion of the cost, of any capital improvement, including life safety systems, which is reasonably calculated to reduce operating expenses or which is required under any governmental laws, regulations or ordinances which were not applicable to the Building at the time it was constructed. All such costs, including interest at the rate of 12% per annum on the unamortized amount, shall be depreciated over the reasonable life of such improvements, with such reasonable life and depreciation schedule being determined by Landlord in accordance with generally accepted accounting principles. Direct Expenses shall not include depreciation on the Building or equipment therein (except as provided above), loan principal payments, the costs of alterations of tenant's premises, leasing commissions, interest expenses on long-term borrowings, advertising costs or management salaries for executive personnel other than personnel located at the Building.

Landlord will exclude the following expenses from the direct expense calculation:

1. Costs of repairing or restoring any portion of the Building damaged by hazard to the extent such hazard is customarily insured against by owners of office buildings of similar size, age and construction in the Seattle area.
2. Costs and expenses incurred in connection with leasing space in the Building, such as leasing commissions, allowances, space planner fees, advertising and promotional expenses, legal fees for the preparation of leases, and rent payable with respect to any leasing office, court costs and legal fees incurred to enforce the obligations of other tenants under leases of portions of the Building.
3. Rental concessions, lease buy-outs or the costs of relocating tenants within the building.
4. The costs of renovating or otherwise improving or decorating, painting or redecorating space for any tenant or other occupants of the Building, including without limitation the Tenant.
5. Amounts paid (including interest and penalties) in order to comply with or cure violations of statutes, laws, notes, or ordinances by Landlord or any part of the building including compliance with the Americans with Disabilities Act of 1990, and environmental and hazardous substances laws;
6. Any costs representing an amount paid to any person or entity related to or affiliated with Landlord which is material in excess of the amount which would have been paid in the absence of such relationship.
7. Overhead or profit paid to Landlord, subsidiaries or affiliates of Landlord for services on or to the Building or common areas if and to the extent the costs exceed competitive costs for such services in comparable first-class office buildings located within five (5) miles of the Building where they are not so provided by Landlord or a subsidiary or affiliate of Landlord.
8. All costs for which Tenant or any other tenant in the building is being charged other than pursuant to the Direct Expenses reimbursement provisions of the Lease.
9. The cost of any items for which Landlord is reimbursed by insurance.
10. Costs incurred because of the negligence of the Landlord or due to breach of the Landlord under any contractual obligations.

#### 5. REAL ESTATE TAXES.

Landlord shall pay the Taxes assessed against the Building, grounds and parking areas, and Tenant shall reimburse Landlord for such expenditures as provided in Article 39. The term "Taxes" for the purpose of the Lease shall be such taxes as herein below described which are in addition to those provided for and payable by Tenant pursuant to Article 28 of the Lease, and shall include the following by way of illustration, but not limitation: real estate taxes; any other such taxes, charges and assessments which are levied with respect to the buildings and any improvements, fixtures and equipment and all other property of Landlord, real or personal, located on the property and the land upon which they are situated including any payments to any ground lessor in reimbursement of tax payments made by such lessor; fees or assessments payable to any property owners association due to Landlord's ownership of the Building; and any gross receipts tax and/or any tax which shall be levied in addition to or in lieu of real estate, possessory interest or personal property taxes under the Lease; and any fees, expenses or costs incurred by Landlord in protesting any assessments, levies or the tax rate.

If at any time during the Term, the present method of taxation shall be changed so that in lieu of the whole or any part of any taxes, assessments or governmental charges levied, assessed or imposed on real estate and the improvements thereon, there shall be levied, assessed or imposed on Landlord a capital levy or other tax directly on the rents received therefrom and/or a franchise tax, assessment, levy or charge measured by or based, in whole or in part, upon such rents for the present or any future building or buildings on the property, then all such taxes, assessments, levies or charges, or the part thereof so measured or based, shall be deemed to be included within the term "Taxes" for the purposes hereof.

## 6. SECURITY DEPOSIT.

Tenant has deposited with Landlord the Security Deposit as stated on the Reference Page. Said sum shall be held by Landlord as security for the faithful performance by Tenant of all the terms, covenants and conditions of this Lease to be kept and performed by Tenant and not as an advance rental deposit or as a measure of Landlord's damage in case of Tenant's default. If Tenant defaults with respect to any provision of this Lease, Landlord may use any part of this Security Deposit for the payment of any rent or any other sum in default, or for the payment of any amount which Landlord may spend or become obligated to spend by reason of Tenant's default, or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default. If any portion is so used, Tenant shall within five days after written demand therefor deposit with Landlord an amount sufficient to restore the Security Deposit to its original amount and Tenant's failure to do so shall be a material breach of this Lease. Landlord shall not be required to keep this Security Deposit separate from its general funds, and Tenant shall not be entitled to interest on such deposit. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the Security Deposit or any balance thereof shall be returned to Tenant at such time after termination of this Lease when Landlord shall have determined that all of Tenant's obligations under this Lease have been fulfilled.

## 7. ALTERATIONS.

Tenant shall not make or suffer to be made any alterations, additions, or improvements, including, but not limited to, the attachment of any fixtures or equipment in, on, or to the Premises or any part thereof or the making of any improvements as required by Article 8 hereof without the prior written consent of Landlord, which may be withheld in Landlord's reasonable discretion. The Tenant should be permitted to make non-structural alterations, additions, or improvements to the Premises with the Landlord's consent. The Landlord should advise the Tenant upon the making of any alterations as to whether the Landlord will require the removal of the improvements at the expiration of the Lease Term. Tenant should not be required to use the Landlord's contractor but it would be reasonable for the Landlord to retain the right to approve the Tenant's contractor which approval should not be unreasonably withheld. The Tenant is not be obligated to pay the Landlord for the Landlord's overhead arising out of the construction of the Tenant's proposed improvements. Any alteration, additions or improvements to be done by Tenant as part of Tenant's initial occupancy shall be specified in Exhibit B hereto. Any alteration, addition, or improvement in, on, or to the Premises including carpeting, but excepting movable furniture and personal property of Tenant removable without material damage to the property or the Premises, shall be and remain the property of the Tenant during the Term but shall, unless Landlord elects otherwise, become a part of the realty and belong to Landlord without compensation to Tenant upon the expiration or sooner termination of the Term and title shall pass to Landlord under this Lease as by a bill of sale. When applying for such consent, Tenant shall, if requested by Landlord, furnish complete plans and specifications for such alterations, additions and improvements. In the event Landlord consents to the making of any such alteration, addition, or improvement by Tenant, the same shall be made using Landlord's contractor (unless Landlord agrees otherwise) at Tenant's sole cost and expense and in any event Landlord may charge Tenant a reasonable charge to cover its overhead as it relates to such proposed work. All alterations, additions or improvements proposed by Tenant shall be constructed in accordance with all government laws, ordinances, rules and regulations and Tenant shall, prior to construction, provide such assurances to Landlord, including but not limited to, waivers of lien, surety company performance bonds and personal guaranties of individuals of substance, as Landlord shall require to assure payment of the costs thereof and to protect Landlord against any loss from any mechanics', materialmen's or other liens. Tenant shall pay in addition to any sums due pursuant to Article 5 above any increase in real estate taxes attributable to any such alteration, addition, or improvement for so long, during the Term, as such increase is ascertainable. Upon the expiration or

sooner termination of the Term as herein provided, Tenant shall upon demand by Landlord, at Tenant's sole cost and expense, forthwith and with all due diligence remove any such alterations, additions or improvements which are designated by Landlord to be removed, and Tenant shall repair and restore the Premises to their original condition, reasonable wear and tear excepted.

#### 8. REPAIR.

By taking possession, Tenant accepts the Premises as being in good order, condition and repair, and in the condition in which Landlord is obligated to deliver them. Tenant shall, at all times during the Term, keep the Premises in good condition and repair, excepting for items which are the responsibility of the Landlord including electricity service to premises, damage thereto by fire, earthquake, Act of God or the elements, shall comply with all governmental laws, ordinances and regulations applicable to the use and its occupancy of the Premises, and shall promptly comply with all governmental orders and directives for the corrective prevention and abatement of any violations or nuisances in or upon, or connected with, the Premises, all at Tenant's sole expense. It is hereby understood and agreed that Landlord has no obligation to alter, remodel, improve, repair, decorate or paint the Premises, except as specified in Exhibit B if attached hereto, and that no representations respecting the condition of the Premises or the Building have been made by Landlord to Tenant, except as specifically set forth herein. Notwithstanding the above provisions of this Article, Landlord shall repair and maintain the structural portions of the Building, including the basic plumbing, air conditioning, heating and electrical systems, installed or furnished by Landlord. Landlord shall not be liable for any failure to make any repairs or to perform any maintenance unless such failure shall persist for an unreasonable time after written notice of the need of such repairs or maintenance is given to Landlord by Tenant. Except as provided in Article 22, there shall be no abatement of rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making or any repairs, alterations or improvements in or to any portion of the Building or the Premises or in or to fixtures, appurtenances and equipment therein. Tenant waives the right to make repairs at Landlord's expense under any law, statute or ordinance now or hereafter in effect.

#### 9. LIENS.

Tenant shall keep the Premises and Tenant's leasehold interest in the Premises free from any liens arising out of any work performed, materials furnished, or obligations incurred by Tenant. In the event that Tenant shall not, within ten days following the imposition of any such lien, cause the same to be released of record, Landlord shall have the right to cause the same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Landlord and all expenses incurred by it in connection therewith shall be considered additional rent and shall be payable to it by Tenant on demand with interest at the rate of 12% (twelve percent) per annum or the highest rate permitted by law, whichever is lower.

#### 10. ASSIGNMENT AND SUBLETTING.

Tenant shall not have the right to assign or pledge this Lease or to sublet the whole or any part of the Premises, whether voluntarily or by operation of law, or permit the use or occupancy of the Premises by anyone other than Tenant, or assign this Lease for security purposes, without the prior written consent of Landlord, whose consent will not be unreasonably withheld or delayed, and such restrictions shall be binding upon any assignee or subtenant to which Landlord has consented. In the event Tenant desires to sublet the Premises, or any portion thereof, or assign this Lease, Tenant shall give written notice thereof to Landlord at least ten (10) days but no more than 90 days prior to the proposed commencement date of such subletting or assignment, which notice shall set forth the name of the proposed subtenant or assignee, the relevant terms of any sublease and copies of financial reports and other relevant financial

information of the proposed subtenant or assignee.

The Tenant should have the right to withdraw its request for consent to an assignment to prevent premature termination of the Lease. Similarly, the Tenant should have the right to withdraw its request for approval of a sublease to prevent the recapture of any of its Premises by the Landlord. The Landlord's consent should not be required in connection with a corporate merger, reorganization, public offering or other corporate restructuring. The Landlord should have to exercise its rights under this Article within thirty (30) days of the Tenant's notice to the Landlord instead of sixty (60) days. The Tenant's obligation to reimburse Landlord for its cost incurred in connection with review and approval of an assignment or a sublease should be capped at \$500.00.

In addition to Landlord's right to approve of any subtenant or assignee, Landlord shall have the option, in its sole discretion, in the event of any proposed subletting or assignment, to terminate this Lease, or in the case of a proposed subletting of less than the entire Premises, to recapture the portion of the Premises to sublet, as of the date the subletting or assignment is to be effective. The option shall be exercised by Landlord's giving Tenant written notice thereof within 20 (twenty) days following Landlord's receipt of Tenant's written notice as required above. If this Lease shall be terminated with respect to the entire Premises the Term shall end on the date stated in Tenant's notice as the effective date of the sublease or assignment as if that date had been originally fixed in this Lease for the expiration of the Term. If Landlord recaptures only a portion of the Premises, the rent during the unexpired Term shall abate, proportionately, based on the rent as of the date immediately prior to such recapture. Tenant shall, at Tenant's own cost and expense, discharge in full any outstanding commission obligation on the part of Landlord with respect to this Lease, and any commissions which may be due and owing as a result of any proposed assignment or subletting, whether or not the Premises are recaptured pursuant hereto and rented by Landlord to the proposed tenant or any other tenant. Consent by Landlord to any assignment or subletting shall not include consent to the assignment or transferring of any lease renewal option rights or space option rights of the Premises, special privileges or extra services granted to Tenant by this Lease, or addendum or amendment thereto or letter of agreement (and such options, right, privileges or services shall terminate upon such assignment), unless Landlord specifically grants in writing such options, rights, privileges or services to assignee or subtenant. Any sale, assignment, mortgage, transfer of this Lease or subletting which does not comply with the provisions of this Article shall be void.

In the event that Tenant sells, sublets, assigns, or transfers this Lease and at any time receives periodic rent and/or other consideration which exceeds that which Tenant would at that time be obligated to pay to Landlord, Tenant shall pay to Landlord 100% (one hundred percent) of the gross increase in such rent as such rent is received by Tenant and 100% (one hundred percent) of any other consideration received by Tenant from such subtenant in connection with such sublease or in the case of an assignment of this Lease by Tenant, Landlord shall receive 100% (one hundred percent) of any consideration paid to Tenant by such assignee in connection with such assignment.

Should Landlord agree to authorize and execute an assignment or sublease agreement, Tenant will pay to Landlord on demand a sum equal to all of Landlord's costs, including attorney's fees, incurred in connection with such assignment or transfer.

## 11. INDEMNIFICATION.

Landlord shall not be liable and Tenant hereby waives all claims against Landlord for any damage to any property or any injury to any person in or about the Premises or the Building by or from any cause whatsoever, (including without limiting the foregoing, rain or water leakage of any character from the roof, windows, walls, basement, pipes, plumbing works or appliances, the Building not being in good condition or repair, gas, fire, oil, electricity or theft); except that Landlord will indemnify and hold Tenant



harmless from such claims to the extent caused by the negligent or willful act of Landlord, or its agents, employees or contractors. Tenant shall hold Landlord harmless from and defend Landlord against any and all claims, liability or costs (including court costs and attorney's fees) for any damage to any property or any injury to any person occurring in, on or about the Premises or the Building when such injury or damage shall be caused by or arise from, in part or in whole, (a) the act, neglect, fault, or omission to meet the standards imposed by any duty with respect to the injury or damage, by Tenant, its agents, servants, employees or invitees; (b) the conduct or management of any work or thing whatsoever done by the Tenant in or about the Premises or from transactions of the Tenant concerning the Premises; or (c) any breach or default on the part of the Tenant in the performance of any covenant or agreement on the part of the Tenant to be performed pursuant to this Lease. The provisions of this Article shall survive the termination of this Lease with respect to any claims or liability occurring prior to such termination.

## 12. INSURANCE.

Tenant agrees to purchase at its own expense and to keep in force during the Term of this Lease a comprehensive public liability and property damage insurance policy to protect against any liability to the public or to any invitee of Tenant or Landlord incident to the use of or resulting from any accident occurring in or upon the Premises with a comprehensive single limit of not less than \$1,000,000.00. Said policy or policies shall: (a) name Landlord as an additional insured, and insure Landlord's contingent liability under this Lease; (b) be issued by an insurance company which is acceptable to Landlord; and (c) provide that said insurance shall not be canceled unless 30 days prior written notice shall have been given to Landlord. Said policy or policies or certificates thereof shall be delivered to Landlord by Tenant upon the Commencement Date and upon each renewal of said insurance.

## 13. WAIVER OF SUBROGATION.

So long as their respective insurers so permit, Tenant and Landlord hereby mutually waive their respective rights of recovery against each other for any loss insured by fire, extended coverage or all risk insurance now or hereafter existing for the benefit of the respective party. Each party shall obtain any special endorsements required by their insurer to evidence compliance with the aforementioned waiver.

## 14. SERVICES AND UTILITIES.

Subject to the other provisions hereof, Landlord agrees to furnish to the Premises during ordinary business hours of generally recognized business days (but exclusive in any event of weekends and legal holidays), the following services and utilities subject to the rules and regulations of the Building prescribed from time to time: (a) water suitable for the intended use of the Premises; (b) heat and air conditioning required in Landlord's reasonable judgment for the use and occupation of the Premises; (c) janitorial service; (d) elevator service by non-attended automatic elevators; (e) such window washing as may from time to time in Landlord's judgment be reasonably required; and (f) electricity for lighting, convenience outlets and other direct uses. Tenant agrees at all times to cooperate fully with Landlord and to abide by all the regulations and requirements which Landlord may prescribe for the proper functioning and protection of said systems. Landlord shall not be liable for, and Tenant shall not be entitled to, any abatement or reduction of rental by reason of Landlord's failure to furnish any of the foregoing, unless such failure shall persist for an unreasonable time after written notice of such failure is given to Landlord by Tenant and provided further that Landlord shall not be liable when such failure is caused by accident, breakage, repairs, labor disputes of any character, energy usage restrictions or by control of Landlord. Landlord shall use reasonable efforts to remedy any interruption in the furnishing of services and utilities. Notwithstanding the above, Landlord shall be entitled, without compensation to Tenant or any abatement of rent, to cooperate voluntarily in a reasonable manner with the efforts of

national, state or local governmental bodies or utilities suppliers in reducing energy or other resources consumption.

Should Tenant require any additional work or service, as described above, including services furnished outside ordinary business hours, Landlord may, on terms to be agreed, upon reasonable advance notice by Tenant, furnish such additional service and Tenant agrees to pay Landlord such charges as may be agreed upon, including any tax imposed thereon, but in no event at a charge less than Landlord's actual cost plus overhead for such additional service and where appropriate a reasonable allowance for depreciation of any systems being used to provide such service.

Wherever heat-generating machines or equipment are used by Tenant in the Premises which affect the temperature otherwise maintained by the air conditioning system, Landlord reserves the right to install supplementary air conditioning units in or for the benefit of the Premises and the cost thereof, including the cost of installation and the cost of operation and maintenance, shall be paid by Tenant to Landlord upon demand as additional rent.

Tenant will not, without the written consent of Landlord, use an apparatus or device in the Premises, including but not limited to, electronic data processing machines and machines using current in excess of 200 watts or 100 volts, which will in any way increase the amount of electricity or water usually furnished or supplied for use of the premises as general office space, nor connect with electric current, except through existing electrical outlets in the Premises, or water pipes, any apparatus or device for the purposes of using electrical current or water. If Tenant shall require water or electric current in excess of that usually furnished or supplied for use of the Premises as general office space, Tenant shall procure the prior written consent of Landlord for the use thereof, which Landlord may refuse, and if Landlord does consent, Landlord may cause a water meter or electric current meter to be installed so as to measure the amount of water and electric current consumed for any such other use. The cost of any such meters and facilities necessary to furnishing such excess capacity and of installation, maintenance and repair thereof shall be paid for by Tenant and Tenant agrees to pay as additional rent to Landlord promptly upon demand therefor the cost of all such increased water and electric current consumed (as shown by said meters, if any, or, if none, as reasonably estimated by Landlord) at the rate charged for such services by the local public utility or agency, as case may be, furnishing the same, plus any additional expense incurred in keeping account of the water and electric current so consumed.

The Landlord represents and warrants that there is sufficient electricity to serve the lighting, heat and air conditioning needs of the Tenant. The Landlord is liable for any interruption in the utility services if the failure persists for more than 24 hours. The Landlord is liable in the event the failure of the utility services is caused by the Landlord. The Landlord's right to install supplemental air conditioning units and charge the cost of the same to the Tenant should be limited to the event that Tenant's air conditioning needs are in excess of the normal office requirements.

#### 15. HOLDING OVER.

Tenant shall pay Landlord for each day Tenant retains possession of the Premises or part thereof after termination hereof by lapse of time or otherwise 200% of the amount of the Annual Rent for the last period prior to the date of such termination plus all Rent Adjustments as provided for in Article 39 prorated on a daily basis, and also pay all damages sustained by Landlord by reason of such retention, and shall indemnify and hold Landlord harmless from any loss or liability resulting from such holding over and delay in surrender. If Landlord gives notice to Tenant of Landlord's election thereof, such holding over shall constitute renewal of this Lease for a period from month to month or for one year, whichever shall be specified in such notice, in either case at 200% of the Annual Rent being paid to Landlord under this Lease immediately prior thereto plus all Rent Adjustments as provided for in Article 4, but if the

Landlord does not so elect, acceptance by Landlord of rent after such termination shall not constitute a renewal; this provision shall not be deemed to waive Landlord's right of reentry or any other right hereunder or at law.

#### 16. SUBORDINATION.

Without the necessity of any additional document being executed by Tenant for the purpose of effecting a subordination, this Lease shall be subject and subordinate at all times to ground or underlying leases and to the lien of any mortgages or deeds of trust now or hereafter placed on, against or affecting the Building, Landlord's interest or estate therein, or any ground or underlying lease; provided, however, that if the lessor, mortgagee, trustee, or holder of any such mortgage or deed of trust elects to have Tenant's interest in this Lease be superior to any such instrument, then by notice to Tenant this Lease shall be deemed superior, whether this Lease was executed before or after said instrument. Notwithstanding the foregoing, Tenant covenants and agrees to execute and deliver upon demand such further instruments evidencing such subordination or superiority of this Lease as may be required by Landlord.

#### 17. RULES AND REGULATIONS.

Tenant shall faithfully observe and comply with all the rules and regulations except Landlord will uniformly enforce all rules and regulations. The Landlord will prove a copy of any conveyance, conditions and restrictions of record applicable to the leased Premises as set forth in Exhibit C attached hereto and all reasonable modifications of and additions thereto from time to time put into effect by Landlord as well as all covenants, conditions and restrictions of record. Landlord shall not be responsible to Tenant for the non-performance by any other tenant or occupant of the Building of any such rules and regulations.

#### 18. REENTRY BY LANDLORD.

The Landlord's right to enter the Premises is subject to 24 hours advanced written notice. The Landlord is permitted to show the Premises to prospective Tenants during the last ninety (90) days of the Lease Term provided that the Tenant has not elected to extend the term of the Lease. The Landlord's right to alter, improve or repair the Premises or any portion of the Building should be subject to the Tenant's reasonable approval for work which will take 48 hours or more to complete. Landlord's right to change the arrangement and/or location of entrances or passage ways etc., is subject to the limitation that such alteration would not unreasonably detract from or impair Tenant's or its licensees and invitees, access to the Premises.

Landlord reserves and shall at all times have the right to reenter the Premises to inspect the same, to supply janitor service and any other service to be provided by Landlord to Tenant hereunder, to show said Premises to prospective purchasers, mortgagees or tenants, and to alter, improve, or repair the Premises and any portion of the Building, without abatement of rent, and may for that purpose erect, use, and maintain scaffolding, pipes, conduits, and other necessary structures in and through the Building and Premises where reasonably required by the character of the work to be performed, provided entrance to the Premises shall not be blocked thereby, and further provided that the business of Tenant shall not be interfered with unreasonably. In the event that Landlord requires access to any under-floor duct, Landlord's liability for carpet (or other floor covering) replacement shall be limited to replacement of the piece removed. Tenant hereby waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned thereby. For each of the aforesaid purposes, Landlord shall at all times have and retain a key with which to unlock all of the doors in the Premises, excluding Tenant's vaults and safes, or special security areas (designated in advance), and Landlord shall have the right to use any and all means which Landlord may deem proper to open said doors in an emergency to obtain

entry to any portion of the Premises. Landlord shall also have the right at any time to change the arrangement and/or location of entrances or passageways, doors and doorways, and corridors, elevators, stairs, toilets or other public parts of the Building, and to change the name, number or designation by which the Building is commonly known.

#### 19. DEFAULT.

The following events shall be deemed to be events of default under this Lease:

- (a) Tenant shall fail to pay when due any sum of money becoming due to be paid to Landlord hereunder, whether such sum be any installment of the rent hereunder, or any other payment or reimbursement to Landlord required herein, whether or not treated as additional rent hereunder, and such failure shall continue for a period of three (3) days from the date such payment was due; or
- (b) Tenant shall fail to comply with any term, provision or covenant of this Lease, other than by failing to pay when or before due any sum of money becoming due to be paid to Landlord hereunder, and shall not cure such failure within 20 days (forthwith, if the default involves a hazardous condition) after written notice thereof to Tenant; or
- (c) Tenant shall abandon or vacate any substantial portion of the Premises; or
- (d) Tenant shall fail to vacate the Premises immediately upon termination of the Lease, by lapse of time or otherwise, or upon termination of Tenant's right to possession only; or
- (e) The leasehold interest of Tenant shall be levied upon under execution or be attached by process of law or Tenant shall fail to contest diligently the validity of any lien or claimed lien and give sufficient security to Landlord to insure payment thereof or shall fail to satisfy any judgment rendered thereon and have the same released, and such default shall continue for 20 (twenty) days after written notice thereof to Tenant; or
- (f) Tenant shall become insolvent, admit in writing its inability to pay its debts generally as they become due, file a petition in bankruptcy or a petition to take advantage of any insolvency statute, make an assignment for the benefit of creditors, make a transfer in fraud of creditors, apply for or consent to appointment of a receiver of itself or of the whole or any substantial part of its property, or file a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable law or statute of the United States or any state thereof; or
- (g) A court of competent jurisdiction shall enter an order, judgment or decree adjudicating Tenant a bankrupt, or appointing a receiver of Tenant, or of the whole or any substantial part of its property, without the consent of Tenant, or approving a petition filed against Tenant seeking reorganization or arrangement of Tenant under the bankruptcy laws of the United States, as now in effect or hereafter amended, or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within 30 days from the date of entry thereof.

#### 20. REMEDIES.

Upon the occurrence of any of such events of default described in Article 19 or elsewhere in this Lease, Landlord shall have the option to pursue any one or more of the following remedies without any notice or demand whatsoever:

- (a) Landlord may, at its election, terminate this Lease or terminate Tenant's right to possession only,

without terminating the Lease.

(b) Upon any termination of this Lease, whether by lapse of time or otherwise, or upon any termination of Tenant's right to possession without termination of the Lease, Tenant shall surrender possession and vacate the Premises immediately, and deliver possession thereof to Landlord, and Tenant hereby grants to Landlord full and free right to enter into and upon the Premises in such event with or without process of law and to repossess Landlord of the Premises as of Landlord's former estate and to expel or remove Tenant and any other who may be occupying or within the Premises and to remove any and all property therefrom, without being deemed in any manner guilty of trespass, eviction or forcible entry or detainer, and without incurring any liability or any damage resulting therefrom, Tenant hereby waiving any right to claim damage for such re-entry and expulsion, and without relinquishing Landlord's right to rent or any other right given to Landlord hereunder or by operation of law.

(c) Upon any termination of this Lease, whether by lapse of time or otherwise, Landlord shall be entitled to recover as damages, all rent, including any amounts treated as additional rent hereunder and other sums due and payable by Tenant on the date of termination, plus the sum of (i) an amount equal to the then present value of the rent, including any amounts treated as additional rent hereunder, and other sums provided herein to be paid by Tenant for the residue of the Term hereof, less the fair rental value of the Premises for such residue (taking into account the tenant improvement expense and expense necessary to obtain a replacement tenant or tenants, including expenses hereinafter described in subparagraph (d) relating to recovery of the Premises, preparation for reletting and for reletting itself), which the Parties agree shall in no event exceed 60% of the then present value of the rent for the period and (ii) the cost of performing any other covenants which would have otherwise been performed by Tenant;

(d) (i) Upon any termination of Tenant's right to possession only without termination of the Lease, Landlord may, at Landlord's option, enter into the Premises, remove Tenant's signs and other evidences of tenancy, and take and hold possession thereof as provided in subparagraph (b) above, without such entry and possession terminating the Lease or releasing Tenant, in whole or in part, from any obligation, including Tenant's obligation to pay the rent, including any amounts treated as additional rent hereunder for the full Term. In any such case Tenant shall pay forthwith to Landlord, if Landlord so elects, a sum equal to the entire amount of the rent, including any amounts treated as additional rent hereunder, for the residue of the Term plus any other sums provided herein to be paid by Tenant for the remainder of the Term;

(ii) Landlord may, but need not, relet the Premises or any part thereof for such rent and upon such terms as Landlord in its sole discretion shall determine (including the right to relet the Premises for a greater or lesser term than that remaining under this Lease, the right to relet the Premises as a part of a larger area, and the right to change the character or use made of the Premises) and Landlord shall not be required to accept any tenant offered by Tenant or to observe any instructions given by Tenant about such reletting. In any such case, Landlord may make repairs, alterations and additions in or to the Premises, and redecorate the same to the extent Landlord deems necessary or desirable and Tenant shall, upon demand, pay the cost thereof, together with Landlord's expenses or reletting including, without limitation, any broker's commission incurred by Landlord. If the consideration collected by Landlord upon any such reletting plus any sums previously collected from Tenant are not sufficient to pay the full amount of all rent, including any amounts treated as additional rent hereunder and other sums reserved in this lease for the remaining term hereof, together with the costs of repairs, alterations, additions, redecorating, and Lessor's expenses of reletting and the collection of the rent accruing therefrom (including attorney's fees and broker's commissions), Tenant shall pay to Landlord the amount of such deficiency upon demand and Tenant agrees that Landlord may file suit to recover any sums falling due under this section from time to time;

(e) Landlord may, at Landlord's option, enter into and upon the Premises, with or without process of law, if Landlord determines in its sole discretion that Tenant is not acting within a commercially reasonable time to maintain, repair or replace anything for which Tenant is responsible hereunder and correct the same, without being deemed in any manner guilty of trespass, eviction or forcible entry and detainer and without incurring any liability for any damage resulting therefrom and Tenant agrees to reimburse Landlord, on demand, as additional rent, for any expenses which Landlord may incur in thus effecting compliance with Tenant's obligations under this Lease;

(f) Any and all property which may be removed from the Premises by Landlord pursuant to the authority of this Lease or of law, to which Tenant is or may be entitled, may be handled, removed and stored, as the case may be, by or at the direction of Landlord at the risk, cost and expense of Tenant, and Landlord shall in no hereunder for the full Term. In any such case Tenant shall pay forthwith to Landlord, if Landlord so elects, a sum equal to the entire amount of the rent, including any amounts treated as additional rent hereunder, for the residue of the Term plus any other sums provided herein to be paid by Tenant for the remainder of the Term.

Pursuit of any of the foregoing remedies shall not preclude pursuit of any of the other remedies herein provided or any other remedies provided by law or at equity (all such remedies being cumulative), nor shall pursuit of any remedy herein provided constitute a forfeiture or waiver of any rent due to Landlord hereunder or of any damages accruing to landlord by reason of the violation of any of the terms, provisions and covenants herein contained. No act or thing done by Landlord or its agents during the Term shall be deemed a termination of this Lease or an acceptance of the surrender of the Premises, and no agreement to terminate this Lease or accept a surrender of said Premises shall be valid unless in writing signed by Landlord. No waiver by Landlord of any violation or breach of any of the terms, provisions and covenants herein contained shall be deemed or construed to constitute a waiver of any other violation or breach of any of the terms, provisions and covenants herein contained. Landlord's acceptance of the payment of rental or other payments hereunder after the occurrence of an event of default shall not be construed as an accord and satisfaction, compromise or waiver of such default, unless Landlord so notifies Tenant in writing. Forbearance by Landlord in enforcing one or more of the remedies herein provided upon an event of default shall not be deemed or construed to constitute a waiver of such default or of Landlord's right to enforce any such remedies with respect to such default or any subsequent default. If, on account of any breach or default by Tenant under the Lease, it shall become necessary or appropriate for Landlord to employ or consult with an attorney concerning or to enforce or defend any of Landlord's rights or remedies, Tenant agrees to pay all attorney's fees incurred by Landlord.

Notwithstanding the above, nothing in this Article 20 shall be deemed to impose more obligations or liability on the Tenant than is otherwise provided under applicable law.

## 21. QUIET ENJOYMENT.

Landlord represents and warrants that it has full right and authority to enter into this Lease and that Tenant, while paying the rental and performing its other covenants and agreements herein set forth, shall peaceably and quietly have, hold and enjoy the Premises for the Term without hindrance or molestation from Landlord subject to the terms and provisions of this Lease. In the event this Lease is a sublease, then Tenant agrees to take the Premises subject to the provisions of the prior leases. Landlord shall not be liable for any interference or disturbance by other tenants or third persons nor shall Tenant be released from any of the obligations of this Lease because of such interference or disturbance.

## 22. DAMAGE BY FIRE, ETC.

(a) In the event the Premises or the Building are damaged by fire or other casualty, Landlord shall forthwith repair the same provided such damage can, in Landlord's reasonable estimation, be materially restored within 90 days (except that Landlord may elect not to rebuild if such damage occurs during the last year of the Term) and this Lease shall remain in full force and effect except that if such damage is not the result of any gross negligence or willful misconduct of Tenant, or its agents, employees, or invitees, then Tenant shall be entitled to a proportionate abatement in rent from the date of such damage, such reduction to be based pro rata to the extent to which the damage and the making of such repairs shall interfere with the use and occupancy by Tenant of the Premises. Within 30 days from date of such damage, Landlord shall notify Tenant, in writing, whether or not material restoration can be made within the 90 day period, and Landlord's determination shall be binding on Tenant. For purposes hereof, the Building or Premises shall be deemed materially restored" if they are, in such condition as would not prevent or materially interfere with Tenant's use of the Premises for the purpose for which it was then being used.

(b) If such repairs cannot, in Landlord's reasonable estimation, be made within 90 days, Landlord and Tenant shall each have the option of giving the other, at any time within 60 days after such damage, notice terminating this Lease as of the date of such damage. In the event of the giving of such notice, this Lease shall expire and all interest of the Tenant in the Premises shall terminate as of the date of such damage as if such date had been originally fixed in this Lease for the expiration of the Term. In the event that neither Landlord nor Tenant exercise the above set forth option to terminate this Lease in the event of partial destruction, then Landlord shall repair or restore such damage, this Lease continuing in full force and effect, but the rent hereunder to be proportionately abated as herein above provided. Landlord shall not be required to repair any injury or damage by fire or other cause, or to make any repairs or replacements of any paneling, decorations, partitions, additions, railings, ceilings, floor coverings, office fixtures or any other property or improvements installed on the Premises at the expense of Tenant. Any insurance which may be carried by Landlord or Tenant against loss or damage to the Building or Premises shall be for the sole benefit of the party carrying such insurance and under its sole control.

(c) In the event that Landlord should fail to complete such repairs and material restoration within 120 days after the date of such damage, Tenant may at its option and as its sole remedy terminate this Lease by delivering written notice to Landlord, whereupon the Lease shall end on the date of such notice as of the date of such notice was the date originally fixed in this Lease for the expiration of the Term; provided, however, that if construction is delayed because of changes, deletions or additions in construction requested by Tenant, strikes, lockouts, casualties, acts of God, war, material or labor shortages, government regulation or control or other causes beyond the reasonable control of Landlord, the period for restoration, repair or rebuilding shall be extended for the amount of time Landlord is so delayed. Notwithstanding anything to the contrary contained in this Article, (a) Landlord shall not have any obligation whatsoever to repair, reconstruct, or restore the Premises when the damages resulting from any casualty covered by the provisions of this Article occurs during the last 12 (twelve) months of the Term or any extension thereof, and (b) in the event the holder of any indebtedness secured by a mortgage or deed of trust covering the Premises or Building requires that any insurance proceeds be applied to such indebtedness, then Landlord shall have the right to terminate this Lease by delivering written notice of termination to Tenant within 15 (fifteen) days after such requirement is made by any such holder, whereupon this Lease shall end on the date of such damage as if the date of such damage were the date originally fixed in this Lease for the expiration of the term.

(d) In the event of any damage or destruction to the Building or Premises by any peril covered by the provisions of this Article, Tenant shall upon notice from Landlord, remove forthwith, at its sole cost and expense, such portion or all of the property belonging to Tenant or his licensees from such portion or all of the Building or Premises as Landlord shall request and Tenant hereby indemnifies and holds Landlord

harmless from any loss, liability, costs and expenses, including attorneys fees, arising out of any claim of damage or injury as a result of any alleged failure to properly secure the Premises prior to such removal and/or such removal except to the extent arising out of or caused by the Landlord's gross negligence or willful misconduct.

### 23. EMINENT DOMAIN.

If all or any substantial part of the Premises shall be taken or appropriated by any public or quasi-public authority under the power of eminent domain, or conveyance in lieu thereof, either party hereto shall have the right, at its option, of giving the other, at any time within 30 days after such taking, notice terminating this Lease. If neither party hereto shall so elect to terminate this Lease, the rental thereafter to be paid shall be adjusted on a pro rata basis. Before Tenant may terminate this Lease by reason of taking or appropriation as above provided, such taking or appropriation shall be so substantial as to materially interfere with Tenant's use and occupancy thereof. In addition to the rights of Landlord above, if any substantial part of the Building shall be taken or appropriated by any public or quasi-public authority under the power of eminent domain, or conveyance in lieu thereof and regardless of whether the Premises or any part thereof are so taken or appropriated, Landlord shall have the right, at its sole option, to terminate this Lease. Landlord and Tenant shall each be entitled to receive and retain such separate awards and/or portion of lump sum awards as may be allocated to their respective interests in any condemnation proceedings. If the condemnation proceedings are paid in one lump sum, payment; the Landlord shall pay to Tenant its share based on the provisions of Article 23.

### 24. SALE BY LANDLORD.

In event of a sale or conveyance by Landlord of the Building, the same shall operate to release Landlord from any future liability upon any of the covenants or conditions, expressed or implied, herein contained in favor of Tenant, and in such event Tenant agrees to look solely to the responsibility of the successor in interest of Landlord in and to this Lease. Except as set forth in this Article, this Lease shall not be affected by any such sale, and Tenant agrees to attorn to the purchaser or assignee. If any security has been given by Tenant to secure the faithful performance of any of the covenants of this Lease, Landlord may transfer or deliver said security, as such, to Landlord's successor in interest and thereupon Landlord shall be discharged from any further liability with regard to said security, provided that any successor shall not be liable for such security unless such successor receives the same.

### 25. ESTOPPEL CERTIFICATE.

Within ten days following any written request which Landlord may make from time to time, Tenant shall execute and deliver to Landlord or any prospective Landlord or mortgagee or prospective mortgagee a sworn statement certifying: (a) the date of commencement of this Lease, (b) the fact that this Lease is unmodified, and in full force and effect (or, if there have been modifications hereto, that this Lease is in full force and effect, as modified, and stating the date and nature of such modifications), (c) the date to which the rent and other sums payable under this Lease have been paid, (d) the fact that there are no current defaults under this Lease by either Landlord or Tenant except as specified in Tenant's statement, and (e) such other matters requested by Landlord. Landlord and Tenant intend that any statement delivered pursuant to this Article may be relied upon by any mortgagee, beneficiary or purchaser and Tenant shall be liable for all loss, cost or expense resulting from the failure of any sale or funding of any loan caused by any material misstatement contained in such estoppel certificate. Tenant hereby irrevocably appoints Landlord or if Landlord is a trust, Landlord's beneficiary or agent, as attorney-in-fact for the Tenant with full power and authority to execute and deliver in the name of Tenant such estoppel certificate if Tenant fails to deliver the same within such ten day period and such certificate as signed by Landlord, Landlord's beneficiary or agent, as the case may be, shall be fully binding on



Tenant, if Tenant fails to deliver a contrary certificate within five days after receipt by Tenant of a copy of the certificate executed by Landlord, Landlord's beneficiary or agent, as the case may be, on behalf of Tenant.

## 26. SURRENDER OF PREMISES.

Tenant shall, at immediately upon vacating the Premises arrange to meet Landlord after receiving notice from the Landlord, for a joint inspection of the Premises. In the event of Tenant's failure to arrange such joint inspection, Landlord's inspection at or after Tenant's vacating the Premises shall be conclusively deemed correct for purposes of determining Tenant's responsibility for repairs and restoration.

At the end of the Term or any renewal thereof or other sooner termination of this Lease, Tenant will peaceably deliver up to Landlord possession of the Premises, together with all improvements or additions upon or belonging to the same, by whomsoever made, in the same condition as received or first installed broom clean and free of all debris, ordinary wear and tear and damage by fire, earthquake, Act of God, or the elements alone excepted. Tenant may, upon termination of this Lease, remove all movable partitions of less than full height from floor to ceiling, counters, and other personal property of Tenant removable without material damage to such property or the Premises previously installed by Tenant, at Tenant's sole cost, title to which shall be in Tenant until such termination, repairing such damage caused by such removal. Property not so removed shall be deemed abandoned by the Tenant and title to the same shall thereupon pass to Landlord under this Lease as by a bill of sale. Upon request by Landlord, Tenant shall remove any or all permanent improvements or additions to the Premises installed at Tenant's cost and all movable partitions, counters and other personal property of Tenant removable without material damage to such property or the Premises which may be left by Tenant and repair any damage resulting from such removal Tenant shall indemnify Landlord against any loss or liability resulting from delay by Tenant in so surrendering the Premises, including without limitation any claims made by any succeeding tenant founded on such delay.

All obligations of Tenant hereunder not fully performed as of the expiration or earlier termination of the Term of this Lease shall survive the expiration or earlier termination of the Term. Upon the expiration or earlier termination of the Term, Tenant shall pay to Landlord the amount, as estimated by Landlord, necessary: (i) to repair and restore the Premises as provided herein; and (ii) to discharge Tenant's obligation for unpaid amounts due Landlord. All such amounts shall be used and held by Landlord for payment of such obligations of Tenant, with Tenant being liable for any additional costs upon demand by Landlord, or with any excess to be returned to Tenant after all such obligations have been determined and satisfied. Any Security Deposit shall be credited against the amount payable by Tenant hereunder.

## 27. NOTICES.

Any notice or document required or permitted to be delivered hereunder shall be in writing and shall be effective upon delivery by regular mail or facsimile, if personally delivered, or two days after mailing, if mailed. All notices shall be personally delivered or sent by United States Mail, postage prepaid, Certified or Registered mail, addressed to the parties hereto at the respective addresses set forth opposite their respective signatures on the Reference Page, or at such other address as they have theretofore specified by written notice delivered in accordance herewith.

## 28. TAXES PAYABLE BY TENANT.

In addition to rent and other charges to be paid by Tenant hereunder, Tenant shall reimburse to Landlord, upon demand, any and all taxes payable by Landlord (other than net income taxes) whether or not now customary or within the contemplation of the parties hereto: (a) upon, allocable to, or measured by or

on the gross or net rent payable hereunder, including without limitation any gross income tax, sales tax or excise tax levied by the State, any political subdivision thereof, or the Federal Government with respect to the receipt of such rent; or (b) upon or with respect to the possession, leasing, operation, management, maintenance, alterations repair or use or occupancy of the Premises or any portion thereof, including any sales, use or service tax imposed as a result thereof; or (c) upon or measured by the Tenant's gross receipt or payroll or the value of Tenant's equipment, furniture, fixtures, and other personal property of Tenant or leasehold improvements, alterations, additions, located in the Premises; or (d) upon this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises.

In addition to the foregoing, Tenant agrees to pay, before delinquency, any and all taxes levied or assessed against Tenant and which become payable during the term hereof upon Tenant's equipment, furniture, fixtures, and other personal property of Tenant located in the Premises.

#### 29. DEFINED TERMS AND HEADINGS.

The article headings herein are for convenience of reference and shall in no way define, increase, limit, or describe the scope or intent of any provision of this Lease. Any indemnification of, insurance of, or option granted to Landlord shall also include or be exercisable by Landlord's trustee, beneficiary, agents and employees, as the case may be. In any case, where this Lease is signed by more than one person, the obligations hereunder shall be joint and several. The terms "Tenant" and "Landlord" or any pronoun used in place thereof shall indicate and include the masculine or feminine, the singular or plural number, individuals, marital communities, firms, or corporations, and their and each of their respective successors, executors, administrators and permitted assigns, according to the context hereof. Tenant agrees to furnish promptly upon demand a corporate resolution, proof of due authorization by partners, or other appropriate documentation evidencing the due authorization of Tenant to enter into this Lease. The term "rentable area" shall mean the rentable area of the Premises or the Building as calculated by Landlord on the basis of the plans and specifications (which were available for inspection by Tenant at the time the Lease was executed) of the Building and including a proportionate share of any common areas. Tenant hereby consents and agrees that the calculation of rentable area on the Reference Page shall be controlling.

#### 30. ENFORCEABILITY.

If for any reason whatsoever an of the provisions hereof shall be void, unenforceable or ineffective, all of the other provisions shall be and remain in full force and effect.

#### 31. COMMISSIONS.

Each of the parties (i) represents and warrants to the other that it has not dealt with any broker or finder in connection with this Lease, except as described on the Reference Page; and (ii) indemnifies and holds the other harmless from any and all losses, liability, costs or expenses (including attorneys' fees) incurred as a result of an breach of the foregoing warranty.

#### 32. TIME AND APPLICABLE LAW.

Time is of the essence of this Lease and all of its provisions. This Lease shall in all respects be governed by the laws of the state in which the Building is located.

#### 33. PARKING.

Tenant shall have the right to use in common with other tenants or occupants of the Building the parking facilities of the Building, if any, subject by separate agreement, the rules and regulations of the Landlord for such parking facilities which may be established or altered by Landlord at any time during the Term.

#### 34. SUCCESSORS AND ASSIGNS.

Subject to the provisions of Article 10, the terms, covenants and conditions contained herein shall be binding upon and inure to the benefit of the heirs, successors, executor<sup>3</sup>, administrators, marital communities, if any, and assigns of the parties hereto.

#### 35. ENTIRE AGREEMENT.

This Lease, together with its exhibits, contains all agreements of the parties hereto and supersedes any previous negotiations. There have been no representations made by the Landlord or understandings made between the parties other than those set forth in this Lease and its exhibits. This Lease may not be modified except by a written instrument duly executed by the parties hereto.

#### 36. EXAMINATION NOT OPTION.

Submission of this Lease shall not be deemed to be a reservation of the Premises. Landlord shall not be bound hereby until its delivery to Tenant of an executed copy hereof signed by Landlord, already having been signed by Tenant, and until such delivery Landlord reserves the right to exhibit and lease the Premises to other prospective tenants. Notwithstanding anything contained herein to the contrary, Landlord may withhold delivery of possession of the Premises from Tenant until such time as Tenant has paid to Landlord the security deposit required by Article 6, the first month's rent as set forth in Article 3, and any sum owed pursuant hereto.

#### 37. RECORDATION.

Neither Landlord nor Tenant shall record this Lease or a short form memorandum hereof without the prior written consent of the other party, and the party offering the same for recording shall pay all charges and taxes incident thereto.

#### 38. REIMBURSEMENT OW DIRECT EXPENSE AND TAXES.

The actual Direct Expenses and Taxes for the Base Year are included in the base rent as delineated in Articles 3 and 40 (i.e., the monthly base rent is inclusive of the Base Year Direct Expenses and Taxes).

(a) For the purpose of this Article, the term "Comparison Year" is defined as each calendar year of the Term after the Base Year (Direct Expenses) or Base Year (Taxes), as the case may be. If in any Comparison Year Direct Expenses paid or incurred shall exceed the Direct Expenses paid or incurred in the Base Year (Direct Expenses) specified on the Reference Page, Tenant shall pay as additional rent for such Comparison Year Tenant's Proportionate Share of such excesses and when specified below. The annual determination of Direct Expenses shall be made by Landlord pursuant to generally accepted accounting principles and shall be binding upon Landlord and Tenant. Tenant shall have the right to audit the Landlord's books and records supporting the Direct Expenses. If the audit results in a downward adjustment of Tenant's obligations of 5% or more, the Landlord will pay for the cost of the audit and adjust the direct Expenses accordingly. In the event that during all or any calendar year the Building is not at last 95% occupied, Landlord may elect to make an appropriate adjustment in Direct Expenses for such year, employing sound accounting and management principles. Said adjustment shall compensate for cost increases in certain occupancy-related Direct Expenses (i.e., electricity)

notwithstanding that the aggregate cost of any component of Direct Expenses may have increased as a result of decreases in occupancy levels. The amount so determined shall be deemed to have been Direct Expenses for such year.

(b) Tenant agrees to pay to Landlord as additional rent, as and when specified below, Tenant's Proportionate Share of the increase, if any, in the Taxes which were incurred over the Base Year (Taxes) (regardless of the year in which such Taxes are paid)

(c) Prior to the actual determination of the Direct Expenses or Taxes for the respective Comparison Year, Landlord may, if it so elects and at any time or from time to time during such Comparison Year, estimate the amount of such Direct Expenses or Taxes. If, in the estimation of Landlord, such Direct Expenses or Taxes will exceed the Direct Expenses or Taxes for the Base Year (Direct Expenses) or Base Year (Taxes), respectively, Landlord shall give Tenant written notification of the amount of such estimated excess and Tenant agrees that it will increase its Monthly Installment of Rent subsequent to receipt of such written notification to include Tenant's Proportionate Share of such excess. When the above-mentioned actual determination of Direct Expenses or Taxes is made, then:

(i) If the total amount Tenant actually paid for estimated increases in Direct Expenses or Taxes pursuant to this Paragraph C is less than Tenant's Proportionate Share of the actual increase in Direct Expenses or Taxes, respectively, Tenant shall pay to Landlord as additional rent in one lump sum the difference between the total amount actually paid by Tenant for each in a Comparison Year and the amount Tenant should have paid pursuant to Paragraphs A and B above, this lump sum payment to be made within thirty (30) days of receipt of Landlord's bill therefor; or

(ii) If the total amount Tenant actually paid for estimated increases in Direct Expenses or Taxes pursuant to this Paragraph C is more than Tenant's Proportionate Share of the actual increase in Direct Expenses or Taxes, respectively, then Landlord shall remit the excess to Tenant within thirty (30) days of the making of such determination or, at Landlord's election, credit such amount against the next Monthly Installments of Rent.

(d) If the Commencement Date is other than January 1 or if the Termination Date is other than December 31, Tenant's Proportionate Share of any increase in Direct Expenses or Taxes for such year shall be prorated based upon a 365-year. Even though the term has expired and Tenant has vacated the Premises, when the final determination is made of Tenant's Proportionate Share of Direct Expenses or Taxes for the year in which this Lease terminates, Tenant shall pay any increase due over the estimated amount paid and conversely any overpayment made shall be rebated by Landlord to Tenant, all as specified above. Notwithstanding anything contained in this Article, the Annual Rent and Monthly Installment of Rent payable by Tenant shall in no event be less than that specified on the Reference Page.

#### 39. RENT SCHEDULE. (Reference is made to Article 3 of this Lease.)

Monthly base rent shall be paid pursuant to Article 3 of this Lease in accordance with the following schedule:

Rent for the period from NOVEMBER 1, 1997 through OCTOBER 31, 1998 shall be \$9,448.40 / month  
Rent for the period from NOVEMBER 1, 1998 through OCTOBER 31, 1999 shall be \$9,589.42 / month  
Rent for the period from NOVEMBER 1, 1999 through OCTOBER 31, 2000 shall be \$9,730.44 / month

#### 40. LIMITATION OF LANDLORD'S LIABILITY.

Redress for any claims against Landlord under this Lease shall only be made against Landlord to the extent of Landlord's interest in the property to which the leased premises are a part. The obligations of Landlord under this Lease shall not be personally binding on, nor shall any resort be had to the private properties of, any of its trustees or board of directors and officers, as the case may be, its investment manager, the general partners thereof or any beneficiaries, stockholders, employees or agents of Landlord, or the investment manager.

The parties hereto have executed this Lease on the date specified immediately below their respective signature.

Each person signing this Lease shall be jointly and severally liable for performance of all the terms and conditions of this Lease.

LANDLORD: FIRST AVENUE WEST BUILDING      TENANT: F5 Labs, Inc.  
A Washington Limited Liability Company      A Washington Corporation

BY: /s/ Frederick W. Hines, Jr. ----- Frederick W. Hines, Jr. ITS: Management Agent	BY: /s/ Jeffrey S. Hussey ----- Jeffrey S. Hussey ITS: President and CEO
Date: 10/21/97 -----	Date: 10/21/97 -----

BY: /s/ Brian R. Dixon ----- Brian R. Dixon ITS: Vice President of Finance
Date: 10/21/97 -----

STATE OF WASHINGTON )  
 ) ss.  
COUNTY OF KING )

On this 21 day of October, 1997, personally appeared before me \_\_\_\_\_ and Jeffrey S. Hussey, to me known to be the CEO and President of F5 Labs a Washington corporation the Tenant that executed the within and foregoing instrument, and acknowledge said instrument to be the free and voluntary act and deed of said corporation, for the uses and purposes therein mentioned, and on oath stated that they were authorized to execute said instrument on behalf of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

/s/ Brian R. Dixon  
-----  
Printed Name: BRIAN R. DIXON  
-----  
Notary Public in and for the  
State of Washington, residing  
at Seattle  
-----  
My commission expires: 7/01/00  
-----

STATE OF WASHINGTON )  
 ) ss.  
COUNTY OF KING )

On this 21 day of October, 1997, personally appeared before me \_\_\_\_\_ and Brian Dixon, to me known to be the V.P. Finance and \_\_\_\_\_ of F5 Labs a Washington corporation the \_\_\_\_\_ that executed the within and foregoing instrument, and acknowledge said instrument to be the free and voluntary act and deed of said corporation, for the uses and purposes therein mentioned, and on oath stated that they were authorized to execute said instrument on behalf of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

/s/ Diana M. Larson  
-----  
Printed Name: DIANA M. LARSON  
-----  
Notary Public in and for the  
State of Washington, residing  
at Redmond  
-----  
My commission expires: July 28, 2000  
-----

STATE OF WASHINGTON )  
 ) ss.  
COUNTY OF KING )

On this 21st day of October, 1997, personally appeared before me Fred W. Hines, Jr. and \_\_\_\_\_, to me known to be the Managing Agent and \_\_\_\_\_ of First Avenue West Building LLC a Washington Limited Liability Company the \_\_\_\_\_ that executed the within and foregoing instrument, and acknowledge said instrument to be the free and voluntary act and deed of said limited liability company, for the uses and purposes therein mentioned, and on oath stated that they were authorized to execute said instrument on behalf of said limited liability company.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

/s/ Diana M. Larson  
-----  
Printed Name: Diana M. Larson  
-----  
Notary Public in and for the  
State of Washington, residing  
at Redmond  
-----  
My commission expires: July 28, 2000  
-----



## **EXHIBIT "A "**

This site plan is intended only to show the general layout of the property or a part thereof. Landlord reserves the right to alter, vary, add to or omit in whole or in part any structures, and/or improvements, and/or common areas and/or land area shown on this plan. All measurements and distances are approximate. This plan is not to be scaled.

LEGAL DESCRIPTION: Lots 7, 8, 9, 10 and all in Block 20 of North Seattle, as per plat recorded in Volume 1 of Flats on page 41, records of King County. Situate in the County of King, State of Washington.



**EXHIBIT "B"**

**LANDLORD'S AND TENANT'S ALTERATIONS**

## **EXHIBIT "C"**

### **RULES AND REGULATIONS**

1. No sign, placard, picture, advertisement, name or notice shall be installed or displayed on any part of the outside or inside of the Building without the prior written consent of the Landlord. Landlord shall have the right to remove, at Tenant's expense and without notice, any sign installed or displayed in violation of this rule. All approved signs or lettering on doors and walls shall be printed, painted, affixed or inscribed at the expense of Tenant by a person or vendor chosen by Landlord. In addition, Landlord reserves the right to change from time to time the format of the signs or lettering and to require previously approved signs or lettering to be appropriately altered.
2. If Landlord objects in writing to any curtains, blinds, shades or screens attached to or hung in or used in connection with any window or door of the Premises, Tenant shall immediately discontinue such use. No awning shall be permitted on any part of the Premises. Tenant shall not place anything or allow anything to be placed against or near any glass partitions or doors or windows which may appear unsightly, in the opinion of Landlord, from outside the Premises.
3. Tenant shall not obstruct any sidewalks, halls, passages, exits, entrances, elevators, escalators or stairways of the Building. The halls, passages, exits, entrances, shopping malls, elevators and stairways are not for the general public, and Landlord shall in all cases retain the right to control and prevent access thereto of all persons whose presence in the judgment of Landlord would be prejudicial to the safety, character, reputation and interests of the Building and its tenants provided that nothing herein contained shall be construed to prevent such access to persons with whom any tenant normally deals in the ordinary course of its business, unless such persons are engaged in illegal activities. No tenant and no employee or invitee of any tenant shall go upon the roof of the Building.
4. The directory of the Building will be provided exclusively for the display of the name and location of tenants only and Landlord reserves the right to exclude any other names therefrom.
5. All cleaning and janitorial services for the Building and the Premises shall be provided exclusively through Landlord. Landlord shall not in any way be responsible to any Tenant for any loss of property on the Premises, however occurring, or for any damage to any Tenant's property by the janitor or any other employee or any other person.
6. Landlord will furnish Tenant free of charge with 20 (twenty) keys to each door lock in the Premises. Landlord may make a reasonable charge for any additional keys. Tenant shall not make or have made additional keys, and Tenant shall not alter any lock or install a new or additional lock or bolt on any door of its Premises. Tenant, upon the termination of its tenancy, shall deliver to Landlord the keys of all doors which have been furnished to Tenant, and in the event of loss of any keys so furnished, shall pay Landlord there for.
7. If Tenant requires telegraphic, telephonic, burglar alarm or similar services, it shall first obtain, and comply with, Landlord's instructions in their installation.
8. No equipment, materials, furniture, packages, supplies, merchandise or other property will be received in the Building or carried in the elevators except between such hours and in such elevators as may be designated by Landlord.
9. Tenant shall not place a load upon any floor which exceeds the load per square foot which such floor was designed to carry and which is allowed by law. Landlord shall have the right to prescribe the weight,

size and position of all equipment, materials, furniture or other property brought into the Building. Heavy objects shall, stand on such platforms as determined by Landlord to be necessary to properly distribute the weight. Business machines and mechanical equipment belonging to Tenant which cause noise or vibration that may be transmitted to the structure of the Building or to any space therein to such a degree as to be objectionable to Landlord or to any tenants shall be placed and maintained by Tenant, at Tenant's expense, on vibration eliminators or other devices sufficient to eliminate noise or vibration. The persons employed to move such equipment or other property from any cause, and all damage done to the Building by maintaining or moving such equipment or other property shall be repaired at the expense of Tenant.

10. Tenant shall not use any method of heating or air conditioning other than that supplied by Landlord. Tenant shall not waste electricity, water or air conditioning. Tenant shall keep corridor doors closed.

11. Landlord reserves the right to exclude from the Building between the hours of 6 p.m. and 7 a.m. the following day, or such other hours as may be established from time to time by Landlord, and on Sundays and legal holidays any person unless that person is known to the person or employee in charge of the Building and has a pass or is properly identified. Tenant shall be responsible for all persons for whom it requests passes and shall be liable to Landlord for all acts of such persons. Landlord shall not be liable for damages for any error with regard to the admission to or exclusion from the Building of any person.

12. Tenant shall close and lock the doors of its Premises and entirely shut off all water faucets or other water apparatus and electricity, gas or air outlets before Tenant and its employees leave the Premises. Tenant shall be responsible for any damage or injuries sustained by other tenants or occupants of the Building or by Landlord for noncompliance with this rule.

13. The toilet rooms, toilets, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed, no foreign substance of any kind whatsoever shall be thrown therein, and the expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the Tenant who, or whose employees or invitees, shall have caused it.

14. Tenant shall not install any radio or television antenna, loudspeaker or other device on the roof or exterior walls of the Building. Tenant shall not interfere with radio or television broadcasting or reception from or in the Building or elsewhere.

15. Except as approved by Landlord, Tenant shall not mark, drive nails, screw or drill into the partitions, woodwork or plaster or in any way deface the Premises. Tenant shall not cut or bore holes for wires. Tenant shall not affix any floor covering or the floor of the Premises in any manner except as approved by Landlord. Tenant shall repair any damage resulting from noncompliance with this rule.

16. Tenant shall store all its trash and garbage within its Premises. Tenant shall not place in any trash box or receptacle any material which cannot be disposed of in the ordinary and customary manner of trash and garbage disposal. All garbage and refuse disposal shall be made in accordance with directions issued from time to time by Landlord.

17. No cooking except for use of a Microwave shall be done or permitted by any Tenant on the Premises, except that use by the Tenant of Underwriters Laboratory approved equipment for brewing coffee, tea, hot chocolate and similar beverages shall be permitted provided that such equipment and use is in accordance with all applicable federal, state and city laws, codes, ordinances, rules and regulations.

18. Tenant shall not use in any space or in the public halls of the Building any hand trucks except those

equipped with the rubber tires and side guards or such other material handling equipment as Landlord may approve. Tenant shall not bring any other vehicles of any kind into the Building.

19. Tenant shall not use the name of the Building in connection with or in promoting or advertising the business of Tenant except as Tenant's address.

20. The requirements of Tenant will be attended to only upon appropriate application to the office of the Building by an authorized individual. Employees of Landlord shall not perform any work or do anything outside of their regular duties unless under special instructions from Landlord, and no employee of Landlord will admit any person (Tenant or otherwise) to an office without specific instructions from Landlord.

21. Landlord may waive any one or more of these Rules and Regulations for the benefit of any particular tenant or tenants, but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of any other tenant or tenants, nor prevent Landlord from thereafter enforcing any such Rules and Regulations against any or all of the tenants of the Building.

22. These Rules and Regulations are in addition to, and shall not be construed to in any way modify or amend, in whole or in part, the terms, covenants, agreements and conditions of an lease of premises in the Building.

23. Upon thirty (30) days written notice, Landlord reserves the right to make such other and reasonable Rules and Regulations as in its judgment may from time to time be needed for safety and security, for care and cleanliness of the Building and for the preservation of good order therein. Tenant agrees to abide by all such rules and regulations herein above stated and any additional rules and regulations which are adopted.

24. Tenant shall be responsible for the observance of all of the foregoing rules by Tenant's employees, agents, clients, customers, invitees and guests.

## **EXHIBIT "D"**

### **TENANT IMPROVEMENTS**

Construction specifications for Tenant improvements

- 1) Finish materials: New B/S grade carpet over new pad where necessary in 6,769 square feet. New paint in the 6,769 square feet. New rubber base throughout 4" Flat
- 2) Demolition: Demolition of all walls in the 1,704 square foot space.
- 3) HVAC Balancing of all HVAC within the space

Landlord acknowledges that time of the essence and that Tenant's business is relying on substantial completion of the above mentioned tenant improvements. Landlord agrees to waive rent for every day beyond November 24, 1997. Tenant agrees to not unreasonably withhold its intent to move in upon "substantial completion" of the 6,769 square feet.

The balance of tenant improvements outlined in Exhibit B at a cost not to exceed \$20,000 shall be paid by the tenant. The Landlord agrees to an amortization schedule of 36 months on tenant's share of improvements. Should the lease be terminated or changed due to sale by the landlord, then Landlord agrees to remit the un-amortized balance of the tenant improvements over the balance of the lease. The tenant improvements on Exhibit B exclude electrical, telephone, computer cabling and special HVAC additions for computer hardware.

Any and all additions or alterations to the above stated work shall be at the cost of the Tenant and paid for by the Tenant.

## **EXHIBIT "E"**

### **ADDITIONAL LEASE TERMS**

1. **RENEWAL OPTIONS:** Tenant shall have one (1) three (3) year option to renew the lease at the then current market rate for comparable space and a comparable term in lower Queen Anne, with six (6) months written notice prior to lease expiration.
2. **PARKING:** Tenant shall be entitled to occupy fifteen (15) building parking spaces. A minimum of five (5) of the spaces will be located within the building and noted as reserved for F5 Labs and the remaining ten (10) will be located within the adjacent block of the building. Rental for such spaces (which shall be in addition to the rental as otherwise specified in this Lease) shall be at the then prevailing rate for such spaces in the Building. The current charge for parking in the building lots is \$70.00 per month including tax.
3. **FIRST RIGHT OF REFUSAL:** Tenant shall have a first right of refusal to lease the contiguous space on the fifth floor. The tenant shall have ten (10) days to respond to the notice by the Landlord. Landlord shall notify Tenant of the availability of any contiguous space on the fifth floor in writing within ten (10) days of Landlord's knowledge of the availability of such space".

## **FIRST AMENDMENT TO LEASE**

THIS FIRST AMENDMENT TO LEASE is made this 23rd day of July, 1998, between First Avenue West Building L.L.C., a Washington Limited Liability Company ("Landlord" herein) and F5 Labs, Inc., ("Tenant" herein) for the premises located in the city of Seattle, County of King, State of Washington, commonly known as Suite 500, First West Building, 200 First Avenue West.

### **RECITALS**

A. Landlord and Tenant are parties to that certain lease dated October 9th, 1997 (the "Lease" herein). The Lease is made a part hereof as though set forth in full herein.

B. Landlord and Tenant hereby express their mutual desire and intend to amend by this writing those terms, covenants and conditions contained in "3. RENT", "40. REIMBURSEMENT OF DIRECT EXPENSES" and "Premises Rentable Area, tenant proportionate share and security deposit" as shown on Lease Reference Page.

NOW, THEREFORE, as parties hereto, Landlord and Tenant Agree as follows:

### **AMENDMENTS:**

1. Paragraph "3. RENT" shall hereinafter additionally provide as follows:

- a. Commencing on August 1, 1998 and continuing until November 30, 1998, Tenant's rental payments shall be \$13,219.94 per month.
- b. Commencing on December 1, 1998 and continuing until October 31, 1999, Tenant's rental payments shall be \$13,417.25 per month.
- c. Commencing on December 1, 1999 and continuing until November 30, 2000, Tenant's rental payments shall be \$13,614.56 per month.

2. "Premises Rentable Area" as shown on Lease Reference Page shall be amended to reflect the additional suite 210 on the second floor amounting to 2,702 square feet, plus the existing suite 500 on the fifth floor amounting to 6,769 square feet totaling a combined square footage of 9,471 effective August 1, 1998.

3. "Tenant Proportionate Share" as shown on Lease Reference Page shall be amended to reflect the expanded suite percentage of 15.46% effective August 1, 1998.

4. "Security Deposit" as shown on the lease Reference Page shall be amended to reflect the addition of \$3,884 to the existing security deposit to total \$42,664.74 as tenant security deposit for the amended lease.

First Amendment to Lease dated October 9, 1997

**INCORPORATION:**

5. Except as herein modified, all other terms and conditions of the Lease between the parties above described are ratified and affirmed and shall continue in full force and effect.

The parties hereto have executed this First Amendment to Lease on the date specified below their respective signatures.

LANDLORD: FIRST AVENUE WEST  
BUILDING L.L.C., a Washington Limited  
Liability Company

TENANT: F5 Labs, Inc.  
a Washington Corporation

BY: /s/Frederick W. Hines, Jr.  
-----  
Frederick W. Hines, Jr.

ITS: Management Agent

Date: 7/23/98  
-----

BY: /s/ Jeffrey S. Hussey  
-----  
Jeffrey S. Hussey

ITS: President and CEO

Date: 7-23-98  
-----

BY: /s/ Brian R. Dixon  
-----  
Brian R. Dixon

ITS: Vice President of Finance

Date: 7-23-98  
-----

First Amendment to Lease dated October 9, 1997



STATE OF WASHINGTON            )  
  )           SS  
COUNTY OF KING                )

I certify that I know or have satisfactory evidence that Fred. W. Hines, Jr. signed this instrument on oath, that he was authorized to execute said instrument as the managing agent of First Avenue West Building L.L.C. pursuant to the provisions of the Limited Liability Company and acknowledged said instrument as the managing agent of the First Avenue West Building L.L.C. to be the free and voluntary act of said Limited Liability Company for the uses and purposes mentioned in said instrument

Date: 7/23/98

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

                  /s/ Brian Dixon  
-----  
Printed Name:     Brian Dixon  
                  -----  
Notary Public in and for the State of Washington  
residing at       Seattle  
                  -----  
My commission expires:   7/01/00  
                                  -----

First Amendment to Lease dated October 9, 1997

STATE OF WASHINGTON                    )  
  )  
COUNTY OF KING                        )                   SS

On this 23rd day of July, 1998 personally appeared before me JEFFREY S. HUSSEY, to me known to be the President and CEO of F5 Labs, Inc., the corporation that executed the within and foregoing instrument and acknowledged said instrument to be the free and voluntary act and deed of said corporation, for the uses and proposed therein mentioned, and on oath stated that he was authorized to execute said instrument on behalf of said corporation.

Date: 7/23/98

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

      /s/ Brian R. Dixon  
-----  
Printed Name:     Brian R. Dixon  
                  -----  
Notary Public    in and for the State of Washington  
residing at       Seattle  
                  -----  
My commission expires:     7-01-00  
                                  -----

First Amendment to Lease dated October 9, 1997

STATE OF WASHINGTON            )  
  )  
COUNTY OF KING                )           SS

On this 23rd day of July, 1998, personally appeared before me BRIAN R. DIXON, to me known to be the Vice President of Finance of F5 Labs, Inc., the corporation that executed the within and foregoing instrument and acknowledged said instrument to be the free and voluntary act and deed of said corporation, for the uses and proposed therein mentioned, and on oath stated that he was authorized to execute said instrument on behalf of said corporation.

Date: 7/23/98

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

      /s/ Mari Newkirk  
-----  
Printed Name:       Mari Newkirk  
                  -----  
Notary Public in and for the State of Washington  
residing at   Mountlake Terrace/Snoh. Cty.  
                  -----  
My commission expires:   8/19/98  
                                  -----

First Amendment to Lease dated October 9, 1997

## EXHIBIT C

### RENTAL RATE BY FLOOR

#### MONTHS PRESENTED BASED ON CURRENT LEASE

##### FIFTH FLOOR - 6,769 SQFT

YR 1	Months 4-12	\$ 86,304.78	- agrees with original lease @ \$17.00 per sqft
YR 1	Months 13-15	\$ 29,191.32	- agrees with original lease @ \$17.25 sqft
YR 2	Months 16-24	\$ 87,573.96	- agrees with original lease @ \$17.25 sqft
YR 2	Months 25-27	\$ 38,921.75	- annual rate of \$23.00 per sqft - beginning 12/01/00
YR 3	Months 28-39	\$162,456.00	- annual rate of \$24.00 per sqft - beginning 03/01/01
YR 4	Months 40-51	\$169,225.00	- annual rate of \$25.00 per sqft - beginning 03/01/02
YR 5	Months 52-63	\$175,994.00	- annual rate of \$26.00 per sqft - beginning 03/01/03

##### SECOND FLOOR - 2,702 SQFT

YR 1	Months 4-12	\$ 34,450.51	- agrees with original lease @ \$17.00 per sqft
YR 1	Months 13-15	\$ 11,652.38	- agrees with original lease - \$17.25 sqft
YR 2	Months 16-24	\$ 34,957.13	- agrees with original lease - \$17.25 sqft
YR 2	Months 25-27	\$ 14,185.50	- annual rate of \$21.00 per sqft - beginning 12/01/00
YR 3	Months 28-39	\$ 59,444.00	- annual rate of \$22.00 per sqft - beginning 03/01/01
YR 4	Months 40-51	\$ 62,146.00	- annual rate of \$23.00 per sqft - beginning 03/01/02
YR 5	Months 52-63	\$ 64,848.00	- annual rate of \$24.00 per sqft - beginning 03/01/03

##### FIRST FLOOR (BENCHMARK) - 2,430 SQFT

YR 1	Months 4-12	\$ 30,982.50	- agrees with original lease @ \$17.00 per sqft
YR 1	Months 13-15	\$ 10,479.38	- agrees with original lease @ \$17.25 per sqft
YR 2	Months 16-24	\$ 31,438.13	- agrees with original lease @ \$17.25 per sqft
YR 2	Months 25-27	\$ 12,150.00	- annual rate of \$20.00 per sqft - beginning 12/01/00
YR 3	Months 28-39	\$ 51,030.00	- annual rate of \$21.00 per sqft - beginning 03/01/01
YR 4	Months 40-51	\$ 53,460.00	- annual rate of \$22.00 per sqft - beginning 03/01/02
YR 5	Months 52-63	\$ 55,890.00	- annual rate of \$23.00 per sqft - beginning 03/01/03

##### FIRST FLOOR (FIRST IMAGE / ROCHEFORT) - 6,767 SQFT

YR 1	Months 4-12	\$ 96,429.75	- proposal starting 03/01/99 @ \$19.00 per sqft
YR 1	Months 13-15	\$ 32,143.25	- proposal starting 03/01/99 @ \$19.00 per sqft
YR 2	Months 16-24	\$101,505.00	- proposal starting 03/01/00 @ \$20.00 per sqft
YR 2	Months 25-27	\$ 33,835.00	- proposal starting 03/01/00 @ \$20.00 per sqft
YR 3	Months 28-39	\$142,107.00	- annual rate of \$21.00 per sqft - beginning 03/01/00
YR 4	Months 40-51	\$148,874.00	- annual rate of \$22.00 per sqft - beginning 03/01/01
YR 5	Months 52-63	\$155,641.00	- annual rate of \$23.00 per sqft - beginning 03/01/01

# EXHIBIT D

## FIRST AVENUE WEST BUILDING LLC LEASE TERMINATIONS

NAME	FLOOR	SQ FT	EXPIRES	OPTION TO RENEW	DAYS NOTICE	DELIVERY DATE
FIRST WEST SUITES	4	4,586	3/31/03			7/1/03
FIRST WEST SUITES	4	3,504	3/31/03			7/1/03
AMERICAN PROPERTY FINANCING	2	2,838	2/28/03	5-YR	180	6/1/03
BUSINESS RESOURCE	3	3,735	7/31/00	2-YR	180	11/1/00
CGC JAPAN	3	1,345	8/31/00			12/1/00
CARING PRODUCTS INT.	2	4,664	7/31/00	5-YR	180	11/1/00
GRAPHIC ARTS CENTER	5	2,387	7/31/99			11/1/99
GUARDIANSHIP SVC OF SEA	3	2,354	9/30/00			1/1/01
HOOVER	2	1,365	M TO M			
LINTERS	5	3,313	2/28/00	3-YR	180	6/1/00
MCLOUGHLIN, A CONAM CO.	3	3,639	12/31/02			4/1/02
NELSON, WATSON & ERICKSON	4	1,657	8/31/01	2-YR	0	12/1/01
OCEAN KING SEAFOOD	3	1,183	7/31/99			11/1/99
SOURCE CAPITAL /PARALLEL	4	1,872	10/31/01			2/1/02
PROGRESSIVE SECURITIES	2	694	5/31/99			9/1/99
FIRST WEST SUITES	4	637	3/31/03			7/1/03
ABC RADIO NETWORK, INC.	1	2,503	3/31/03			7/1/03
VENTURE DEV. CORP	1	2,226	7/31/99	3-YR	180	11/1/99
TOTALS		44,502				

NOTE: Space will be available for lease within 90 days of expiration of Lease or renewal option period.

## SECOND AMENDMENT TO LEASE

THIS SECOND AMENDMENT TO LEASE is made this 30TH day of September, 1998, between First Avenue West Building L.L.C., a Washington Limited Liability Company ("Landlord" herein) and F5 Labs, Inc., ("Tenant" herein) for the premises located in the city of Seattle, County of King, State of Washington, commonly known as Suite 500, First West Building, 200 First Avenue West.

### RECITALS

A. Landlord and Tenant are parties to that certain lease dated October 9th, 1997 and the First Amendment to Lease dated July 23rd, 1998 (the "Lease" herein). The Lease is made a part hereof as though set forth in full herein.

B. Landlord and Tenant hereby express their mutual desire and intend to amend by this writing those terms, covenants and conditions contained in "3. RENT", "40. REIMBURSEMENT OF DIRECT EXPENSES" and "Premises Rentable Area, tenant proportionate share and security deposit" as shown on Lease Reference Page.

NOW, THEREFORE, as parties hereto, Landlord and Tenant Agree as follows:

### AMENDMENTS:

1. Paragraph "3. RENT" shall hereinafter additionally provide as follows:

a. Commencing on December 1, 1998 and continuing until November 30, 1999, Tenant's rental payments shall be \$16,859.75 per month.

b. Commencing on December 1, 1999 and continuing until November 30, 2000, Tenant's rental payments shall be \$17,107.69 per month.

2. "Premises Rentable Area" as shown on Lease Reference Page shall be amended to reflect the additional suite 106 on the first floor plus the existing suites totaling the square footage of 11,901 effective December 1, 1998.

3. "Tenant Proportionate Share" as shown on Lease Reference Page shall be amended to reflect the expanded suite percentage of 18.89% effective December 1, 1998.

4. "Security Deposit" as shown on the lease Reference Page shall be amended to reflect the addition of \$3,493 to the existing security deposit to total \$46,157.74 as tenant security deposit for the amended lease.

### INCORPORATION:

5. Except as herein modified, all other terms and conditions of the Lease between the parties above described are ratified and affirmed and shall continue in full force and effect.

The parties hereto have executed this Second Amendment to Lease on the date specified below their respective signatures.

**LANDLORD TENANT**

FIRST AVENUE WEST BUILDING L.L.C.

F5 LABS, INC.

A WASHINGTON LIMITED LIABILITY CO.

A WASHINGTON CORPORATION

BY: \_\_\_\_\_  
Fred W. Hines, Jr.

BY: /s/ Jeffrey S. Hussey  
\_\_\_\_\_  
Jeffrey S. Hussey

ITS: MANAGING AGENT

ITS: President and CEO

DATE: \_\_\_\_\_

DATE: 10-1-98  
\_\_\_\_\_

BY: /s/ Brian Dixon  
\_\_\_\_\_  
Brian R. Dixon

ITS: Vice President of Finance

DATE: 10/1/98  
\_\_\_\_\_

STATE OF WASHINGTON )  
COUNTY OF KING ) SS

I certify that I know or have satisfactory evidence that Fred. W. Hines, Jr. signed this instrument on oath, that he was authorized to execute said instrument as the managing agent of First Avenue West Building L.L.C. pursuant to the provisions of the Limited Liability Company and acknowledged said instrument as the managing agent of the First Avenue West Building L.L.C. to be the free and voluntary act of said Limited Liability Company for the uses and purposes mentioned in said instrument

Date:  
\_\_\_\_\_

Notary Public in and for the State of Washington residing at

**Print Name**

My appointment expires:

STATE OF WASHINGTON )  
COUNTY OF KING ) SS

On this 1st day of October, 1998, personally appeared before me JEFFREY S. HUSSEY, to me known to be the President and CEO of F5 Labs, Inc., the corporation that executed the within and foregoing instrument and acknowledged said instrument to be the free and voluntary act and deed of said corporation, for the uses and proposed therein mentioned, and on oath stated that he was authorized to execute said instrument on behalf of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

Date: 10/01/98  
\_\_\_\_\_

Notary Public in and for the State of Washington residing at Seattle

**Print Name Brian Dixon**

My appointment expires: 7-01-00  
-----

STATE OF WASHINGTON            )  
  )        SS  
COUNTY OF KING                )

On this 1st day of October, 1998, personally appeared before me BRIAN R. DIXON, to me known to be the Vice President of Finance of F5 Labs, Inc., the corporation that executed the within and foregoing instrument and acknowledged said instrument to be the free and



voluntary act and deed of said corporation, for the uses and proposed therein mentioned, and on oath stated that he was authorized to execute said instrument on behalf of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

Date: 10/1/98

*/s/ Mari Newkirk*  
-----  
*Notary Public in and for the State of Washington*  
*residing at Snoh. Cty./Mountlake Terrace*  
-----

**Print Name Mari Newkirk**

My appointment expires: 8/19/2002

### THIRD AMENDMENT TO LEASE

THIS THIRD AMENDMENT TO LEASE is made this 6th day of January, 1999, between First Avenue West Building L.L.C., a Washington Limited Liability Company ("Landlord" herein) and F5 Labs, Inc., a Washington corporation ("Tenant" herein) for the premises located in the city of Seattle, County of King, State of Washington, commonly known as Suite 500, First West Building, 200 First Avenue West.

RECITALS

A. Landlord and Tenant are parties to that certain lease dated October 9th, 1997, the First Amendment to Lease dated July 23rd, 1998, and the Second Amendment to Lease dated September 30, 1998 (the "Lease" herein). The Lease is made a part hereof as though set forth in full herein.

B. Landlord and Tenant hereby express their mutual desire and intend to amend by this writing those terms, covenants and conditions contained in: "2. TERM", "3. RENT", "38. REIMBURSEMENT OF DIRECT EXPENSES", "Premises Rentable Area, tenant proportionate share and security deposit" as shown on Lease Reference Page, "Exhibit E Additional Lease Terms (1. Renewal Options, 2. Parking, 3. First Right of Refusal, 4. Signage, 5. Notice of Intent to Sell [Building])", and "Exhibit D - Tenant Improvements."

NOW, THEREFORE, as parties hereto, Landlord and Tenant Agree as follows:

#### AMENDMENTS:

1. Paragraph "3. RENT" shall as of March 1, 1999 be amended to hereinafter additionally provide as follows:

PERIOD		RATE/RSF	ANNUAL RENT	MONTHLY RENT
-----		-----	-----	-----
Year 1	(03/01/99 through 02/29/00)	\$17.76	\$331,634	27,636.17
Year 2	(03/01/00 through 02/28/01)	\$18.99	\$354,566	29,547.17
Year 3	(03/01/01 through 02/28/02)	\$22.23	\$415,037	34,586.42
Year 4	(03/01/02 through 02/29/03)	\$23.23	\$433,705	36,142.08
Year 5	(03/01/03 through 02/28/04)	\$24.23	\$452,373	37,697.75

See Exhibit C for detailed rates by floor.

2. "Premises Rentable Area" as shown on Lease Reference Page shall be amended to reflect the additional suites 105 and 110 on the first floor plus the existing suites totaling the square footage of 18,668 effective March 1, 1999.

INITIAL PREMISES. Tenant shall initially lease approximately 18,668 rentable square feet (RSF) located on the fifth, second and first floors (Suites 500, 205 [incorrectly noted as 210 on original Lease], 105, 106, and 110) as described below. All space shall be measured according to the Building Owners and Manager Association International (BOMA) standards (ANSI Z65.1-1996) according to the final working drawings. Please see attached floor plan, Exhibit A, for definition of Initial Premises, and Option Space.

FLOOR	SUITE	RSF
----	----	---
5	500	6,769
2	205	2,702
1	110	416
1	106	2,430
1	105	6,351

STORAGE SPACE. The area designated as storage space shall be leased to Tenant at a rate of \$10.00 per square foot per year during the entire lease term, and market rate during the option period. In the event Tenant uses the space for general office purposes, Landlord shall charge Tenant the established

market rate for floor one for the applicable lease year. Please see Exhibit B for further definition of Storage Space (603 square feet).

3. "Tenant Proportionate Share" as shown on Lease Reference Page shall be amended to reflect the expanded suite percentage of 29.63% effective March 1, 1999.

4. "Security Deposit" as shown on the lease Reference Page shall be amended to reflect the addition of \$103,331.00 to the existing security deposit to total \$149,488.74 as tenant security deposit for the amended lease. Tenant's security deposit shall increase from 3/1/99 by 2 1/2 % interest per year on said deposit.

Additional security deposits shall be paid to Landlord on additional space occupied in an amount equal to the initial four months of rent due for any additional space leased.

5. "Exhibit E - Additional Lease Terms", No. 2. "Parking" shall be amended to reflect Forty-four (44) reserved self-park stalls in the building parking garage with access from First Avenue West. The rate will be fixed at \$90.00 per stall per month for a period of twelve (12) months and adjusted to the then market rate. Market rate will be determined by reviewing the monthly parking rates at the following buildings:

- P.I. Building, 101 Elliot Avenue West,
- Cell Therapeutics Building, 201 Elliot Avenue West,
- Queen Anne Plaza Building, 201 Queen Ave North.

The rate will not exceed the highest rate as established in the above referenced locations.

In the event Tenant expands its premises, Landlord shall provide additional reserved parking stalls to Tenant within the building parking garages at a ratio of two stalls per 1,000 rentable square feet leased after Tenant expands beyond 22,000 RSF.

6. "TERM" as shown on the reference page shall as of March 1, 1999 be amended to hereinafter additionally provide as follows: Five (5) years commencing the sooner of the occupancy or March 1, 1999 (6,767 square feet subject to prior vacancy by existing tenants).

7. "Exhibit E" - "Renewal Options" shall hereinafter be amended to reflect the following: Landlord shall grant tenant one five (5) year renewal option following the initial term of the lease. This renewal option will permit Tenant to renew the lease on the same terms and conditions as those previously in effect, except the rental rate shall be 100 percent of the Fair Market Rental (FMR) at the time the renewal option is to commence. The FMR is defined below. Tenant shall notify Landlord, in writing, nine (9) months prior to the expiration of the initial term, of its desire to exercise the renewal option.

The FMR for comparable office space in the Lower Queen Anne market shall be determined through a survey of the lease rates actually attained for similar size space located upon floors approximately the same height and view, with similar tenant improvements installed and with suitable adjustments for (a) rental terms, (b) provisions for additional space, (c) length of lease terms, (d) tenant improvements, (e) the current amount of additional rent charged for such leases, (f) tenant improvements provided by the landlord or tenant, (g) payment by the landlord or tenant of a broker's commission, (h) other relevant factors affecting comparability of various lease rates, and (i) the financial strength of Tenant in Landlord's opinion. The Landlord shall have the right to require higher rent based on Landlord's reasonable risk analysis of the Tenant's financial strength. The buildings surveyed shall be of comparable quality as the First West Building and shall be located within Queen Anne district of Seattle. Recent leases on equivalent type space in the building itself shall be included in the survey. No lease executed more than nine months before the date as of which the FMR is to be determined shall be included in such survey.

Such survey shall be conducted by an appraiser or appraisal company, experienced in the market for office space in office buildings in the central business district of the City of Seattle, selected jointly by Landlord and Tenant, or if Landlord and Tenant are unable to agree upon the selection of such person within 15 days after the request for selection by either party, each party shall select its own appraiser

who shall have the qualifications described above. Each appraiser shall conduct its survey and provide its estimate of the FMR within 30 days after his appointment. If the appraisers are unable to agree on a FMR value, a third appraiser shall be appointed by the first two appraisers and the third appraiser shall also survey the lease rates for similar space, and shall, after completion of his survey, within 30 days after his appointment, select the FMR rate determined by one of the first two appraisers which he determines to be closest to the FMR, and such determination of FMR rates shall be binding upon Landlord and Tenant until the lease requires a new FMR rate to be determined

8. Paragraph 38 - "Reimbursement of Direct Expenses" shall hereinafter additionally provide as follows: Tenant agrees to pay its prorata share of increases in direct operating expenses and real estate taxes attributable to its lease of the rental premises over the term of the lease as long as the annual increase is not more than five (5) percent of the prior year's operating costs excluding real estate tax increases. Landlord agrees to manage and maintain the building in a manner consistent with that of comparable first class office buildings. The base year for determining increases shall be 1998.

9. "Exhibit D - Tenant Improvements" shall hereinafter be amended to reflect the following: Landlord shall provide a tenant improvement allowance equal to \$10.23 per rentable square foot for Suite 105, (First Image) ( $\$10.23 \times 6,351 \text{ RSF} = \$65,000$ ). Tenant shall use such allowance to pay for costs associated with demolition, constructing tenant improvements, and architectural and engineering fees. Landlord shall be responsible for removal of the raised floor, chemical duct work, and potentially Hazardous Materials in Suite 105 at Landlord's cost. Per Landlord's request, Tenant will work with Burgess Design in constructing improvements at the Building standard. Tenant is required to improve said space to a finished level reasonably equivalent to Tenant's existing fifth floor space including similar qualities of carpet, paint and relite construction in the First West Building or Landlord is not required to provide any Tenant Improvement Allowance. Landlord will be required to respond within ten (10) days of completion of the Tenant's Improvements if said improvement is not at the Building standard. Tenant will then have thirty (30) days to correct, or if unable to correct in thirty (30) days, take reasonable steps towards correction. Landlord will then remit the allowance to Tenant within thirty (30) days of the reimbursement request. Tenant agrees to utilize Accent Construction for all tenant improvement work within the building. If Accent is unavailable or unable to meet a reasonable schedule for the work requested by Tenant, then Tenant will select a contractor with approval by Landlord. Landlord shall charge a construction management fee if Landlord is involved in managing the construction.

10. "Exhibit E - 4. Signage" shall hereinafter be amended to reflect the following: Landlord authorizes the construction of Tenant signage to be placed on the south and west corners of the building. Signage will meet the existing standards of Lower Queen Anne office buildings. Landlord shall have the right to approve any signage prior to installation.

11. "Exhibit E - 3. Right of First Refusal" shall hereinafter be amended to reflect the following:

Subject to existing tenants' rights, Landlord shall grant Tenant an ongoing Right of First Offer to lease any space that comes available within the building.

Any such available space shall hereinafter be referred to as the "RFO Space". If RFO Space becomes available, Landlord shall notify Tenant in writing of all of the material terms upon which Landlord is willing to lease the RFO Space. Tenant shall then have thirty (30) days in which to notify Landlord in writing that Tenant irrevocably elects to lease all of the RFO Space on the exact terms offered by Landlord. If Tenant fails to deliver to Landlord such written notice within such deadline, Landlord shall have the right to lease the RFO Space to another tenant at any time within six months after expiration of Tenant's offer period so long as the effective rental rate at which the RFO Space is leased is not less than 90 percent of the effective rental rate (including tenant improvements and other concessions offered by Landlord) offered to Tenant. If within such six month period, Landlord proposes to lease the RFO Space to a third party at less than 90 percent of the effective rental rate offered to Tenant, then Landlord shall be required to first re-offer the RFO Space to Tenant at the reduced rental rate, and Tenant shall be required to respond within two business days.

Rental rates for space occupied prior to February 29, 2000 shall be based on established market rents for floors five, two and one.

ESTABLISHED MARKET RATES ANNUAL RENTAL RATE (\$) BY FLOOR LEASE YEAR BEGINNING:						
FLOOR	3/99	3/00	3/01	3/02	3/03	3/04
Fifth	\$22	23	24	25	26	27
Fourth	22	23	24	25	26	27
Third	21	22	23	24	25	26
Second	20	21	22	23	24	25
First	19	20	21	22	23	24

Years starting 3/05 and beyond shall be one dollar per year per square foot higher.

Using the fifth floor rate as a base, the rental rate for floor three will be \$1.00 less per year per rentable square foot and rental rates for floor four will be the same as floor five per year per rentable square foot.

Additional space occupied after February 29, 2000 will be for a term of five years and will not be coterminous with existing terms. Additional space occupied will be at the established market rates at time of occupancy with an allowance of \$5.00 for tenant improvements. Tenant is required to improve said space to a finish level of F5 Labs' existing fifth floor space in the First West Building or Landlord is not required to provide any T/I Allowance. Annual rental rate increases beyond February 29, 2005 will be \$1.00 per square per year.

See Exhibit D for a list of lease terminations and options to renew.

Landlord acknowledges that time is of the essence and that Tenant's business is relying on Landlord's ability to deliver the space as outlined in the Expansion Options and Exhibit D. Should Landlord be unable to deliver Expansion Option and Exhibit D on the Delivery Date, Landlord agrees to pay Tenant daily rent, using the Established Market Rates - Rental Rate by Floor as noted until such space is made available to Tenant, except for space subject to existing options to renew.

Expansion Option: Landlord shall make available to Tenant the right to expand into the following areas:

OPTION SPACE	FLOOR	SUITE	RSF	DELIVERY DATE
A	5	505	2,385	11/1/99
B	5	506	3,313	06/01/00
C	1	108	2,226	11/01/99

Landlord shall provide Tenant thirty (30) day prior written notice as to when such option space shall become available. Tenant shall respond in writing within ten business days of its receipt of Landlord's notice of its intent to exercise its Expansion Option. In the event Tenant does not respond to Landlord's notice, Tenant shall have waived its rights to such option space being offered, but not to future option space.

Option Space B is subject to existing Tenant's option to renew for 3 years at market.

The rental rate for Option Space A and B shall be at the same rate as the established market rate for space occupied on the fifth floor. Option Space C will be at the then established market rate for space leased on the first floor.

In addition, Landlord shall provide a tenant improvement allowance of \$8.00 per square foot for suites 505 and 506 (\$8.00 X 5,698 RSF = \$45,584) and \$5.00 per square foot for suite 108 (\$5.00 X 2,226 RSF = \$11,130).

Landlord shall provide the Option Space to Tenant upon the specified delivery date. Tenant shall have 30 days to complete its tenant improvements prior to the rent commencement, or upon occupancy, whichever first occurs. The term of the Option Space shall be coterminous with Tenant's existing lease expiration.

12. "Exhibit E - 5. Notice of Intent to Sell (Building)" shall hereinafter be amended to reflect the following:

Landlord shall inform Tenant it is putting the Building for sale with the specific terms and conditions of sale. Tenant shall have a first right of negotiation for a period of ten (10) business days after the date of notification during which the Landlord and Tenant will, at Tenant's option, negotiate in good faith a Letter of Intent to purchase the Building. Landlord agrees not to market the Building to any third party, disclose to any possible buyers or their agents the Landlord's intention to sell the Building or negotiate a purchase agreement or Letter of Intent with any third party until the earlier of the expiration of the ten (10) day period or Tenant's notice to Landlord that Tenant does not wish to purchase the Building.

If Tenant fails to deliver to Landlord such written notice within such deadline, then Landlord shall have the right to sell the Building to another party at any time within a six month period after expiration of Tenant's offer period so long as the Purchase Price is not less than 90 percent of the price at which the Building was offered to the Tenant. If within such six month period, Landlord proposes to sell the Building to a third party at less than 90 percent of the Purchase Price, then Landlord shall be required to first re-offer the Building to Tenant at the reduced Purchase Price and the Tenant shall be required to respond within ten (10) business days.

**INCORPORATION:**

13. Except as herein modified, all other terms and conditions of the Lease between the parties above described are ratified and affirmed and shall continue in full force and effect.

The parties hereto have executed this Third Amendment to Lease on the date specified below their respective signatures.

<i>LANDLORD</i>	<i>TENANT</i>
<i>FIRST AVENUE WEST BUILDING, L.L.C.</i> <i>A WASHINGTON LIMITED LIABILITY CO.</i>	<i>F5 LABS, INC.</i> <i>A WASHINGTON CORPORATION</i>
<i>BY: /s/ Fred W. Hines, Jr.</i> ----- <i>FRED W. HINES, JR.</i> <i>ITS: MANAGING AGENT</i> <i>DATE: 1/11/99</i> -----	<i>BY: /s/ Jeffrey S. Hussey</i> ----- <i>JEFFREY S. HUSSEY</i> <i>ITS: PRESIDENT AND CEO</i> <i>DATE:</i> -----  <i>BY: /s/ Brian R. Dixon</i> ----- <i>BRIAN R. DIXON</i> <i>ITS: VICE PRESIDENT OF FINANCE</i> <i>DATE: 1/7/99</i> -----

STATE OF WASHINGTON       )  
                                      )  
COUNTY OF SNOHOMISH       )       SS

I certify that I know or have satisfactory evidence that Fred. W. Hines, Jr. signed this instrument on oath, that he was authorized to execute said instrument as the managing agent of First Avenue West Building L.L.C. pursuant to the provisions of the Limited Liability Company and acknowledged said instrument as the managing agent of the First Avenue West Building L.L.C. to be the free and voluntary act of said Limited Liability Company for the uses and purposes mentioned in said instrument

Date: January 11, 1999

      /s/ Melaney Wade  
-----  
Notary Public in and for the State of Washington  
residing at Kirkland  
-----  
Print Name MELANEY WADE  
-----  
My appointment expires: 5/19/00  
-----

STATE OF WASHINGTON       )  
                                      )  
COUNTY OF KING            )       SS

On this 7th day of January, 1999, personally appeared before me JEFFREY S. HUSSEY, to me known to be the President and CEO of F5 Labs, Inc., the corporation that executed the within and foregoing instrument and acknowledged said instrument to be the free and voluntary act and deed of said corporation, for the uses and proposed therein mentioned, and on oath stated that he was authorized to execute said instrument on behalf of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

Date: January 7, 1999

      /s/ Mari Newkirk  
-----  
Notary Public in and for the State of Washington  
residing at Mountlake Terrace/Snoh Cty  
-----  
Print Name MARI NEWKIRK  
-----  
My appointment expires: 8/19/2002  
-----



STATE OF WASHINGTON       )  
                                      )  
COUNTY OF KING            )       SS

On this 7th day of January, 1999, personally appeared before me BRIAN R. DIXON, to me known to be the Vice President of Finance of F5 Labs, Inc., the corporation that executed the within and foregoing instrument and acknowledged said instrument to be the free and voluntary act and deed of said corporation, for the uses and proposed therein mentioned, and on oath stated that he was authorized to execute said instrument on behalf of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

Date: January 7, 1999

      /s/ Mari Newkirk  
-----  
Notary Public in and for the State of Washington  
residing at   Mountlake Terrace/Snoh Cty  
-----  
Print Name    MARI NEWKIRK  
-----  
My appointment expires:   8/19/2002  
-----

**EXHIBIT A**

**FLOOR PLAN**

**EXHIBIT B**

**STORAGE SPACE**

## RENTAL RATE BY FLOOR

### MONTHS PRESENTED BASED ON CURRENT LEASE

#### FIFTH FLOOR - 6,769 SQFT

YR 1	Months 4-12	\$ 86,304.78	- agrees with original lease @ \$17.00 per sqft
YR 1	Months 13-15	\$ 29,191.32	- agrees with original lease @ \$17.25 sqft
YR 2	Months 16-24	\$ 87,573.96	- agrees with original lease @ \$17.25 sqft
YR 2	Months 25-27	\$ 38,921.75	- annual rate of \$23.00 per sqft - beginning 12/01/00
YR 3	Months 28-39	\$162,456.00	- annual rate of \$24.00 per sqft - beginning 03/01/01
YR 4	Months 40-51	\$169,225.00	- annual rate of \$25.00 per sqft - beginning 03/01/02
YR 5	Months 52-63	\$175,994.00	- annual rate of \$26.00 per sqft - beginning 03/01/03

#### SECOND FLOOR - 2,702 SQFT

YR 1	Months 4-12	\$ 34,450.51	- agrees with original lease @ \$17.00 per sqft
YR 1	Months 13-15	\$ 11,652.38	- agrees with original lease - \$17.25 sqft
YR 2	Months 16-24	\$ 34,957.13	- agrees with original lease - \$17.25 sqft
YR 2	Months 25-27	\$ 14,185.50	- annual rate of \$21.00 per sqft - beginning 12/01/00
YR 3	Months 28-39	\$ 59,444.00	- annual rate of \$22.00 per sqft - beginning 03/01/01
YR 4	Months 40-51	\$ 62,146.00	- annual rate of \$23.00 per sqft - beginning 03/01/02
YR 5	Months 52-63	\$ 64,848.00	- annual rate of \$24.00 per sqft - beginning 03/01/03

#### FIRST FLOOR (BENCHMARK) - 2,430 SQFT

YR 1	Months 4-12	\$ 30,982.50	- agrees with original lease @ \$17.00 per sqft
YR 1	Months 13-15	\$ 10,479.38	- agrees with original lease @ \$17.25 per sqft
YR 2	Months 16-24	\$ 31,438.13	- agrees with original lease @ \$17.25 per sqft
YR 2	Months 25-27	\$ 12,150.00	- annual rate of \$20.00 per sqft - beginning 12/01/00
YR 3	Months 28-39	\$ 51,030.00	- annual rate of \$21.00 per sqft - beginning 03/01/01
YR 4	Months 40-51	\$ 53,460.00	- annual rate of \$22.00 per sqft - beginning 03/01/02
YR 5	Months 52-63	\$ 55,890.00	- annual rate of \$23.00 per sqft - beginning 03/01/03

#### FIRST FLOOR (FIRST IMAGE / ROCHEFORT) - 6,767 SQFT

YR 1	Months 4-12	\$ 96,429.75	- proposal starting 03/01/99 @ \$19.00 per sqft
YR 1	Months 13-15	\$ 32,143.25	- proposal starting 03/01/99 @ \$19.00 per sqft
YR 2	Months 16-24	\$101,505.00	- proposal starting 03/01/00 @ \$20.00 per sqft
YR 2	Months 25-27	\$ 33,835.00	- proposal starting 03/01/00 @ \$20.00 per sqft
YR 3	Months 28-39	\$142,107.00	- annual rate of \$21.00 per sqft - beginning 03/01/00
YR 4	Months 40-51	\$148,874.00	- annual rate of \$22.00 per sqft - beginning 03/01/01
YR 5	Months 52-63	\$155,641.00	- annual rate of \$23.00 per sqft - beginning 03/01/01

**FIRST AVENUE WEST BUILDING LLC  
LEASE TERMINATIONS**

NAME	FLOOR	SQ FT	EXPIRES	OPTION TO RENEW	DAYS NOTICE	DELIVERY DATE
-----						
FIRST WEST SUITES	4	4,586	3/31/03			7/1/03
FIRST WEST SUITES	4	3,504	3/31/03			7/1/03
AMERICAN PROPERTY FINANCING	2	2,838	2/28/03	5-YR	180	6/1/03
BUSINESS RESOURCE	3	3,735	7/31/00	2-YR	180	11/1/00
CGC JAPAN	3	1,345	8/31/00			12/1/00
CARING PRODUCTS INT.	2	4,664	7/31/00	5-YR	180	11/1/00
GRAPHIC ARTS CENTER	5	2,387	7/31/99			11/1/99
GUARDIANSHIP SVC OF SEA	3	2,354	9/30/00			1/1/01
HOOVER	2	1,365	M TO M			
LINTERS	5	3,313	2/28/00	3-YR	180	6/1/00
MCLOUGHLIN, A CONAM CO.	3	3,639	12/31/02			4/1/02
NELSON, WATSON & ERICKSON	4	1,657	8/31/01	2-YR	0	12/1/01
OCEAN KING SEAFOOD	3	1,183	7/31/99			11/1/99
SOURCE CAPITAL /PARALLEL	4	1,872	10/31/01			2/1/02
PROGRESSIVE SECURITIES	2	694	5/31/99			9/1/99
FIRST WEST SUITES	4	637	3/31/03			7/1/03
ABC RADIO NETWORK, INC.	1	2,503	3/31/03			7/1/03
VENTURE DEV. CORP	1	2,226	7/31/99	3-YR	180	11/1/99
TOTALS		44,502				
-----						

NOTE: Space will be available for lease within 90 days of expiration of Lease or renewal option period.

BUSINESS LOAN AGREEMENT

BORROWER: F5 LABS, INC. LENDER: SILICON VALLEY BANK, A CALIFORNIA  
1218 THIRD AVENUE, SUITE 508 CHARTERED BANK  
SEATTLE, WA 98101 WASHINGTON LOAN PRODUCTION OFFICE  
915 118TH AVENUE, S.E., SUITE 250  
BELLEVUE, WA 98005

THIS BUSINESS LOAN AGREEMENT BETWEEN F5 LABS, INC. ("BORROWER") AND SILICON VALLEY BANK, A CALIFORNIA CHARTERED BANK ("LENDER") IS MADE AND EXECUTED ON THE FOLLOWING TERMS AND CONDITIONS. BORROWER HAS RECEIVED PRIOR COMMERCIAL LOANS FROM LENDER OR HAS APPLIED TO LENDER FOR A COMMERCIAL LOAN OR LOANS AND OTHER FINANCIAL ACCOMMODATIONS, INCLUDING THOSE WHICH MAY BE DESCRIBED ON ANY EXHIBIT OR SCHEDULE ATTACHED TO THIS AGREEMENT. ALL SUCH LOANS AND FINANCIAL ACCOMMODATIONS, TOGETHER WITH ALL FUTURE LOANS AND FINANCIAL ACCOMMODATIONS FROM LENDER TO BORROWER, ARE REFERRED TO IN THIS AGREEMENT INDIVIDUALLY AS THE "LOAN" AND COLLECTIVELY AS THE "LOANS." BORROWER UNDERSTANDS AND AGREES THAT: (a) IN GRANTING, RENEWING, OR EXTENDING ANY LOAN, LENDER IS RELYING UPON BORROWER'S REPRESENTATIONS, WARRANTIES, AND AGREEMENTS, AS SET FORTH IN THIS AGREEMENT; (b) THE GRANTING, RENEWING, OR EXTENDING OF ANY LOAN BY LENDER AT ALL TIMES SHALL BE SUBJECT TO LENDER'S SOLE JUDGMENT AND DISCRETION; AND (c) ALL SUCH LOANS SHALL BE AND SHALL REMAIN SUBJECT TO THE FOLLOWING TERMS AND CONDITIONS OF THIS AGREEMENT.

TERM. This Agreement shall be effective as of OCTOBER 23, 1997, and shall continue thereafter until all Indebtedness of Borrower to Lender has been performed in full and the parties terminate this Agreement in writing.

DEFINITIONS. The following words shall have the following meanings when used in this Agreement. Terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. All references to dollar amounts shall mean amounts in lawful money of the United States of America.

AGREEMENT. The word "Agreement" means this Business Loan Agreement, as this Business Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Business Loan Agreement from time to time.

BORROWER. The word "Borrower" means F5 LABS, INC.. The word "Borrower" also includes, as applicable, all subsidiaries and affiliates of Borrower as provided below in the paragraph titled "Subsidiaries and Affiliates."

CERCLA. The word "CERCLA" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended.

CASH FLOW. The words "Cash Flow" mean net income after taxes, and exclusive of extraordinary gains and income, plus depreciation and amortization.

COLLATERAL. The word "Collateral" means and includes without limitation all property and assets granted as collateral security for a Loan, whether real or personal property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, deed of trust, assignment, pledge, chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien, charge, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

DEBT. The word "Debt" means all of Borrower's liabilities excluding Subordinated Debt.

ERISA. The word "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

EVENT OF DEFAULT. The words "Event of Default" mean and include without limitation any of the Events of Default set forth below in the section titled "EVENTS OF DEFAULT."

GRANTOR. The word "Grantor" means and includes without limitation each and all of the persons or entities granting a Security Interest in any Collateral for the Indebtedness, including without limitation all Borrowers granting such a Security Interest.

GUARANTOR. The word "Guarantor" means and includes without limitation each and all of the guarantors, sureties, and accommodation parties in connection with any Indebtedness.

INDEBTEDNESS. The word "Indebtedness" means and includes indebtedness evidenced by any and all notes, letters of credit or credit agreement, including all principal and interest, together with all other indebtedness and costs and expenses, including, without limitation, attorneys' fees, for which Grantor is responsible under this Agreement or under any of the Related Documents.

**LENDER.** The word "Lender" means Silicon Valley Bank, a California chartered bank, its successors and assigns.

**LIQUID ASSETS.** The words "Liquid Assets" mean Borrower's cash on hand plus Borrower's readily marketable securities.

**LOAN.** The word "Loan" or "Loans" means and includes without limitation any and all commercial loans and financial accommodations from Lender to Borrower, whether now or hereafter existing, and however evidenced, including without limitation those loans and financial accommodations described herein or described on any exhibit or schedule attached to this Agreement from time to time.

**NOTE.** The word "Note" means and includes without limitation Borrower's promissory note or notes, if any, evidencing Borrower's Loan obligations in favor of Lender, as well as any substitute, replacement or refinancing note or notes therefor.

**PERMITTED LIENS.** The words "Permitted Liens" mean: (a) liens and security interests securing Indebtedness owed by Borrower to Lender; (b) liens for taxes, assessments, or similar charges either not yet due or being contested in good faith; (c) liens of materialmen, mechanics, warehousemen, or carriers, or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (d) purchase money liens or purchase money security interests upon or in any property acquired or held by Borrower in the ordinary course of business to secure indebtedness outstanding on the date of this Agreement or permitted to be incurred under the paragraph of this Agreement titled "Indebtedness and Liens"; (e) liens and security interests which, as of the date of this Agreement, have been disclosed to and approved by the Lender in writing; and (f) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of Borrower's assets.

**RELATED DOCUMENTS.** The words "Related Documents" mean and include without limitation all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

**SECURITY AGREEMENT.** The words "Security Agreement" mean and include without limitation any agreements, promises, covenants, arrangements, understandings or other agreements, whether created by law, contract, or otherwise, evidencing, governing, representing, or creating a Security Interest.

**SECURITY INTEREST.** The words "Security Interest" mean and include without limitation any type of collateral security, whether in the form of a lien, charge, mortgage, deed of trust, assignment, pledge, chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt,

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lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

SARA. The word "SARA" means the Superfund Amendments and Reauthorization Act of 1986 as now or hereafter amended.

SUBORDINATED DEBT. The words "Subordinated Debt" mean indebtedness and liabilities of Borrower which have been subordinated by written agreement to indebtedness owed by Borrower to Lender in form and substance acceptable to Lender.

TANGIBLE NET WORTH. The words "Tangible Net Worth" mean Borrower's total assets excluding all intangible assets (i.e., goodwill, trademarks, patents, copyrights, organizational expenses, and similar intangible items, but including leaseholds and leasehold improvements) less total Debt.

WORKING CAPITAL. The words "Working Capital" mean Borrower's current assets, excluding prepaid expenses, less Borrower's current liabilities.

CONDITIONS PRECEDENT TO EACH ADVANCE. Lender's obligation to make the initial Loan Advance and each subsequent Loan Advance under this Agreement shall be subject to the fulfillment to Lender's satisfaction of all of the conditions set forth in this Agreement and in the Related Documents.

LOAN DOCUMENTS. Borrower shall provide to Lender in form satisfactory to Lender the following documents for the Loan: (a) the Note, (b) Security Agreements granting to Lender security interests in the Collateral, (c) Financing Statements perfecting Lender's Security Interests; (d) evidence of insurance as required below; and (e) any other documents required under this Agreement or by Lender or its counsel.

BORROWER'S AUTHORIZATION. Borrower shall have provided in form and substance satisfactory to Lender properly certified resolutions, duly authorizing the execution and delivery of this Agreement, the Note and the Related Documents, and such other authorizations and other documents and instruments as Lender or its counsel, in their sole discretion, may require.

PAYMENT OF FEES AND EXPENSES. Borrower shall have paid to Lender all fees, charges, and other expenses which are then due and payable as specified in this Agreement or any Related Document.

REPRESENTATIONS AND WARRANTIES. The representations and warranties set forth in this Agreement, in the Related Documents, and in any document or certificate delivered to Lender under this Agreement are true and correct.

NO EVENT OF DEFAULT. There shall not exist at the time of any advance a condition which would constitute an Event of Default under this Agreement.

REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender, as of the date of this Agreement, as of the date of each disbursement of Loan proceeds, as of the date of any renewal, extension or modification of any Loan, and at all times any Indebtedness exists:

ORGANIZATION. Borrower is a corporation which is duly organized, validly existing, and in good standing under the laws of the State of Washington and is validly existing and in good standing in all states in which Borrower is doing business. Borrower has the full power and authority to own its properties and to transact the businesses in which it is presently engaged or presently proposes to engage. Borrower also is duly qualified as a foreign corporation and is in good standing in all states in which the failure to so qualify would have a material adverse effect on its businesses or financial condition.

AUTHORIZATION. The execution, delivery, and performance of this Agreement and all Related Documents by Borrower, to the extent to be executed, delivered or performed by Borrower, have been duly authorized by all necessary action by Borrower; do not require the consent or approval of any other person, regulatory authority or governmental body; and do not conflict with, result in a violation of, or constitute a default under (a) any provision of its articles of incorporation or organization, or bylaws, or any agreement or other instrument binding upon Borrower or (b) any law, governmental regulation, court decree, or order applicable to Borrower.

FINANCIAL INFORMATION. Each financial statement of Borrower supplied to Lender truly and completely disclosed Borrower's financial condition as of the date of the statement, and there has been no material adverse change in Borrower's financial condition subsequent to the date of the most recent financial statement supplied to Lender. Borrower has no material contingent obligations except as disclosed in such financial statements.



**LEGAL EFFECT.** This Agreement constitutes, and any instrument or agreement required hereunder to be given by Borrower when delivered will constitute, legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

**PROPERTIES.** Except as contemplated by this Agreement or as previously disclosed in Borrower's financial statements or in writing to Lender and as accepted by Lender, and except for property tax liens for taxes not presently due and payable, Borrower owns and has good title to all of Borrower's properties free and clear of all Security Interests, and has not executed any security documents or financing statements relating to such properties. All of Borrower's properties are titled in Borrower's legal name, and Borrower has not used, or filed a financing statement under, any other name for at least the last five (5) years.

**HAZARDOUS SUBSTANCES.** The terms "hazardous waste," "hazardous substance," "disposal," "release," and "threatened release," as used in this Agreement, shall have the same meanings as set forth in the "CERCLA," "SARA," the Hazardous Materials Transportation Act, 49 U.S.C.

Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or Federal laws, rules, or regulations adopted pursuant to any of the foregoing. Except as disclosed to and acknowledged by Lender in writing, Borrower represents and warrants that: (a) During the period of Borrower's ownership of the properties, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any hazardous waste or substance by any person on, under, about or from any of the properties. (b) Borrower has no knowledge of, or reason to believe that there has been (i) any use, generation, manufacture, storage, treatment, disposal, release, or threatened release of any hazardous waste or substance on, under, about or from the properties by any prior owners or occupants of any of the properties, or (ii) any actual or threatened litigation or claims of any kind by any person relating to such matters. (c) Neither Borrower nor any tenant, contractor, agent or other authorized user of any of the properties shall use, generate, manufacture, store, treat, dispose of, or release any hazardous waste or substance on, under, about or from any of the properties; and any such activity shall be conducted in compliance with all applicable federal, state, and local laws, regulations, and ordinances, including without limitation those laws, regulations and ordinances described above. Borrower authorizes Lender and its agents to enter upon the properties to make such inspections and tests as Lender may deem appropriate to determine compliance of the properties with this section of the Agreement. Any inspections or tests made by Lender shall be at Borrower's expense and for Lender's purposes only and shall not be construed to create any responsibility or liability on the part of Lender to Borrower or to any other person. The representations and warranties contained herein are based on Borrower's due diligence in investigating the properties for hazardous waste and hazardous substances. Borrower hereby (a) releases and waives any future claims against Lender for indemnity or contribution in the event Borrower becomes liable for cleanup or other costs under any such laws, and (b) agrees to indemnify and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and expenses which Lender may directly or indirectly sustain or suffer resulting from a breach of this section of the Agreement or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release occurring prior to Borrower's ownership or interest in the properties, whether or not the same was or should have been known to Borrower. The provisions of this section of the Agreement, including the obligation to indemnify, shall survive the payment of the Indebtedness and the termination or expiration of this Agreement and shall not be affected by Lender's acquisition of any interest in any of the properties, whether by foreclosure or otherwise.

**LITIGATION AND CLAIMS.** No litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against

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Borrower is pending or threatened, and no other event has occurred which may materially adversely affect Borrower's financial condition or properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing.

**TAXES.** To the best of Borrower's knowledge, all tax returns and reports of Borrower that are or were required to be filed, have been filed, and all taxes, assessments and other governmental charges have been paid in full, except those presently being or to be contested by Borrower in good faith in the ordinary course of business and for which adequate reserves have been provided.

**LIEN PRIORITY.** Unless otherwise previously disclosed to Lender in writing, Borrower has not entered into or granted any Security Agreements, or permitted the filing or attachment of any Security Interests on or affecting any of the Collateral directly or indirectly securing repayment of Borrower's Loan and Note, that would be prior or that may in any way be superior to Lender's Security Interests and rights in and to such Collateral.

**BINDING EFFECT.** This Agreement, the Note, all Security Agreements directly or indirectly securing repayment of Borrower's Loan and Note and all of the Related Documents are binding upon Borrower as well as upon Borrower's successors, representatives and assigns, and are legally enforceable in accordance with their respective terms.

**COMMERCIAL PURPOSES.** Borrower intends to use the Loan proceeds solely for business or commercial related purposes.

**EMPLOYEE BENEFIT PLANS.** Each employee benefit plan as to which Borrower may have any liability complies in all material respects with all applicable requirements of law and regulations, and (i) no Reportable Event nor Prohibited Transaction (as defined in ERISA) has occurred with respect to any such plan, (ii) Borrower has not withdrawn from any such plan or initiated steps to do so, (iii) no steps have been taken to terminate any such plan, and (iv) there are no unfunded liabilities other than those previously disclosed to Lender in writing.

**INVESTMENT COMPANY ACT.** Borrower is not an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

**PUBLIC UTILITY HOLDING COMPANY ACT.** Borrower is not a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

**REGULATIONS G, T AND U.** Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulations G, T and U of the Board of Governors of the Federal Reserve System).

**LOCATION OF BORROWER'S OFFICES AND RECORDS.** Borrower's place of business, or Borrower's Chief executive office, if Borrower has more than one place of business, is located at 1218 Third Avenue, Suite 508, Seattle, WA 98101. Unless Borrower has designated otherwise in writing this location is also the office or offices where Borrower keeps its records concerning the Collateral.

**INFORMATION.** All information heretofore or contemporaneously herewith furnished by Borrower to Lender for the purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all information hereafter furnished by or on behalf of Borrower to Lender will be, true and accurate in every material respect on the date as of which such information is dated or certified; and none of such information is or will be incomplete by omitting to state any material fact necessary to make such information not misleading.

**CLAIMS AND DEFENSES.** There are no defenses or counterclaims, offsets or other adverse claims, demands or actions of any kind, personal or otherwise, that Borrower, Grantor, or any Guarantor could assert with respect to the Note, Loan, Indebtedness, this Agreement, or the Related Documents.

**SURVIVAL OF REPRESENTATIONS AND WARRANTIES.** Borrower understands and agrees that Lender, without independent investigation, is relying upon the above representations and warranties in extending Loan Advances to Borrower. Borrower further agrees that the foregoing representations and warranties shall be continuing in nature and shall remain in full force and effect until such time as Borrower's Indebtedness shall be paid in full, or until this Agreement shall be terminated in the manner provided above, whichever is the last to occur.

**AFFIRMATIVE COVENANTS.** Borrower covenants and agrees with Lender that, while this Agreement is in effect, Borrower will:

**LITIGATION.** Promptly inform Lender in writing of (a) all material adverse changes in Borrower's financial condition, and (b) all existing and all threatened litigation, claims, investigations, administrative proceedings or similar actions affecting Borrower or any Guarantor which could

materially affect the financial condition of Borrower or the financial condition of any Guarantor.

**FINANCIAL RECORDS.** Maintain its books and records in accordance with generally accepted accounting principles, applied on a consistent basis, and permit Lender to examine and audit Borrower's books and records at all reasonable times.

**FINANCIAL STATEMENTS.** Furnish Lender with, as soon as available, but in no event later than one hundred twenty (120) days after the end of 12/31/97, Borrower's balance sheet and income statement for the year ended, audited by a certified public accountant satisfactory to Lender, and, as soon as available, but in no event later than thirty (30) days after the end of each month, Borrower's balance sheet and profit and loss statement for the period ended, prepared and certified as correct to the best knowledge and belief by Borrower's chief financial officer or other officer or person acceptable to Lender. All financial reports required to be provided under this Agreement shall be prepared in accordance with generally accepted accounting principles, applied on a consistent basis, and certified by Borrower as being true and correct.

**ADDITIONAL INFORMATION.** Furnish such additional information and statements, lists of assets and liabilities, agings of receivables and payables, inventory schedules, budgets, forecasts, tax returns, and other reports with respect to Borrower's financial condition and business operations as Lender may request from time to time.

**FINANCIAL COVENANTS AND RATIOS.** Comply with the following covenants and ratios: Except as provided above, all computations made to determine compliance with the requirements contained in this paragraph shall be made in accordance with generally accepted accounting principles, applied on a consistent basis, and certified by Borrower as being true and correct. Refer to page 5.

**INSURANCE.** Maintain fire and other risk insurance, public liability insurance, and such other insurance as Lender may require with respect to Borrower's properties and operations, in form, amounts, coverages and with insurance companies reasonably acceptable to Lender. Borrower, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days' prior written notice to Lender. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Borrower or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest for the Loans, Borrower will provide Lender with such loss payable or other endorsements as Lender may require.

**INSURANCE REPORTS.** Furnish to Lender, upon request of Lender, reports on each existing insurance policy showing such information as Lender may reasonably request, including without limitation the following: (a) the name of the insurer; (b) the risks insured; (c) the amount of the policy; (d) the properties insured; (e) the then current property values on the basis of which insurance has been obtained, and the manner of determining those values; and (f) the expiration date of the policy. In addition, upon request of Lender (however not more often than annually), Borrower will have an independent appraiser satisfactory to Lender determine, as applicable, the actual cash value or replacement cost of any

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Collateral. The cost of such appraisal shall be paid by Borrower.

OTHER AGREEMENTS. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Borrower and any other party and notify Lender immediately in writing of any default in connection with any other such agreements.

LOAN PROCEEDS. Use all Loan proceeds solely for Borrower's business operations, unless specifically consented to the contrary by Lender in writing.

TAXES, CHARGES AND LIENS. Pay and discharge when due all of its indebtedness and obligations, including without limitation all assessments, taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that, if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits. Provided however, Borrower will not be required to pay and discharge any such assessment, tax, charge, levy, lien or claim so long as (a) the legality of the same shall be contested in good faith by appropriate proceedings, and (b) Borrower shall have established on its books adequate reserves with respect to such contested assessment, tax, charge, levy, lien, or claim in accordance with generally accepted accounting practices. Borrower, upon demand of Lender, will furnish to Lender evidence of payment of the assessments, taxes, charges, levies, liens and claims and will authorize the appropriate governmental official to deliver to Lender at any time a written statement of any assessments, taxes, charges, levies, liens and claims against Borrower's properties, income, or profits.

PERFORMANCE. Perform and comply with all terms, conditions, and provisions set forth in this Agreement and in the Related Documents in a timely manner, and promptly notify Lender if Borrower learns of the occurrence of any event which constitutes an Event of Default under this Agreement or under any of the Related Documents.

OPERATIONS. Maintain executive and management personnel with substantially the same qualifications and experience as the present executive and management personnel; provide written notice to Lender of any change in executive and management personnel; conduct its business affairs in a reasonable and prudent manner and in compliance with all applicable federal, state and municipal laws, ordinances, rules and regulations respecting its properties, charters, businesses and operations, including without limitation, compliance with the Americans With Disabilities Act and with all minimum funding standards and other requirements of ERISA and other laws applicable to Borrower's employee benefit plans.

ENVIRONMENTAL STUDIES. Promptly conduct and complete, at Borrower's expense, all such investigations, studies, samplings and testings as may be requested by Lender or any governmental authority relative to any substance defined as toxic or a hazardous substance under any applicable federal, state, or local law, rule, regulation, order or directive, or any waste or by-product thereof, at or affecting any property or any facility owned, leased or used by Borrower.

INSPECTION. Permit employees or agents of Lender at any reasonable time to inspect any and all Collateral for the Loan or Loans and Borrower's other properties and to examine or audit Borrower's books, accounts, and records and to make copies and memoranda of Borrower's books, accounts, and records. If Borrower now or at any time hereafter maintains any records (including without limitation computer generated records and computer software programs for the generation of such records) in the possession of a third party, Borrower, upon request of Lender, shall notify such party to permit Lender free access to such records at all reasonable times and to provide Lender with copies of any records it may request, all at Borrower's expense.

COMPLIANCE CERTIFICATE. Unless waived in writing by Lender, provide Lender MONTHLY WITHIN THIRTY (30) DAYS with a certificate executed by Borrower's chief financial officer, or other officer or person acceptable to Lender, certifying that the representations and warranties set forth in this Agreement are true and correct as of the date of the certificate and further certifying that, as of the date of the certificate, no Event of Default exists under this Agreement.

ENVIRONMENTAL COMPLIANCE AND REPORTS. Borrower shall comply in all respects with all environmental protection federal, state and local laws, statutes, regulations and ordinances; not cause or permit to exist, as a result of an intentional or unintentional action or omission on its part or on the part of any third party, on property owned and/or occupied by Borrower, any environmental activity where damage may result to the environment, unless such environmental activity is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal, state or local governmental authorities; shall furnish to Lender promptly and in any event within thirty (30) days after receipt thereof a copy of any notice, summons, lien, citation, directive, letter or other communication from any governmental agency or instrumentality concerning any intentional or unintentional action or omission on Borrower's part in connection with any environmental activity whether or not there is damage to the environment and/or other natural resources.

ADDITIONAL ASSURANCES. Make, execute and deliver to Lender such promissory notes, mortgages, deeds of trust, security agreements, financing statements, instruments, documents and other agreements as Lender or its attorneys may reasonably request to evidence and secure

the Loans and to perfect all Security Interests.

**NEGATIVE COVENANTS.** Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall not, without the prior written consent of Lender:

**INDEBTEDNESS AND LIENS.** (a) Except for trade debt incurred in the normal course of business and indebtedness to Lender contemplated by this Agreement, create, incur or assume indebtedness for borrowed money, including capital leases, (b) except as allowed as a Permitted Lien, sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of Borrower's assets, or (c) sell with recourse any of Borrower's accounts, except to Lender.

**CONTINUITY OF OPERATIONS.** (a) Engage in any business activities substantially different than those in which Borrower is presently engaged, (b) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, change ownership, change its name, dissolve or transfer or sell Collateral out of the ordinary course of business, (c) pay any dividends on Borrower's stock (other than dividends payable in its stock), provided, however that notwithstanding the foregoing, but only so long as no Event of Default has occurred and is continuing or would result from the payment of dividends, if Borrower is a "Subchapter S Corporation" (as defined in the Internal Revenue Code of 1986, as amended), Borrower may pay cash dividends on its stock to its shareholders from time to time in amounts necessary to enable the shareholders to pay income taxes and make estimated income tax payments to satisfy their liabilities under federal and state law which arise solely from their status as Shareholders of a Subchapter S Corporation because of their ownership of shares of stock of Borrower, or (d) purchase or retire any of Borrower's outstanding shares or alter or amend Borrower's capital structure.

**LOANS, ACQUISITIONS AND GUARANTIES.** (a) Loan, invest in or advance money or assets, (b) purchase, create or acquire any interest in any other enterprise or entity, or (c) incur any obligation as surety or guarantor other than in the ordinary course of business.

**CESSATION OF ADVANCES.** If Lender has made any commitment to make any Loan to Borrower, whether under this Agreement or under any other agreement, Lender shall have no obligation to make Loan Advances or to disburse Loan proceeds if: (a) Borrower or any Guarantor is in default under the terms of this Agreement or any of the Related Documents or any other agreement that Borrower or any Guarantor has with Lender; (b) Borrower or any Guarantor becomes insolvent, files a petition in bankruptcy or similar proceedings, or is adjudged a bankrupt; (c) there occurs a material adverse change in Borrower's financial condition, in the financial condition of any Guarantor, or in the value of any Collateral securing any Loan; or (d) any Guarantor seeks, claims or otherwise attempts to limit, modify or revoke such Guarantor's guaranty of the Loan or any other loan with Lender.

**FINANCIAL COVENANTS.** Borrower shall maintain, on a monthly basis, a positive Tangible Net Worth.

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**BORROWING FORMULA.** Funds shall be advanced under the line of credit according to a Borrowing Base Formula, determined by Lender on a monthly basis, defined as follows: the lesser of (i) \$250,000.00 or (ii) sixty percent (60%) of Eligible Accounts Receivable. Eligible Accounts Receivable shall be defined as those accounts that arise in the ordinary course of Borrower's business, including those accounts outstanding less than 60 days from the date of invoice, but shall exclude foreign, government, contra and intercompany accounts, and exclude accounts wherein 50% or more of the account is outstanding more than 60 days from the date of invoice. Any account which alone exceeds 25% of total accounts will be ineligible to the extent said account exceeds 25% of total accounts. Lender shall also deem ineligible any credit balances which are aged 30 days, and accounts generated by the sale of demonstration or promotional equipment. The standards of eligibility shall be fixed from time to time by Lender, in Lender's reasonable judgment upon notification to Borrower. Lender reserves the right to exclude any accounts the collection of which Lender reasonably determines to be doubtful.

**ACCOUNTS RECEIVABLE.** Provide Lender of the end of each week, with a borrowing base certificate and aged list of accounts receivable.

**DEFAULT RATE.** Following an Event of Default, including failure to pay upon final maturity, Lender, at its option, may do one or both of the following: (a) increase the variable interest rate on the Note to five percentage points (5.00%) over the otherwise effective interest rate payable thereunder, and (b) add any unpaid accrued interest to principal and such sum will bear interest therefrom until paid at the interest rate provided in the Note.

**LOAN ADVANCES.** Lender, in its discretion, will make loans to Borrower, in amounts determined by Lender, up to the amounts as defined and permitted in this Agreement and the Related Documents, including but not limited to, any Promissory Notes, executed by Borrower (the "Credit Limit"). Borrower is responsible for monitoring the total amount of Loans and Indebtedness outstanding from time to time, and Borrower shall not permit the same, at any time to exceed the Credit Limit. If at any time the total outstanding Loans and Indebtedness exceeds the Credit Limit, Borrower shall immediately pay the amount in excess to Lender, without notice or demand.

**EVENTS OF DEFAULT.** Each of the following shall constitute an Event of Default under this Agreement:

**DEFAULT ON INDEBTEDNESS.** Failure of Borrower to make any payment when due on the Loans.

**OTHER DEFAULTS.** Failure of Borrower or any Grantor to comply with or to perform when due any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents, or failure of Borrower to comply with or to perform any other term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

**DEFAULT IN FAVOR OF THIRD PARTIES.** Should Borrower or any Grantor default under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's or any Grantor's ability to repay the Loans or perform their respective obligations under this Agreement or any of the Related Documents.

**FALSE STATEMENTS.** Any warranty, representation or statement made or furnished to Lender by or on behalf of Borrower or any Grantor under this Agreement or the Related Documents is false or misleading in any material respect at the time made or furnished, or becomes false or misleading at any time thereafter.

**DEFECTIVE COLLATERALIZATION.** This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any Security Agreement to create a valid and perfected Security Interest) at any time and for any reason.

**INSOLVENCY.** The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

**CREDITOR OR FORFEITURE PROCEEDINGS.** Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower, any creditor of any Grantor against any collateral securing the Indebtedness, or by any governmental agency. This includes a garnishment, attachment, or levy on or of any of Borrower's deposit accounts with Lender.

**EVENTS AFFECTING GUARANTOR.** Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

**CHANGE IN OWNERSHIP.** Any change in ownership of twenty-five percent (25%) or more of the common stock of Borrower.

**ADVERSE CHANGE.** A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

**EFFECT OF AN EVENT OF DEFAULT.** If any Event of Default shall occur, except where otherwise provided in this Agreement or the Related Documents, all commitments and obligations of Lender under this Agreement or the Related Documents or any other agreement immediately will terminate (including any obligation to make Loan Advances or disbursements), and, at Lender's option, all Indebtedness immediately will become due and payable, all without notice of any kind to Borrower, except that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional. In addition, Lender shall have all the rights and remedies provided in the Related Documents or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Borrower or of any Grantor shall not affect Lender's right to declare a default and to exercise its rights and remedies.

**MISCELLANEOUS PROVISIONS.** The following miscellaneous provisions are a part of this Agreement:

**AMENDMENTS.** This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

**APPLICABLE LAW. THIS AGREEMENT HAS BEEN DELIVERED TO LENDER AND ACCEPTED BY LENDER IN THE STATE OF CALIFORNIA. IF THERE IS A LAWSUIT, BORROWER AGREES UPON LENDER'S REQUEST TO SUBMIT TO THE JURISDICTION OF THE COURTS OF KING COUNTY, THE STATE OF WASHINGTON. LENDER AND BORROWER HEREBY WAIVE THE RIGHT TO ANY JURY TRIAL IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM BROUGHT BY EITHER LENDER OR BORROWER AGAINST THE OTHER.**

*(INITIAL HERE /s/ BD) THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED  
IN ACCORDANCE WITH THE LAWS OF THE STATE OF WASHINGTON.*

*CAPTION HEADINGS. Caption headings in this Agreement are for convenience  
purposes only and are not to be used to interpret or define the provisions  
of this Agreement.*

**MULTIPLE PARTIES; CORPORATE AUTHORITY.** All obligations of Borrower under this Agreement shall be joint and several, and all references to Borrower shall mean each and every Borrower. This means that each of the persons signing below is responsible for ALL obligations in this Agreement.

**CONSENT TO LOAN PARTICIPATION.** Borrower agrees and consents to Lender's sale or transfer, whether now or later, of one or more participation

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interests in the Loans to one or more purchasers, whether related or unrelated to Lender. Lender may provide, without any limitation whatsoever, to any one or more purchasers, or potential purchasers, any information or knowledge Lender may have about Borrower or about any other matter relating to the Loan, and Borrower hereby waives any rights to privacy it may have with respect to such matters. Borrower additionally waives any and all notices of sale of participation interests, as well as all notices of any repurchase of such participation interests. Borrower also agrees that the purchasers of any such participation interests will be considered as the absolute owners of such interests in the Loans and will have all the rights granted under the participation agreement or agreements governing the sale of such participation interests. Borrower further waives all rights of offset or counterclaim that it may have now or later against Lender or against any purchaser of such a participation interest and unconditionally agrees that either Lender or such purchaser may enforce Borrower's obligation under the Loans irrespective of the failure or insolvency of any holder of any interest in the Loans. Borrower further agrees that the purchaser of any such participation interests may enforce its interests irrespective of any personal claims or defenses that Borrower may have against Lender.

**BORROWER INFORMATION.** Borrower consents to the release of information on or about Borrower by Lender in accordance with any court order, law or regulation and in response to credit inquiries concerning Borrower.

**NON-LIABILITY OF LENDER.** The relationship between Borrower and Lender is a debtor and creditor relationship and not fiduciary in nature, nor is the relationship to be construed as creating any partnership or joint venture between Lender and Borrower. Borrower is exercising its own judgment with respect to Borrower's business. All information supplied to Lender is for Lender's protection only and no other party is entitled to rely on such information. There is no duty for Lender to review, inspect, supervise, or inform Borrower of any matter with respect to Borrower's business. Lender and Borrower intend that Lender may reasonably rely on all information supplied by Borrower to Lender, together with all representations and warranties given by Borrower to Lender, without investigation or confirmation by Lender and that any investigation or failure to investigate will not diminish Lender's right to so rely.

**NOTICE OF LENDER'S BREACH.** Borrower must notify Lender in writing of any breach of this Agreement or the Related Documents by Lender and any other claim, cause of action or offset against Lender within thirty (30) days after the occurrence of such breach or after the accrual of such claim, cause of action or offset. Borrower waives any claim, cause of action or offset for which notice is not given in accordance with this paragraph. Lender is entitled to rely on any failure to give such notice.

**BORROWER INDEMNIFICATION.** Borrower shall indemnify and hold Lender harmless from and against all claims, costs, expenses, losses, damages, and liabilities of any kind, including but not limited to attorneys' fees and expenses, arising out of any matter relating directly or indirectly to the Indebtedness, whether resulting from internal disputes of the Borrower, disputes between Borrower and any Guarantor, or whether involving any third parties, or out of any other matter whatsoever related to this Agreement or the Related Documents, but excluding any claim or liability which arises as a direct result of Lender's gross negligence or willful misconduct. This indemnity shall survive full repayment and satisfaction of the Indebtedness and termination of this Agreement.

**COUNTERPARTS.** This Agreement may be executed in multiple counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts, taken together, shall constitute one and the same Agreement.

**COSTS AND EXPENSES.** Borrower agrees to pay upon demand all of Lender's expenses, including without limitation attorneys' fees, incurred in connection with the preparation, execution, enforcement, modification and collection of this Agreement or in connection with the Loans made pursuant to this Agreement. Lender may pay someone else to help collect the Loans and to enforce this Agreement, and Borrower will pay that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses, whether or not there is a lawsuit, including attorneys' fees for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Borrower also will pay any court costs, in addition to all other sums provided by law.

**NOTICES.** All notices required to be given under this Agreement shall be given in writing, may be sent by telefacsimile (unless otherwise required by law), and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier or deposited in the United States mail, first class, postage prepaid, addressed to the party to whom the notice is to be given at the address shown above. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. To the extent permitted by applicable law, if there is more than one Borrower, notice to any Borrower will constitute notice to all Borrowers. For notice purposes, Borrower will keep Lender informed at all times of Borrower's current address(es).

**SEVERABILITY.** If a court of competent jurisdiction finds any provision of this Agreement to be invalid or unenforceable as to any person or circumstance, such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances. If feasible, any such offending provision shall be deemed to be modified to be within the limits of enforceability or validity; however, if the offending provision cannot be so modified, it shall be stricken and all other provisions of this Agreement in all other respects shall remain valid and



enforceable.

**SUBSIDIARIES AND AFFILIATES OF BORROWER.** To the extent the context of any provisions of this Agreement makes it appropriate, including without limitation any representation, warranty or covenant, the word "Borrower" as used herein shall include all subsidiaries and affiliates of Borrower. Notwithstanding the foregoing however, under no circumstances shall this Agreement be construed to require Lender to make any Loan or other financial accommodation to any subsidiary or affiliate of Borrower.

**SUCCESSORS AND ASSIGNS.** All covenants and agreements contained by or on behalf of Borrower shall bind its successors and assigns and shall inure to the benefit of Lender, its successors and assigns. Borrower shall not, however, have the right to assign its rights under this Agreement or any interest therein, without the prior written consent of Lender.

**SURVIVAL.** All warranties, representations, and covenants made by Borrower in this Agreement or in any certificate or other instrument delivered by Borrower to Lender under this Agreement shall be considered to have been relied upon by Lender and will survive the making of the Loan and delivery to Lender of the Related Documents, regardless of any investigation made by Lender or on Lender's behalf.

**WAIVER.** Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Borrower, or between Lender and any Grantor, shall constitute a waiver of any of Lender's rights or of any obligations of Borrower or of any Grantor as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent in subsequent instances where such consent is required, and in all cases such consent may be granted or withheld in the sole discretion of Lender.

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BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS BUSINESS LOAN AGREEMENT, AND BORROWER AGREES TO ITS TERMS. THIS AGREEMENT IS DATED AS OF OCTOBER 23,1997.

**BORROWER:**

**F5 LABS, INC.**

*BY: /s/ Brian Dixon*

*NAME: Brian Dixon TITLE: VP Finance*

**LENDER:**

**SILICON VALLEY BANK, A CALIFORNIA CHARTERED BANK**

BY:

**AUTHORIZED OFFICER**

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COMMERCIAL SECURITY AGREEMENT

BORROWER: F5 LABS, INC. LENDER: SILICON VALLEY BANK, A CALIFORNIA  
1218 THIRD AVENUE, SUITE 508 CHARTERED BANK  
SEATTLE, WA 98101 WASHINGTON LOAN PRODUCTION OFFICE  
915 118TH AVENUE, S.E., SUITE 250  
BELLEVUE, WA 98005

THIS COMMERCIAL SECURITY AGREEMENT IS ENTERED INTO BETWEEN F5 LABS, INC. (REFERRED TO BELOW AS "GRANTOR"); AND SILICON VALLEY BANK, A CALIFORNIA CHARTERED BANK (REFERRED TO BELOW AS "LENDER"). FOR VALUABLE CONSIDERATION, GRANTOR GRANTS TO LENDER A SECURITY INTEREST IN THE COLLATERAL TO SECURE THE INDEBTEDNESS AND AGREES THAT LENDER SHALL HAVE THE RIGHTS STATED IN THIS AGREEMENT WITH RESPECT TO THE COLLATERAL, IN ADDITION TO ALL OTHER RIGHTS WHICH LENDER MAY HAVE BY LAW.

DEFINITIONS. The following words shall have the following meanings when used in this Agreement. Terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. All references to dollar amounts shall mean amounts in lawful money of the United States of America.

AGREEMENT. The word "Agreement" means this Commercial Security Agreement, as this Commercial Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Security Agreement from time to time.

COLLATERAL. The word "Collateral" means the following described property of Grantor, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

INVENTORY, CHATTEL PAPER, INVESTMENT PROPERTY, ACCOUNTS, EQUIPMENT, GENERAL INTANGIBLES, FIXTURES, CONTRACT RIGHTS, INSTRUMENTS, DOCUMENTS, AND DEPOSIT ACCOUNTS

In addition, the word "Collateral" includes all the following, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

- (a) All attachments, accessions, accessories, tools, parts, supplies, increases, and additions to and all replacements of and substitutions for any property described above.
- (b) All products and produce of any of the property described in this Collateral section.
- (c) All accounts, general intangibles, instruments, rents, monies, payments, and all other rights, arising out of a sale, lease, or other disposition of any of the property described in this Collateral section.
- (d) All proceeds (including insurance proceeds) from the sale, destruction, loss, or other disposition of any of the property described in this Collateral section.
- (e) All records and data relating to any of the property described in this Collateral section, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media, together with all of Grantors right, title, and interest in and to all computer software required to utilize, create, maintain, and process any such records or data on electronic media.

EVENT OF DEFAULT. The words "Event of Default" mean and include without limitation any of the Events of Default set forth below in the section titled "Events of Default."

GRANTOR. The word "Grantor" means F5 LABS, INC., its successors and assigns

GUARANTOR. The word "Guarantor" means and includes without limitation each and all of the guarantors, sureties, and accommodation parties in connection with the Indebtedness.

INDEBTEDNESS. The word "Indebtedness" means indebtedness evidenced by any and all notes, letters of credit or credit agreement, including all principal and interest, together with all other indebtedness and costs and expenses, including, without limitation, attorneys' fees, for which Grantor is responsible under this Agreement or under any of the Related Documents.

LENDER. The word "Lender" means Silicon Valley Bank, a California chartered bank, its successors and assigns.

NOTE. The word "Note" means the notes, letters of credit or credit agreements in any principal amount from Borrower to Lender, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of and substitutions for the notes, letters of credit, or credit

agreements.

**RELATED DOCUMENTS.** The words "Related Documents" mean and include without limitation all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

**RIGHT OF SETOFF.** Grantor hereby grants Lender a contractual possessory security interest in and hereby assigns, conveys, delivers, pledges, and transfers all of Grantor's right, title and interest in and to Grantor's accounts with Lender (whether checking, savings, or some other account), including all accounts held jointly with someone else and all accounts Grantor may open in the future, excluding, however, all IRA and Keogh accounts, and all trust accounts for which the grant of a security interest would be prohibited by law. Grantor authorizes Lender, to the extent permitted by applicable law, to charge or setoff all Indebtedness against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided in this paragraph.

**OBLIGATIONS OF GRANTOR.** Grantor warrants and covenants to Lender as follows:

**PERFECTION OF SECURITY INTEREST.** Grantor agrees to execute such financing statements and to take whatever other actions are requested by Lender to perfect and continue Lender's security interest in the Collateral. Upon request of Lender, Grantor will deliver to Lender any and all of the documents evidencing or constituting the Collateral, and Grantor will note Lender's interest upon any and all chattel paper if not delivered to Lender for possession by Lender. Grantor hereby appoints Lender as its irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect or to continue the security interest granted in this Agreement. Lender may at any time, and without further authorization from Grantor, file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Grantor will reimburse Lender for all expenses for the perfection and the continuation of the perfection of Lender's security interest in the Collateral. Grantor promptly will notify Lender before any change in Grantor's name including any change to the assumed business names of Grantor. **THIS IS A CONTINUING SECURITY AGREEMENT AND WILL CONTINUE IN EFFECT EVEN THOUGH ALL OR ANY PART OF THE INDEBTEDNESS IS PAID IN FULL AND EVEN THOUGH FOR A PERIOD OF TIME GRANTOR MAY NOT BE INDEBTED TO LENDER.**

**NO VIOLATION.** The execution and delivery of this Agreement will not violate any law or agreement governing Grantor or to which Grantor is a party, and its certificate or articles of incorporation and bylaws do not prohibit any term or condition of this Agreement.

**ENFORCEABILITY OF COLLATERAL.** To the extent the Collateral consists of accounts, chattel paper, or general intangibles, the Collateral is enforceable in accordance with its terms, is genuine, and complies with applicable laws concerning form, content and manner of preparation and execution, and all persons appearing to be obligated on the Collateral have authority and capacity to contract and are in fact obligated as they appear to be on the Collateral.

**LOCATION OF THE COLLATERAL.** Grantor, upon request of Lender, will deliver to Lender in form satisfactory to Lender a schedule of real properties and Collateral locations relating to Grantor's operations, including without limitation the following: (a) all real property owned or being purchased by Grantor; (b) all real property being rented or leased by Grantor; (c) all storage facilities owned, rented, leased, or being used by Grantor; and (d) all other properties where Collateral is or may be located. Except in the ordinary course of its business, Grantor shall not remove the Collateral from its existing locations without the prior written consent of Lender.

**REMOVAL OF COLLATERAL.** Grantor shall keep the Collateral (or to the extent the Collateral consists of intangible property such as accounts, the records concerning the Collateral) at Grantor's address shown above, or at such other locations as are acceptable to Lender. Except in the ordinary course of its business, including the sales of inventory, Grantor shall not remove the Collateral from its existing locations without the prior written consent of Lender. To the extent that the Collateral consists of vehicles, or other titled property, Grantor shall not take or permit any action which would require application for certificates of title for the vehicles outside the State of Washington, without the prior written consent of Lender.

**TRANSACTIONS INVOLVING COLLATERAL.** Except for inventory sold or accounts collected in the ordinary course of Grantor's business, Grantor shall not sell, offer to sell, or otherwise transfer or dispose of the Collateral. While Grantor is not in default under this Agreement, Grantor may sell inventory, but only in the ordinary course of its business and only to buyers who qualify as a buyer in the ordinary course of business. A sale in the ordinary course of Grantor's business does not include a transfer in partial or total satisfaction of a debt or any bulk sale. Grantor shall not pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest, encumbrance, or charge, other than the security interest provided for in this Agreement, without the prior written consent of Lender. This includes security interests even if junior in right to the security interests granted under this Agreement. Unless waived by Lender, all proceeds from any disposition of the Collateral (for whatever reason) shall be held in trust for Lender and shall not be commingled with any other funds; provided however, this requirement shall not constitute consent by Lender to any sale or other disposition. Upon receipt, Grantor shall immediately deliver any such proceeds to Lender.

**TITLE.** Grantor represents and warrants to Lender that it holds good and marketable title to the Collateral, free and clear of all liens and encumbrances except for the lien of this Agreement. No financing statement covering any of the Collateral is on file in any public office other than those which reflect the security interest created by this Agreement or to which Lender has specifically consented. Grantor shall defend Lender's rights in the Collateral against the claims and demands of all other persons.

**COLLATERAL SCHEDULES AND LOCATIONS.** Insofar as the Collateral consists of inventory, Grantor shall deliver to Lender, as often as Lender shall require, such lists, descriptions, and designations of such Collateral as Lender may require to identify the nature, extent, and location of such Collateral. Such information shall be submitted for Grantor and each of its subsidiaries or related companies.

**MAINTENANCE AND INSPECTION OF COLLATERAL.** Grantor shall maintain all tangible Collateral in good condition and repair. Grantor will not commit or permit damage to or destruction of the Collateral or any part of the Collateral. Lender and its designated representatives and agents shall have the right at all reasonable times to examine, inspect, and audit the Collateral wherever located. Grantor shall immediately notify Lender of all cases involving the return, rejection, repossession, loss or damage of or to any Collateral; of any request for credit or adjustment or of any other dispute arising with respect to the Collateral; and generally of all happenings and events affecting the Collateral or the value or the amount of the Collateral.

**TAXES, ASSESSMENTS AND LIENS.** Grantor will pay when due all taxes, assessments and liens upon the Collateral, its use or operation, upon this Agreement, upon any promissory note or notes evidencing the Indebtedness, or upon any of the other Related Documents. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized in Lender's sole opinion. If the Collateral is subjected to a lien which is not discharged within fifteen (15) days, Grantor shall deposit with Lender cash, a sufficient corporate surety bond or other security satisfactory to Lender in an amount adequate to provide for the discharge of the lien plus any interest, costs, attorneys' fees or other charges that could accrue as a result of foreclosure or sale of the Collateral. In any contest Grantor shall defend itself and Lender and shall satisfy any final adverse judgment before enforcement against the Collateral. Grantor shall name Lender as an additional obligee under any surety bond furnished in the contest proceedings.

**COMPLIANCE WITH GOVERNMENTAL REQUIREMENTS.** Grantor shall comply promptly with all laws, ordinances, rules and regulations of all governmental authorities, now or hereafter in effect, applicable to the ownership, production, disposition, or use of the Collateral. Grantor may contest in good faith any such law, ordinance or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Lender's interest in the Collateral, in Lender's opinion, is not jeopardized.

**HAZARDOUS SUBSTANCES.** Grantor represents and warrants that the Collateral never has been, and never will be so long as this Agreement remains a lien on the Collateral, used for the generation, manufacture, storage, transportation, treatment, disposal, release or threatened release of any hazardous waste or substance, as those terms are defined in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, at seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, at seq., the Resource Conservation and Recovery Act, 42 U.S.C.

Section 6901, at seq., or other applicable state or Federal laws, rules, or regulations adopted pursuant to any of the foregoing. The terms "hazardous waste" and "hazardous substance" shall also include, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos. The representations and warranties contained herein are based on Grantor's due diligence in investigating the Collateral for hazardous wastes and substances. Grantor hereby (a) releases and waives any future claims against Lender for indemnity or contribution in the event Grantor becomes liable for cleanup or other costs under any such laws, and (b) agrees to indemnify and hold harmless Lender against any and all claims and losses resulting from a breach of this provision of this Agreement. This obligation to indemnify shall survive the payment of the Indebtedness and the satisfaction of this Agreement.

**MAINTENANCE OF CASUALTY INSURANCE.** Grantor shall procure and maintain all risks insurance, including without limitation fire, theft and liability coverage together with such other insurance as Lender may require with respect to the Collateral, in form, amounts, coverages and basis reasonably acceptable to Lender and issued by a company or companies reasonably acceptable to Lender. Grantor, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days' prior written notice to Lender and not including any disclaimer of the insurer's liability for failure to give such a notice. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Grantor or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest, Grantor will provide Lender with such loss payable or other endorsements as Lender may require. If Grantor at any time fails to obtain or maintain any insurance as required under this Agreement, Lender may (but shall not be obligated to) obtain such insurance as Lender deems appropriate, including if it so chooses "single interest insurance," which will cover only Lender's interest in the Collateral.

**APPLICATION OF INSURANCE PROCEEDS.** Grantor shall promptly notify Lender of any loss or damage to the Collateral. Lender may make proof of loss if Grantor fails to do so within fifteen (15) days of the casualty. All proceeds of any insurance on the Collateral, including accrued proceeds thereon, shall be held by Lender as part of the Collateral. If Lender consents to repair or replacement of the damaged or destroyed Collateral, Lender shall, upon satisfactory proof of expenditure, pay or reimburse Grantor from the proceeds for the reasonable cost of repair or restoration. If Lender does not consent to repair or replacement of the Collateral, Lender shall retain a sufficient amount of the proceeds to pay all of the Indebtedness, and shall pay the balance to Grantor. Any proceeds which have not been disbursed within six (6) months after their receipt and which Grantor has not committed to the repair or restoration of the Collateral shall be used to prepay the Indebtedness.

**INSURANCE RESERVES.** Lender may require Grantor to maintain with Lender reserves for payment of insurance premiums, which reserves shall be created by monthly payments from Grantor of a sum estimated by Lender to be sufficient to produce, at least fifteen (15) days before the premium due date, amounts at least equal to the insurance premiums to be paid. If fifteen (15) days before payment is due, the reserve funds are insufficient, Grantor shall upon demand pay any deficiency to Lender. The reserve funds shall be held by Lender as a general deposit and shall constitute a non-interest-bearing account which Lender may satisfy by payment of the insurance premiums required to be paid by Grantor as they become due. Lender does not hold the reserve funds in trust for Grantor, and Lender is not the agent of Grantor for payment of the insurance premiums required to be paid by Grantor. The responsibility for the payment of premiums shall remain Grantor's sole responsibility.

**INSURANCE REPORTS.** Grantor, upon request of Lender, shall furnish to Lender reports on each existing policy of insurance showing such information as Lender may reasonably request including the following:  
(a) the name of the insurer; (b) the risks insured; (c) the amount of the policy; (d) the property insured; (e) the then current value on the basis of which insurance has been obtained and the manner of determining that value; and (f) the expiration date of the policy. In addition, Grantor shall upon request by Lender (however not more often than annually) have an independent appraiser satisfactory to Lender determine, as applicable, the cash value or replacement cost of the Collateral.

**GRANTOR'S RIGHT TO POSSESSION.** Until default, Grantor may have possession of the tangible personal property and beneficial use of all the Collateral and may use it in any lawful manner not inconsistent with this Agreement or the Related Documents, provided that Grantor's right to possession and beneficial use shall not apply to any Collateral where possession of the Collateral by Lender is required by law to perfect Lender's security interest in such Collateral. If Lender at any time has possession of any Collateral, whether before or after an Event of Default, Lender shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if Lender takes such action for that purpose as Grantor shall request or as Lender, in Lender's sole discretion, shall deem appropriate under the circumstances, but failure to honor any request by Grantor shall not of itself be deemed to be a failure to exercise reasonable care. Lender shall not be required to take any steps necessary to preserve any rights in the Collateral against prior parties, nor to protect, preserve or maintain any security interest given to secure the Indebtedness.

**EXPENDITURES BY LENDER.** If not discharged or paid when due, Lender may (but shall not be obligated to) discharge or pay any amounts required to be discharged or paid by Grantor under this Agreement, including without limitation all taxes, liens, security interests, encumbrances, and other claims, at any time levied or placed on the Collateral. Lender also may (but shall not be obligated to) pay all costs for insuring, maintaining and preserving the Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Grantor. All such expenses shall become a part of the Indebtedness and, at Lender's option, will  
(a) be payable on demand, (b) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (i) the term of any applicable insurance policy or (ii) the remaining term of the Note, or (c) be treated as a balloon payment which will be due and payable at the Note's maturity. This Agreement also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which Lender may be entitled upon the occurrence of an Event of Default.

**EVENTS OF DEFAULT.** Each of the following shall constitute an Event of Default under this Agreement:

**DEFAULT ON INDEBTEDNESS.** Failure of Grantor to make any payment when due on the Indebtedness.

**OTHER DEFAULTS.** Failure of Grantor to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or in any other agreement between Lender and Grantor.

**DEFAULT IN FAVOR OF THIRD PARTIES.** Should Borrower or any Grantor default under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's or any Grantor's ability to repay the Loans or perform their respective obligations under this Agreement or any of the Related Documents.

**FALSE STATEMENTS.** Any warranty, representation or statement made or furnished to Lender by or on behalf of Grantor under this Agreement, the Note or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished.

**DEFECTIVE COLLATERALIZATION.** This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral documents to create a valid and perfected security interest or lien) at any time and for any reason.

**INSOLVENCY.** The dissolution or termination of Grantor's existence as a going business, the insolvency of Grantor, the appointment of a receiver for any part of Grantor's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Grantor.

**CREDITOR OR FORFEITURE PROCEEDINGS.** Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Grantor or by any governmental agency against the Collateral or any other collateral securing the Indebtedness. This includes a garnishment of any of Grantor's deposit accounts with Lender.

**EVENTS AFFECTING GUARANTOR.** Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or such Guarantor dies or becomes incompetent.

**ADVERSE CHANGE.** A material adverse change occurs in Grantor's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

**RIGHTS AND REMEDIES ON DEFAULT.** If an Event of Default occurs under this Agreement, at any time thereafter, Lender shall have all the rights of a secured party under the Washington Uniform Commercial Code. In addition and without limitation, Lender may exercise any one or more of the following rights and remedies:

**ACCELERATE INDEBTEDNESS.** Lender may declare the entire Indebtedness, including any prepayment penalty which Grantor would be required to pay, immediately due and payable, without notice.

**ASSEMBLE COLLATERAL.** Lender may require Grantor to deliver to Lender all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Lender may require Grantor to assemble the Collateral and make it available to Lender at a place to be designated by Lender. Lender also shall have full power to enter upon the property of Grantor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Grantor agrees Lender may take such other goods, provided that Lender makes reasonable efforts to return them to Grantor after repossession.

**SELL THE COLLATERAL.** Lender shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in its own name or that of Grantor. Lender may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or



is of a type customarily sold on a recognized market, Lender will give Grantor reasonable notice of the time after which any private sale or any other intended disposition of the Collateral is to be made. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

**APPOINT RECEIVER.** To the extent permitted by applicable law, Lender shall have the following rights and remedies regarding the appointment of a receiver: (a) Lender may have a receiver appointed as a matter of right, (b) the receiver may be an employee of Lender and may serve without bond, and (c) all fees of the receiver and his or her attorney shall become part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

**COLLECT REVENUES, APPLY ACCOUNTS.** Lender, either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Lender may at any time in its discretion transfer any Collateral into its own name or that of its nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the Indebtedness or apply it to payment of the Indebtedness in such order of preference as Lender may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Lender may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, or realize on the Collateral as Lender may determine, whether or not Indebtedness or Collateral is then due. For these purposes, Lender may, on behalf of and in the name of Grantor, receive, open and dispose of mail addressed to Grantor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Lender may notify account debtors and obligors on any Collateral to make payments directly to Lender.

**OBTAIN DEFICIENCY.** If Lender chooses to sell any or all of the Collateral, Lender may obtain a judgment against Grantor for any deficiency remaining on the Indebtedness due to Lender after application of all amounts received from the exercise of the rights provided in this Agreement. Grantor shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

**OTHER RIGHTS AND REMEDIES.** Lender shall have all the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, as may be amended from time to time. In addition, Lender shall have and may exercise any or all other rights and remedies it may have available at law, in equity, or otherwise.

**CUMULATIVE REMEDIES.** All of Lender's rights and remedies, whether evidenced by this Agreement or the Related Documents or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Grantor under this Agreement, after Grantor's failure to perform, shall not affect Lender's right to declare a default and to exercise its remedies.

**MISCELLANEOUS PROVISIONS.** The following miscellaneous provisions are a part of this Agreement:

**AMENDMENTS.** This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

**APPLICABLE LAW.** This Agreement has been delivered to Lender and accepted by Lender in the State of California. If there is a lawsuit, Grantor agrees upon Lender's request to submit to the jurisdiction of the courts of King County, the State of Washington. Lender and Grantor hereby waive the right to any jury trial in any action, proceeding, or counterclaim

*brought by either Lender or Grantor against the other. (INITIAL HERE /s/  
BD) This Agreement shall be governed by and construed in accordance  
with the laws of the State of Washington.*

**ATTORNEYS' FEES; EXPENSES.** Grantor agrees to pay upon demand all of Lender's costs and expenses, including attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may pay someone else to help enforce this Agreement, and Grantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (and including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Grantor also shall pay all court costs and such additional fees as may be directed by the court.

**CAPTION HEADINGS.** Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

**MULTIPLE PARTIES; CORPORATE AUTHORITY.** All obligations of Grantor under this Agreement shall be joint and several, and all references to Grantor shall mean each and every Grantor. This means that each of the persons signing below is responsible for ALL obligations in this Agreement.

**NOTICES.** All notices required to be given under this Agreement shall be given in writing, may be sent by telefacsimile (unless otherwise required by law), and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier or deposited in the United States mail, first class, postage prepaid, addressed to the party to whom the notice is to be given at the address shown above. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. To the extent permitted by applicable law, if there is more than one Grantor, notice to any Grantor will constitute notice to all Grantors. For notice purposes, Grantor will keep Lender informed at all times of Grantor's current address(es).

**POWER OF ATTORNEY.** Grantor hereby appoints Lender as its true and lawful attorney-in-fact, irrevocably, with full power of substitution to do the following: (a) to demand, collect, receive, receipt for, sue and recover all sums of money or other property which may now or hereafter become due, owing or payable from the Collateral; (b) to execute, sign and endorse any and all claims, instruments, receipts, checks, drafts or warrants issued in payment for the Collateral; (c) to settle or compromise any and all claims arising under the Collateral, and, in the place and stead of Grantor, to execute and deliver its release and settlement for the claim; and (d) to file any claim or claims or to take any action or institute or take part in any proceedings, either in its own name or in the name of Grantor, or otherwise, which in the discretion of Lender may seem to be necessary or advisable. This power is given as security for the Indebtedness, and the authority hereby conferred is and shall be irrevocable and shall remain in full force and effect until renounced by Lender.

**PREFERENCE PAYMENTS.** Any monies Lender pays because of an asserted preference claim in Borrower's bankruptcy will become a part of the Indebtedness and, at Lender's option, shall be payable by Borrower as provided above in the "EXPENDITURES BY LENDER" paragraph.

**SEVERABILITY.** If a court of competent jurisdiction finds any provision of this Agreement to be invalid or unenforceable as to any person or circumstance, such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances. If feasible, any such offending provision shall be deemed to be modified to be within the limits of enforceability or validity; however, if the offending provision cannot be so modified, it shall be stricken and all other provisions of this Agreement in all other respects shall remain valid and enforceable.

**SUCCESSOR INTERESTS.** Subject to the limitations set forth above on transfer of the Collateral, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns.

**WAIVER.** Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by

Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lender's rights or of any of Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

**WAIVER OF CO-OBLIGOR'S RIGHTS.** If more than, one person is obligated for the Indebtedness, Borrower irrevocably waives, disclaims and relinquishes all claims against such other person which Borrower has or would otherwise have by virtue of payment of the Indebtedness or any part thereof, specifically including but not limited to all rights of indemnity, contribution or exoneration.

**ADDITIONAL PROVISION.** If any law is passed that requires additional action on the part of Lender, Borrower and/or Grantor shall fully cooperate with Lender in complying with the law and accordingly, shall reimburse Lender for all costs and expenses which Lender incurs in compliance with the law.

**GRANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS COMMERCIAL SECURITY AGREEMENT, AND GRANTOR AGREES TO ITS TERMS. THIS AGREEMENT IS DATED OCTOBER 23,1997.**

**GRANTOR:**

**F5 LABS, INC.**

*BY: /s/ Brian Dixon*

*NAME: Brian Dixon*

*TITLE: V.P. Finance*

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PROMISSORY NOTE

BORROWER: F5 LABS, INC.  
1218 THIRD AVENUE, SUITE 508  
SEATTLE, WA 98101

LENDER: SILICON VALLEY BANK, A CALIFORNIA  
CHARTERED BANK  
WASHINGTON LOAN PRODUCTION OFFICE  
915 118TH AVENUE, S.E., SUITE 250  
BELLEVUE, WA 98005

PRINCIPAL AMOUNT: \$250,000.00    INITIAL RATE: 10.500%    DATE OF NOTE: OCTOBER  
23, 1997

PROMISE TO PAY. F5 LABS, INC. ("BORROWER") PROMISES TO PAY TO SILICON VALLEY BANK, A CALIFORNIA CHARTERED BANK ("LENDER"), OR ORDER, IN LAWFUL MONEY OF THE UNITED STATES OF AMERICA, THE PRINCIPAL AMOUNT OF TWO HUNDRED FIFTY THOUSAND & 00/100 DOLLARS (\$250,000.00) OR SO MUCH AS MAY BE OUTSTANDING, TOGETHER WITH INTEREST ON THE UNPAID OUTSTANDING PRINCIPAL BALANCE OF EACH ADVANCE. INTEREST SHALL BE CALCULATED FROM THE DATE OF EACH ADVANCE UNTIL REPAYMENT OF EACH ADVANCE.

PAYMENT. BORROWER WILL PAY THIS LOAN IN ONE PAYMENT OF ALL OUTSTANDING PRINCIPAL PLUS ALL ACCRUED UNPAID INTEREST ON DECEMBER 23, 1997. IN ADDITION, BORROWER WILL PAY REGULAR MONTHLY PAYMENTS OF ACCRUED UNPAID INTEREST BEGINNING NOVEMBER 23, 1997, AND ALL SUBSEQUENT INTEREST PAYMENTS ARE DUE ON THE SAME DAY OF EACH MONTH AFTER THAT. The annual interest rate for this Note is computed on a 365/360 basis; that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to accrued unpaid interest, then to principal, and any remaining amount to any unpaid collection costs and late charges.

VARIABLE INTEREST RATE. The interest rate on this Note is subject to change from time to time based on changes in an index which is Lender's Prime Rate (the "Index"). This is the rate Lender charges, or would charge, on 90-day unsecured loans to the most creditworthy corporate customers. This rate may or may not be the lowest rate available from Lender at any given time. Lender will tell Borrower the current Index rate upon Borrower's request. Borrower understands that Lender may make loans based on other rates as well. The interest rate change will not occur more often than each time the prime rate is adjusted by Silicon Valley Bank. THE INDEX CURRENTLY IS 8.500% PER ANNUM. THE INTEREST RATE TO BE APPLIED TO THE UNPAID PRINCIPAL BALANCE OF THIS NOTE WILL BE AT A RATE of

2.000 PERCENTAGE POINTS OVER THE INDEX, RESULTING IN AN INITIAL RATE of 10.500% PER ANNUM. NOTICE: Under no circumstances will the interest rate on this Note be more than the maximum rate allowed by applicable law.

PREPAYMENT. Borrower agrees that all loan fees and other prepaid finance charges are earned fully as of the date of the loan and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. Except for the foregoing. Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments of accrued unpaid interest. Rather, they will reduce the principal balance due.

DEFAULT. Borrower will be in default if any of the following happens: (a) Borrower fails to make any payment when due. (b) Borrower breaks any promise Borrower has made to Lender, or Borrower fails to comply with or to perform when due any other term, obligation, covenant, or condition contained in this Note or any agreement related to this Note, or in any other agreement or loan Borrower has with Lender. (c) Borrower defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's ability to repay this Note or perform Borrower's obligations under this Note or any of the Related Documents. (d) Any representation or statement made or furnished to Lender by Borrower or on Borrower's behalf is false or misleading in any material respect either now or at the time made or furnished. (e) Borrower becomes insolvent, a receiver is appointed for any part of Borrower's property, Borrower makes an assignment for the benefit of creditors, or any proceeding is commenced either by Borrower or against Borrower under any bankruptcy or insolvency laws. (f) Any creditor tries to take any of Borrower's property on or in which Lender has a lien or security interest. This includes a garnishment of any of Borrower's accounts with Lender.

(g) Any guarantor dies or any of the other events described in this default section occurs with respect to any guarantor of this Note. (h) A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, without notice, and then Borrower will pay that amount. Upon default, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, increase the variable interest rate on this Note to 7.000 percentage points over the Index. The interest rate will not exceed the maximum rate permitted by applicable law. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower also will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law. THIS

NOTE HAS BEEN DELIVERED TO LENDER AND ACCEPTED BY LENDER IN THE STATE OF CALIFORNIA. IF THERE IS A LAWSUIT, BORROWER AGREES UPON LENDER'S REQUEST TO SUBMIT TO THE JURISDICTION OF THE COURTS OF KING COUNTY, THE STATE OF WASHINGTON. LENDER AND BORROWER HEREBY WAIVE THE RIGHT TO ANY JURY TRIAL IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM BROUGHT BY EITHER LENDER OR BORROWER AGAINST THE

*OTHER (INITIAL HERE /s/ BD) THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF WASHINGTON.*

*LINE OF CREDIT. This Note evidences a revolving line of credit. Advances under this Note, as well as directions for payment from Borrower's accounts, may be requested orally or in writing by Borrower or by an authorized person. Lender may, but need not, require that all oral requests be confirmed in writing. Borrower agrees to be liable for all sums either: (a) advanced in accordance with the instructions of an authorized person or (b) credited to any of Borrower's accounts with Lender. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records, including daily computer print-outs. Lender will have no obligation to advance funds under this Note if: (a) Borrower or any guarantor is in default under the terms of this Note or any agreement that Borrower or any guarantor has with Lender, including any agreement made in connection with the signing of this Note; (b) Borrower or any guarantor ceases doing business or is insolvent; (c) any guarantor seeks, claims or otherwise attempts to limit, modify or revoke such guarantor's guarantee of this Note or any other loan with Lender; or (d) Borrower has applied funds provided pursuant to this Note for purposes other than those authorized by Lender.*

**REQUEST TO DEBIT ACCOUNTS.** Borrower will regularly deposit funds received in accounts maintained with Silicon Valley Bank. Borrower hereby requests and authorizes Lender to debit any accounts Borrower has with Lender, including, without limitation, Account Number 3300108333 for payments of principal and interest owing on the loan and any other obligations owing from Borrower to Lender. Lender will notify Lender of all debits which Lender makes against Borrower's accounts. Any such debits against Borrower's accounts in no way shall be deemed a set-off.

**LOAN FEE.** This Note is subject to a loan fee in the amount of One Thousand and 00/100 Dollars (\$1,000.00) (the "Loan Fee"), plus all out-of-pocket expenses.

**BUSINESS LOAN AGREEMENT.** This Note is subject to and shall be governed by all the terms and conditions of the Business Loan Agreement of even date herewith, between Borrower and Lender, which Business Loan Agreement is incorporated herein by reference.

GENERAL PROVISIONS. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment demand for payment, protest and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan, or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE AND ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THE NOTE.

**BORROWER:**

**F5 LABS, INC.**

BY: /s/ Brian Dixon  
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NAME: Brian Dixon                      TITLE: V.P. Finance  
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PROMISSORY NOTE

BORROWER: F5 LABS, INC.

200 1ST AVENUE, WEST, SUITE 500  
SEATTLE, WA 98119

LENDER: SILICON VALLEY BANK, A CALIFORNIA CHARTERED-BANK

WASHINGTON LOAN PRODUCTION OFFICE  
915 118th AVENUE, S.E., SUITE 250  
BELLEVUE, WA 98005

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**PRINCIPAL AMOUNT: \$100,000.00 INITIAL RATE: 10.000% DATE OF NOTE: FEBRUARY 5, 1998**

PROMISE TO PAY. F5 LABS, INC. ("BORROWER") PROMISES TO PAY TO SILICON VALLEY BANK ("LENDER"), OR ORDER, IN LAWFUL MONEY OF THE UNITED STATES OF AMERICA, THE PRINCIPAL AMOUNT OF ONE HUNDRED THOUSAND & 00/100 DOLLARS (\$100,000.00), TOGETHER WITH INTEREST ON THE UNPAID PRINCIPAL BALANCE FROM FEBRUARY 5, 1998, UNTIL PAID IN FULL.

**PAYMENT. SUBJECT TO ANY PAYMENT CHANGES RESULTING FROM CHANGES IN THE INDEX, BORROWER WILL PAY THIS LOAN IN ACCORDANCE WITH THE FOLLOWING PAYMENT SCHEDULE:**

THE DRAW PERIOD SHALL BEGIN AS OF THE DATE HEREOF AND SHALL END ON AUGUST 4, 1998 (THE "DRAW PERIOD"). BORROWER SHALL PAY REGULAR MONTHLY PAYMENTS OF ALL ACCRUED UNPAID INTEREST BEGINNING ON MARCH 4, 1998 AND ALL SUBSEQUENT INTEREST PAYMENTS ARE DUE ON THE SAME DAY OF EACH MONTH THEREAFTER. THE OUTSTANDING PRINCIPAL BALANCE AT THE END OF THE DRAW PERIOD WILL BE PAYABLE IN 30 EQUAL PAYMENTS OF PRINCIPAL PLUS INTEREST BEGINNING SEPTEMBER 4, 1998 AND ALL SUBSEQUENT PAYMENTS OF PRINCIPAL PLUS INTEREST WILL BE DUE ON THE SAME DAY OF EACH MONTH THEREAFTER. THE FINAL PAYMENT DUE, ON FEBRUARY 4, 2001, WILL BE FOR ALL OUTSTANDING PRINCIPAL PLUS ALL ACCRUED INTEREST NOT YET PAID.

The annual interest rate for this Note is computed on a 365/360 basis; that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to accrued unpaid interest, then to principal, and any remaining amount to any unpaid collection costs and late charges. VARIABLE

INTEREST RATE. The interest rate on this Note is subject to change from time to time based on changes in an index which is Lender's Prime Rate (the "Index"). This is the rate Lender charges, or would charge, on 90-day unsecured loans to the most creditworthy corporate customers. This rate may or may not be the lowest rate available from Lender at any given time. Lender will tell Borrower the current Index rate upon Borrower's request. Borrower understands that Lender may make loans based on other rates as well. The interest rate change will not occur more often than each time the prime rate is adjusted by Silicon Valley Bank. THE INDEX CURRENTLY IS 8.500%. THE INTEREST RATE TO BE APPLIED TO THE UNPAID PRINCIPAL BALANCE OF THIS NOTE WILL BE AT A RATE OF 1.500 PERCENTAGE POINTS OVER THE INDEX, RESULTING IN A CURRENT RATE OF 10.000%. NOTICE: Under no circumstances will the interest rate on this Note be more than the maximum rate allowed by applicable law. Whenever increases occur in the interest rate, Lender, at its option, may do one or more of the following: (a) increase Borrower's payments to ensure Borrower's loan will pay off by its original final maturity date, (b) increase Borrower's payments to cover accruing interest, (c) increase the number of Borrower's payments, and (d) continue Borrower's payments at the same amount and increase Borrower's final payment.

PREPAYMENT. Borrower agrees that all loan fees and other prepaid finance charges are earned fully as of the date of the loan and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. Except for the foregoing, Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, they will reduce the principal balance due and may result in Borrower making fewer payments.

DEFAULT. Borrower will be in default if any of the following happens: (a) Borrower fails to make any payment when due. (b) Borrower breaks any promise Borrower has made to Lender, or Borrower fails to comply with or to perform when due any other term, obligation, covenant, or condition contained in this Note or any agreement related to this Note, or in any other agreement or loan Borrower has with Lender. (c) Borrower defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's ability to repay this Note or perform Borrower's obligations under this Note or any of the Related Documents. (d) Any representation or statement made or furnished to Lender by Borrower or on Borrower's behalf is false or misleading in any material respect either now or at the time made or furnished. (e) Borrower becomes insolvent, a receiver is appointed for any part of Borrower's property, Borrower makes an assignment for the benefit of creditors, or any proceeding is commenced either by Borrower or against Borrower under any bankruptcy or insolvency laws. (f) Any creditor tries to take any of Borrower's property on or in which Lender has a lien or security interest. This includes a garnishment of any of Borrower's accounts with Lender. (g) Any guarantor dies or any of the other events described in this default section occurs with respect to any guarantor of this

Note. (h) A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

**LENDER'S RIGHTS.** Upon default, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, without notice, and then Borrower will pay that amount. Upon Borrower's failure to pay all amounts declared due pursuant to this section, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, increase the variable interest rate on this Note to 6.500 percentage points over the Index. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower also will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Borrower also will pay any court costs, in addition to all other sums provided by law. **THIS NOTE HAS BEEN DELIVERED TO LENDER AND ACCEPTED BY LENDER IN THE STATE OF CALIFORNIA. IF THERE IS A LAWSUIT, BORROWER AGREES UPON LENDER'S REQUEST TO SUBMIT TO THE JURISDICTION OF THE COURTS OF KING COUNTY, THE STATE OF WASHINGTON. LENDER AND BORROWER HEREBY WAIVE THE RIGHT TO ANY JURY TRIAL IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM BROUGHT BY EITHER LENDER OR BORROWER AGAINST THE OTHER. (INITIAL HERE \_\_\_\_). THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF WASHINGTON.**

**LINE OF CREDIT.** This Note evidences a straight line of credit through the end of the Draw Period. Once the total amount of principal has been advanced, Borrower is not entitled to further loan advances. Advances under this Note, as well as directions for payment from Borrowees accounts, may be requested orally or in writing by Borrower or by an authorized person. Lender may, but need not, require that all oral requests be confirmed in writing. Borrower agrees to be liable for all sums either: (a) advanced in accordance with the instructions of an authorized person or (b) credited to any of Borrower's accounts with Lender. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records, including daily computer print-outs. Lender will have no obligation to advance funds under this Note if: (a) Borrower or any guarantor is in default under the terms of this Note or any agreement that Borrower or guarantor has with Lender, including any agreement made in connection with the signing of this Note; (b) Borrower or any guarantor ceases doing business or is insolvent; (c) any guarantor seeks, claims or otherwise attempts to limit, modify or revoke such guarantor's guarantee of this Note or any other loan with Lender, and (d) Borrower has applied funds provided pursuant to this Note for purposes other than those authorized by Lender:



**PROMISSORY NOTE**  
(CONTINUED)

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AMENDED AND RESTATED BUSINESS LOAN AGREEMENT. This Note is governed by all the terms and conditions of the Business Loan Agreement of even date herewith, between Borrower and Lender, as such agreement may be amended from time to time, which Amended and Restated Business Loan Agreement is incorporated herein by this reference.

PAYMENT OF LOAN FEE. Borrower shall pay to Lender a fee in the amount of One Thousand and 00/100 Dollars (\$1,000.00) plus all out-of-pocket expenses.

REQUEST TO DEBIT ACCOUNTS. Borrower will regularly deposit funds received from its business activities in accounts maintained with Lender. Borrower hereby authorizes Lender to debit any accounts with Lender, including, without limitation Account Number 33-00 1083-33 for payments of principal and interest due on the loan and any other obligations owing from Borrower to Lender. Lender will notify Borrower of all debits which Lender makes against Borrower's accounts. Any such debits against Borrower's accounts in no way shall be deemed a set-off.

ADVANCE RATE. At any time from the date hereof through the end of the Draw Period, Borrower may request advances (each an "Advance" and collectively, the "Advances") from Lender in an aggregate amount not to exceed the principal amount of the Note. To evidence the Advances, Borrower shall deliver to Lender, at the time of each Advance request, an invoice for the equipment to be purchased, the date of which shall not be greater than 90 days from the date of each Advance. The Advances shall only be used to purchase equipment and shall not exceed eighty percent (80%) of the invoice amount approved by Lender, excluding taxes, shipping and installation expense.

GENERAL PROVISIONS. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive any applicable statute of limitations, presentment, demand for payment, protest and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan, or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE AND ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THE NOTE.

**BORROWER:**

**F5 LABS, INC.**

By: /s/ Brian R. Dixon

Name: Brian R. Dixon

Title: V.P Finance

## LOAN MODIFICATION AGREEMENT

This Loan Modification Agreement is entered into as of July 14, 1998 by and between F5 Labs, Inc. ("Borrower"), whose address is 200 1st Avenue, West, Suite 500, Seattle, WA 98119 and Silicon Valley Bank ("Lender"), whose address is 3003 Tasman Drive, Santa Clara, CA 95054 with a loan production office located at 915 118th Avenue S.E., Suite 250, Bellevue, WA 98005.

1. DESCRIPTION OF EXISTING INDEBTEDNESS: Among other indebtedness which may be owing by Borrower to Lender, Borrower is indebted to Lender pursuant to, among other documents, a Promissory Note, dated February 5, 1998 in the original principal amount of Seven Hundred Fifty Thousand and 00/100 Dollars (\$750,000.00), as amended from time to time (the "Revolving Note") and a Promissory Note, dated February 5, 1998, in the original principal amount of One Hundred Thousand and 00/100 Dollars (\$100,000.00), as amended from time to time (the "Term Note"). The Revolving Note and the Term Note shall be referred to collectively herein as the "Notes". The Notes, together with other promissory notes from Borrower to Lender, are governed by the terms of an Amended and Restated Business Loan Agreement dated February 5, 1998, as such agreement may be amended from time to time, between Borrower and Lender (the "Loan Agreement"). Defined terms used but not otherwise defined herein shall have the same meanings as in the Loan Agreement.

Hereinafter, all indebtedness owing by Borrower to Lender shall be referred to as the "Indebtedness".

2. DESCRIPTION OF COLLATERAL AND GUARANTIES. Repayment of the Indebtedness is secured by the Collateral described in a Commercial Security Agreement and an Intellectual Property Security Agreement, each dated October 23, 1997.

Hereinafter, the above-described security documents and guaranties, together with all other documents securing repayment of the Indebtedness shall be referred to as the "Security Documents". Hereinafter, the Security Documents, together with all other documents evidencing or securing the Indebtedness shall be referred to as the "Existing Loan Documents".

### 3. DESCRIPTION OF CHANGE IN TERMS.

#### A. MODIFICATION(S) TO REVOLVING NOTE.

1. Payable in one payment of all outstanding principal plus all accrued unpaid interest on July 31, 1999. In addition, Borrower will pay regular monthly payments of all accrued unpaid interest, beginning July 31, 1998 and all subsequent interest payments will be due on the last day of each month thereafter.
2. The interest rate to be applied to the unpaid principal balance of the Revolving Note is hereby decreased, effective as of this date, to a rate equal to one-half of one percentage point (0.500%) over Lender's current Index.
3. The principal amount of the Revolving Note is hereby increased to Two Million and 00/100 Dollars (\$2,000,000.00).

#### B. MODIFICATION(S) TO TERM NOTE.

1. Subject to any payment changes resulting from changes in the Index, Borrower will pay this loan in accordance with the following payment schedule:

The Draw Period shall begin as of this date and shall end on January 31, 1999 (the "Draw Period"). Borrower shall pay regular monthly payments of all accrued unpaid interest, beginning on July 31, 1998 and all subsequent interest payments will be due on the last day of each month thereafter. The outstanding principal balance at the end of the Draw Period will be payable in twenty-four (24) equal payments of principal plus interest, beginning February 28, 1999 and all subsequent payments of principal plus interest will be due on the last day of each month thereafter. The final payment, due on February 4, 2001, will be for all outstanding principal plus all accrued interest not yet paid.

2. The interest rate to be applied to the unpaid principal balance of the Term Note is hereby decreased, effective as of this date, to a rate equal to one percentage point (1.000%) over Lender's current Index.

#### C. MODIFICATION(S) TO LOAN AGREEMENT.

1. The first sentence of the paragraph entitled "Borrowing Base Formula" is hereby amended as follows:

Funds shall be advanced under the Revolving Note according to a Borrowing Base Formula, determined by Lender, defined as follows: the lesser of (i) \$2,000,000.00 or (ii) seventy-five percent (75%) of Eligible Accounts Receivable, minus in each case, the Trinet Employer Group Reserve.

2. The paragraph entitled "Accounts Receivable and Accounts Payable" is hereby amended in part to provide that the cost of each annual audit will be capped at Six Hundred and 00/100 Dollars (\$600.00) per audit.

4. CONSISTENT CHANGES. The Existing Loan Documents are hereby amended wherever necessary to reflect the changes described above.

5. PAYMENT OF LOAN FEE. Borrower shall pay to Lender a fee in the amount of Five Thousand and 00/100 Dollars (\$5,000.00) (the "Loan Fee") plus all out-of-pocket expenses.

6. NO DEFENSES OF BORROWER. Borrower (and each guarantor and pledgor signing below) agrees that, as of the date hereof, it has no defenses against the obligations to pay any amounts under the Indebtedness.

7. CONTINUING VALIDITY. Borrower (and each guarantor and pledgor signing below) understands and agrees that in modifying the existing Indebtedness, Lender is relying upon Borrower's representations, warranties, and agreements, as set forth in the Existing Loan Documents. Except as expressly modified pursuant to this Loan Modification Agreement, the terms of the Existing Loan Documents remain unchanged and in full force and effect. Lender's agreement to modifications to the existing Indebtedness pursuant to this Loan Modification Agreement in no way shall obligate Lender to make any future modifications to the Indebtedness. Nothing in this Loan Modification Agreement shall constitute a satisfaction of the Indebtedness. It is the intention of Lender and Borrower to retain as liable parties all makers and endorsers of Existing Loan Documents, unless the party is expressly released by Lender in writing. No maker, endorser, or guarantor will be released by virtue of this Loan Modification Agreement. The terms of this paragraph apply not only to this Loan Modification Agreement, but also to all subsequent loan modification agreements.

8. CONDITIONS. The effectiveness of this Loan Modification Agreement is conditioned upon Borrower's payment of the Loan Fee.

This Loan Modification Agreement is executed as of the date first written above.

<i>BORROWER:</i>	<i>LENDER:</i>
<i>F5 LABS, INC.</i>	<i>SILICON VALLEY BANK</i>
<i>By: /s/ Brian R. Dixon</i> -----	<i>By: /s/ Geir B. Hansen</i> -----
<i>Name: Brian R. Dixon</i>	<i>Name: Geir B. Hansen</i>
<i>Title: CFO</i>	<i>Title: AVP</i>

**VICE PRESIDENT, SALES & MARKETING  
1999 COMPENSATION PLAN**

**INTRODUCTION**

The plan has been designed to incent F5 Labs' Vice President, Sales & Marketing, to meet/exceed the following goals. The theme of this compensation plan is to highly rewarded overachievement and link the goals of the Vice President, Sales & Marketing with the goals of the company.

**SALES CREDIT**

The Vice President, Sales & Marketing will receive sales credit for all F5 sales. All sales will be credited upon order entry and receipt of an unconditional hardcopy purchase order, and paid upon shipment.

**COMPENSATION CATEGORIES**

The total compensation plan is designed to provide the Vice President, Sales & Marketing \$240,000 in annual income, plus upside earnings according to the following categories:

1. **ANNUAL BASE SALARY:** Compensation for managing the day to day affairs of the Sales, Marketing and Services organization. \$120,000 payable bi-weekly in arrears.
2. **INCENTIVE COMPENSATION:** Offered to the Vice President, Sales & Marketing for leading his team to meet their objectives, 70% of the incentive compensation will be based on successfully achieving each quarterly Net Revenue goal as specified in the 1999 "Waterfall" budget, 30% of the incentive compensation will be based on successfully achieving each quarterly EBITDA goal as specified in the 1999 "Waterfall" budget. Target annual income is \$120,000 at plan, plus significant upside above quota.

**PAYMENT TERMS**

The Vice President, Sales & Marketing will receive a monthly draw of \$10,000 to be paid on the 15th of each month. At the end of each quarter this draw will be reconciled on a straight line pro rata basis, at or above 80% of plan, against achievement of the quarterly Net Revenue (70% weighting) and EBITDA (30% weighting) goals as specified in the 1999 "Waterfall" budget.

## **EXCLUSIONS**

The CEO reserves the right to exclude certain revenues that the company may recognize during the course of the year that are unrelated to the company's mainstream business, that are of a funded R&D or similar nature, or that are otherwise separate from the efforts of the company's sales organization.

## **DEADLINES**

As with Sales Manager's commission plan, the condition under which the company is OBLIGATED to calculate commissions and bonuses for sales booked in a month that don't ship, is for an unconditional hard copy purchase order specifying a delivery date prior to the end of the month to be received no later than midnight on the 10th day prior to the close of the month. Orders received past this deadline may still be shipped prior to the end of the period and commissions and bonuses calculated accordingly, but at the company's discretion. In all cases, commissions as well as bonuses will not be paid until the products ship. The above criteria will also be applied to split shipments, with the commissions and bonuses calculated according to the ship dates.

## **ADJUSTMENTS**

Net product shipments shall be adjusted for order cancellation, non-acceptance by the customer, non-payment of an invoice for a period of 60 days past due or other adjustments that may occur. The adjustment will be charged in the month in which the adjustment occurs.

## **EFFECTIVE DATE AND TERM**

The plan shall take effect on January 1, 1999 and shall remain in effect until December 31, 1999.

## **PARACHUTE**

In the event there is a business combination (i.e.; merger, acquisition, change in controlling interest) involving F5 whereby the new organization elects to terminate the Vice President, Sales & Marketing employment, or change the Vice President, Sales & Marketing role such that it is not equal or greater in scope, responsibility, income, and stature to the current role, then the Vice President, Sales & Marketing shall be entitled to a severance package which is payable in full upfront equal to his 1998 total earnings.

## **TERMINATION**

If the Vice President, Sales & Marketing leaves the company prior to the end of 1999, he will be eligible to receive commission and bonus payments only through the end of the last full month employed.

**NOTICES**

F5 Labs reserves the right to change, alter or cancel any provision contained within this plan upon written notice to the Vice President, Sales & Marketing. Nothing in this plan is intended to grant a right to employment for any specific term.

**AMBIGUITIES AND INCONSISTENCIES**

This plan has been carefully considered and is meant to be reasonable and complete. When circumstances occur which require special interpretation, however, it shall be the responsibility of the CEO to determine the intent of the plan and to render a judgment which is fair to both the Vice President, Sales & Marketing and the company.

**ACCEPTANCE OF PLAN AND CONDITIONS**

*/s/ Jeff Hussey*  
-----  
*Jeff Hussey*  
*CEO*  
  
*2-19-99*  
-----  
*Date*

*/s/ Steve Goldman*  
-----  
*Steve Goldman*  
*Vice President, Sales & Marketing*  
  
*2-4-99*  
-----  
*Date*

## EXHIBIT C

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISPOSITION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL FOR THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933 OR THE COMPANY IS OTHERWISE SATISFIED THAT REGISTRATION IS NOT REQUIRED.

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Warrant No. CSW \_\_\_\_\_ Number of Shares: \_\_\_\_\_ Date of Issuance: November \_\_, 1997 (subject to adjustment)

### F5 LABS, INC.

#### COMMON STOCK PURCHASE WARRANT

F5 LABS, INC., a Washington corporation (the "Company"), for value received, hereby certifies that \_\_\_\_\_, or its registered assigns (the "Registered Holder"), is entitled, subject to the terms set forth below, to purchase from the Company, at any time after the date hereof and on or before November \_\_ 2002, up to \_\_\_\_\_ shares of Common Stock, at a purchase price of \$1.60 per share. The number of shares purchasable upon exercise of this Warrant, and the purchase price per share, each as adjusted from time to time pursuant to the provisions of this Warrant, are hereinafter referred to as the "Warrant Stock" and the "Purchase Price," respectively.

#### 1. EXERCISE.

(a) This Warrant may be exercised by the Registered Holder, in whole or in part, by surrendering this Warrant, with the purchase form appended hereto as Exhibit A duly executed by such Registered Holder or by such Registered Holder's duly authorized attorney, at the principal office of the Company, or at such other office or agency as the Company may designate, accompanied by payment in full by cash, check or wire transfer of the Purchase Price payable in respect of the number of shares of Warrant Stock purchased upon such exercise.

(b) Each exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on the day on which this Warrant shall have been surrendered to the Company as provided in Section 1(a) above. At such time, the person or persons in whose name or names any certificates for Warrant Stock shall be issuable upon such exercise as provided in Section 1(d) below shall be deemed to have become the holder or holders of record of the Warrant Stock represented by such certificates.

#### (c) NET ISSUE EXERCISE.

(i) In lieu of exercising this Warrant in the manner provided above in Section 1(a), the Registered Holder may elect to receive shares equal to the value of this Warrant (or the portion thereof being canceled) by surrender of this Warrant at the principal office of the Company together with notice of such election in which event the Company shall issue to holder a number of shares of Common Stock computed using the following formula:



$$X = Y (A - B)$$

## A

Where X = The number of shares of Common Stock to be issued to the Registered Holder.

Y = The number of shares of Common Stock purchasable under this Warrant (at the date of such calculation).

A = The fair market value of one share of Common Stock (at the date of such calculation).

B = The Purchase Price (as adjusted to the date of such calculation).

(ii) For purposes of this Section 1(c), the fair market value of

Common Stock shall be the price per share which the Company could obtain from a willing buyer for the shares sold by the Company from authorized but unissued shares, as such price shall determined in good faith by the Board of Directors of the Company. In the event this warrant is issued in conjunction with the Company's initial public offering, fair market value shall be the price to the public in such offering, prior to commissions and discounts to the underwriters.

(d) As soon as practicable after the exercise of this Warrant in full or in part, and in any event within 10 days thereafter, the Company at its expense will cause to be issued in the name of, and delivered to, the Registered Holder, or as such Holder (upon payment by such Holder of any applicable transfer taxes) may direct:

(i) a certificate or certificates for the number of shares of Warrant Stock to which such Registered Holder shall be entitled, and

(ii) in case such exercise is in part only, a new warrant or warrants (dated the date hereof) of like tenor, calling in the aggregate on the face or faces thereof for the number of shares of Warrant Stock equal (without giving effect to any adjustment therein) to the number of such shares called for on the face of this Warrant minus the number of such shares purchased by the Registered Holder upon such exercise as provided in Section 1(a) above.

## 2. ADJUSTMENTS.

(a) If outstanding shares of the Company's Common Stock shall be subdivided into a greater number of shares or a dividend in Common Stock shall be paid in respect of Common Stock, the Purchase Price in effect immediately prior to such subdivision or at the record date of such dividend shall simultaneously with the effectiveness of such subdivision or immediately after the record date of such dividend be proportionately reduced. If outstanding shares of Common Stock shall be combined into a smaller number of shares, the Purchase Price in effect immediately prior to such combination shall, simultaneously with the effectiveness of such combination, be proportionately increased. When any adjustment is required to be made in the Purchase Price, the number of shares of Warrant Stock purchasable upon the exercise of this Warrant shall be changed to the number determined by dividing (i) an amount equal to the number of shares issuable upon the exercise of this Warrant immediately prior to such adjustment, multiplied by the Purchase Price in effect immediately prior to such adjustment, by (ii) the Purchase Price in effect immediately after such adjustment.

(b) In case of any reclassification or change of the outstanding securities of the Company or of any reorganization of the Company (or any other corporation the stock or securities of

which are at the time receivable upon the exercise of this Warrant) or any similar corporate reorganization on or after the date hereof, then and in each such case the holder of this Warrant, upon the exercise hereof at any time after the consummation of such reclassification, change, reorganization, merger or conveyance, shall be entitled to receive, in lieu of the stock or other securities and property receivable upon the exercise hereof prior to such consummation, the stock or other securities or property to which such holder would have been entitled upon such consummation if such holder had exercised this Warrant immediately prior thereto, all subject to further adjustment as provided in paragraph (a); and in each such case, the terms of this Section 2 shall be applicable to the shares of stock or other securities properly receivable upon the exercise of this Warrant after such consummation.

(c) When any adjustment is required to be made in the Purchase Price, the Company shall promptly mail to the Registered Holder a certificate setting forth the Purchase Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment. Such certificate shall also set forth the kind and amount of stock or other securities or property into which this Warrant shall be exercisable following the occurrence of any of the events specified in Section 2(a) or (b) above.

### 3. TRANSFERS.

(a) Each holder of this Warrant acknowledges that this Warrant and the Warrant Stock have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and agrees not to sell, pledge, distribute, offer for sale, transfer or otherwise dispose of this Warrant or any Warrant Stock in the absence of (i) an effective registration statement under the Act as to this Warrant or such Warrant Stock and registration or qualification of this Warrant or such Warrant Stock under any applicable Blue Sky or state securities law then in effect, (ii) an opinion of counsel, satisfactory to the Company, that such registration and qualification are not required, or (iii) the Company is otherwise satisfied that registration is not required,

Each certificate or other instrument for Warrant Stock issued upon the exercise of this Warrant shall bear a legend substantially to the foregoing effect.

(b) Subject to the provisions of Section 3(a) hereof, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of the Warrant with a properly executed assignment (in the form of Exhibit B hereto) at the principal office of the Company PROVIDED, HOWEVER, that this Warrant may not be transferred in part unless the transferee acquires the right to purchase at least 25,000 shares (as adjusted pursuant to Section 2) hereunder.

(c) Until any transfer of this Warrant is made in the warrant register, the Company may treat the Registered Holder of this Warrant as the absolute owner hereof for all purposes; PROVIDED, HOWEVER, that if and when this warrant is properly assigned in blank, the Company may (but shall not be required to) treat the bearer hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary.

(d) The Company will maintain a register containing the names and addresses of the Registered Holders of this Warrant. Any Registered Holder may change such Registered Holder's address as shown on the warrant register by written notice to the Company requesting such change.

4. NO IMPAIRMENT. The Company will not, by amendment of its charter or through reorganization, consolidation, merger, dissolution, sale of assets or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will (subject to Section 14 below) at all times in good faith assist in the carrying out of all such terms and in the taking of

all such action as may be necessary or appropriate in order to protect the rights of the holder of this Warrant against impairment.

5. Termination. This Warrant (and the right to purchase securities upon exercise hereof) shall terminate on November \_\_\_\_, 2002.

6. NOTICES OF CERTAIN TRANSACTIONS. In case:

(a) the Company shall take a record of the holders of its Common Stock (or other stock or securities at the time deliverable upon the exercise of this Warrant) for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right, to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right, or

(b) of any capital reorganization of the Company, any reclassification of the capital stock of the Company, any consolidation or merger of the Company, any consolidation or merger of the Company with or into another corporation (other than a consolidation or merger in which the Company is the surviving entity), or any transfer of all or substantially all of the assets of the Company, or

(c) of the voluntary or involuntary dissolution, liquidation or winding-up of the Company, or

(d) of any redemption of the Common Stock, or

(e) the Company pays a dividend or makes a distribution on the Common Stock payable otherwise than in cash out of earnings or earned surplus (determined in accordance with generally accepted accounting principles) except for a stock dividend payable in shares of Common Stock,

then, and in each such case, the Company will mail or cause to be mailed to the Registered Holder of this Warrant a notice specifying, as the case may be, (i) the date on which a record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, or (ii) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation, winding-up or redemption is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other stock or securities at the time deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation, winding-up or redemption) are to be determined. Such notice shall be mailed at least ten (10) days prior to the record date or effective date for the event specified in such notice.

7. RESERVATION OF STOCK. The Company will at all times reserve and keep available, solely for the issuance and delivery upon the exercise of this Warrant, such shares of Warrant Stock and other stock, securities and property, as from time to time shall be issuable upon the exercise of this Warrant.

8. EXCHANGE OF WARRANTS. Upon the surrender by the Registered Holder of any Warrant or Warrants, properly endorsed, to the Company at the principal office of the Company, the Company will, subject to the provisions of Section 3 hereof, issue and deliver to or upon the order of such Holder, at the Company's expense, a new Warrant or Warrants of like tenor, in the name of such Registered Holder or as such Registered Holder (upon payment by such Registered Holder of any applicable transfer taxes)

may direct, calling in the aggregate on the face or faces thereof for the number of shares of Common Stock called for on the face or faces of the Warrant or Warrants so surrendered.

9. **REPLACEMENT OF WARRANTS.** Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and (in the case of loss, theft or destruction) upon delivery of an indemnity agreement (with surety if reasonably required) in an amount reasonably satisfactory to the Company, or (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will issue, in lieu thereof, a new Warrant of like tenor.

10. **NOTICES.** Unless otherwise provided, any notice required or permitted under this Warrant shall be given in writing and shall be deemed effective (i) upon personal delivery to the party to be notified, (ii) by facsimile transmission (receipt confirmed) or (iii) otherwise delivered by hand or prepaid air express courier with regular service to the addressee, addressed to the party to be notified at the address of the Registered Holder on the records of or most recently furnished in writing to the Company, or in the case of the Company at 200 1st Avenue West, Suite 500, Seattle, Washington 98119, or at such other address as such party may designate by ten days' advance written notice to the other parties. Any notice required hereunder to be given to Britannia Holdings Limited shall also be copied to Chi-Doo Li, Esq., Ellis Li & McKinstry, 999 Third Avenue, Suite 3700, Seattle, Washington 98104-4006. Any notice required hereunder to be given to the Company shall also be copied to William A. Carleton, Esq., Cairncross & Hempelmann, P.S., 701 Fifth Avenue, Suite 7000, Seattle, Washington 98104-7016.

11. **NO RIGHTS AS SHAREHOLDER.** Until the exercise of this Warrant, the Registered Holder of this Warrant shall not have or exercise any rights by virtue hereof as a shareholder of the Company.

12. **NO FRACTIONAL SHARES.** No fractional shares of Common Stock will be issued in connection with any exercise hereunder. In lieu of any fractional shares which would otherwise be issuable, the Company shall round the number of shares of Common Stock to be issued to the nearest whole number of shares.

13. **MERGER, CONSOLIDATION OR OTHER REORGANIZATION.** In case of any merger, consolidation or other reorganization of the Company into or with any other corporation or other business entity, then each underlying share of Common Stock originally purchasable by exercise of this Warrant immediately prior to such merger, consolidation or other reorganization shall upon exercise of this Warrant be replaced for the purposes hereof by the stock or other securities issuable or distributable in respect of each share of stock of the Company upon such merger, consolidation or other reorganization.

14. **AMENDMENT OR WAIVER.** Any term of this Warrant may be amended or waived only by an instrument in writing signed by the party against which enforcement of the amendment or waiver is sought.

15. **HEADINGS.** The headings in this Warrant are for purposes of reference only and shall not limit or otherwise affect the meaning of any provision of this Warrant.

16. GOVERNING LAW. This Warrant shall be governed, construed and interpreted in accordance with the laws of the State of Washington, without giving effect to principles of conflicts of law.

**F5 LABS, INC.**

By

Jeffrey S. Hussey President and Chief Executive Officer

Address: \_\_\_\_\_

**STOCK PURCHASE WARRANT**  
**To Purchase Shares of Common Stock of**  
**F5 LABS, INC.**

THIS CERTIFIES that, for value received, Britannia Holdings Limited (the "Holder") is entitled, upon the terms and subject to the conditions hereinafter set forth, to subscribe for and purchase from F5 Labs, Inc., a Washington corporation (the "Company"), Fifty Thousand (50,000) shares (the "Shares") of the Company's common stock (the "Common Stock").

This Warrant is issued pursuant to that certain Promissory Note issued by the Company to the Holder as of March 21, 1997.

**1. EXERCISE PRICE**

The per-Share purchase price under this Warrant (the "Exercise Price") shall be the lesser of Two Dollars (\$2.00), or eighty percent (80%) of the price per share of Series B Preferred Stock hereafter issued by the Company.

**2. EXERCISE OF WARRANT**

The purchase rights represented by this Warrant are exercisable by the Holder, in whole or in part, at any time during a five-year period commencing on March 21, 1997, by the surrender of this Warrant and the Notice of Exercise form annexed hereto, and upon payment of the purchase price of the Shares thereby purchased (by cash or by check or bank draft payable to the order of the Company), whereupon the Holder shall be entitled to receive a certificate for the number of Shares so purchased.

**3. ACCEPTANCE OF WARRANT**

By accepting this Warrant and the Promissory Note referenced herein, the Holder acknowledges that the securities represented by these instrument have been acquired for investment and not with a view to, or in connection with, the sale or distribution thereof. No such sale or disposition may be effected without an effective registration statement related thereto or an opinion of counsel reasonably acceptable to the Company that such registration is not required under the Securities Act of 1933, as amended.

**4. ISSUANCE OF SHARES; NO FRACTIONAL SHARES OR SCRIP**

Certificates for shares of Common Stock purchased hereunder shall be delivered to the Holder within a reasonable time after the date on which this Warrant shall have been exercised in accordance with the terms hereof. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. With respect to any fraction of a share called for upon the exercise of this Warrant, an amount equal to such fraction multiplied by the then-current price at which each share may be purchased hereunder shall be paid in cash to the Holder.

## 5. CHARGES, TAXES AND EXPENSES

Issuance of certificates for shares of Common Stock upon the exercise of this Warrant shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder or in such name or names as may be directed by the Holder.

## 6. NO RIGHTS AS SHAREHOLDERS

This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise thereof.

## 7. REGISTRY OF WARRANT

The Company shall maintain at the above-mentioned office or agency a registry showing the name and address of the Holder of this Warrant. This Warrant may be surrendered for exchange, transfer or exercise, in accordance with its terms, at such office or agency of the Company, and the Company shall be entitled to rely in all respects, prior to written notice to the contrary, upon such registry.

## 8. LOSS, THEFT, DESTRUCTION OR MUTILATION OF WARRANT

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Warrant, if mutilated, the Company will make and deliver a new Warrant of like tenor and dated as of such cancellation, in lieu of this Warrant.

## 9. SATURDAYS, SUNDAYS, HOLIDAYS, ETC.

If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a legal holiday.

## 10. EARLY TERMINATION; RECLASSIFICATION

(a) MERGER, SALE OF ASSETS. If at any time the Company proposes to merge with or into any other corporation, effect a reorganization or sell or convey all or substantially all of its assets to any other entity in a transaction in which the shareholders of the Company immediately before the transaction own immediately after the transaction less than a majority of the outstanding voting securities of the surviving entity (or its parent), then: (i) the Company shall give the Holder thirty (30) days notice of the proposed effective date of such transaction; and (ii) if the Warrant has not been exercised by the effective date of such transaction it shall terminate.

(b) RECLASSIFICATION, ETC. If the Company at any time shall, by subdivision, combination or reclassification of securities or otherwise, change any of the securities to which purchase rights under this Warrant exist into the same or a different number of securities of any other class or classes, this Warrant shall thereafter be to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities which were subject to the purchase rights under this Warrant immediately prior to such subdivision, combination, reclassification or other change.

(c) AUTHORIZED SHARES. The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of shares of Common Stock upon the exercise of any purchase rights under this Warrant.

11. MISCELLANEOUS

This Warrant shall be binding upon any successors or assigns of the Company. This Warrant shall constitute a contract under the laws of the State of Washington and for all purposes shall be construed in accordance with and governed by the laws of said state.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed as of March 15, 1997.

**F5 LABS, INC.**

By /s/ Jeffrey S. Hussey  
-----  
Jeffrey S. Hussey, President

**ACCEPTED:**

**BRITANNIA HOLDINGS LIMITED**

By



## NOTICE OF EXERCISE

**TO: F5 LABS, INC.**

(1) The undersigned hereby elects to purchase \_\_\_\_ shares of Common Stock of F5 Labs, Inc. pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price in full, together with all applicable transfer taxes, if any.

(2) Please issue a certificate or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below.

---

(Name)

---

(Address)

(3) The undersigned represents that the aforesaid shares of Common Stock are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or reselling such shares.

---

(Date) (Signature)

**STOCK PURCHASE WARRANT  
TO PURCHASE SHARES OF COMMON STOCK OF  
F5 LABS, INC.**

THIS CERTIFIES that, for value received, Britannia Holdings Limited (the "Holder" is entitled, upon the terms and subject to the conditions hereinafter set forth, to subscribe for and purchase from F5 Labs, Inc., a Washington corporation (the "Company"), Three Hundred Thousand (300,000) shares (the "Shares") of the Company's common stock (the "Common Stock").

This Warrant is issued pursuant to that certain Promissory Note issued by the Company to the Holder as of August 5, 1997.

**1. EXERCISE PRICE**

The per-Share purchase price under this Warrant (the "Exercise Price") shall be One Dollar (\$1.00) per share.

**2. EXERCISE OF WARRANT**

The purchase rights represented by this Warrant are exercisable by the Holder, in whole or in part, at any time during a five-year period commencing on August 5, 1997, by the surrender of this Warrant and the Notice of Exercise form annexed hereto, and upon payment of the purchase price of the Shares thereby purchased (by cash or by check or bank draft payable to the order of the Company), whereupon the Holder shall be entitled to receive a certificate for the number of Shares so purchased.

**3. ACCEPTANCE OF WARRANT**

By accepting this Warrant and the Promissory Note referenced herein, the Holder acknowledges that the securities represented by these instrument have been acquired for investment and not with a view to, or in connection with, the sale or distribution thereof. No such sale or disposition may be effected without an effective registration statement related thereto or an opinion of counsel reasonably acceptable to the Company that such registration is not required under the Securities Act of 1933, as amended.

**4. ISSUANCE OF SHARES; NO FRACTIONAL SHARES OR SCRIP**

Certificates for shares of Common Stock purchased hereunder shall be delivered to the Holder within a reasonable time after the date on which this Warrant shall have been exercised in accordance with the terms hereof. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. With respect to any fraction of a share called for upon the exercise of this Warrant, an amount equal to such fraction multiplied by the then-current price at which each share may be purchased hereunder shall be paid in cash to the Holder.

## 5. CHARGES, TAXES AND EXPENSES

Issuance of certificates for shares of Common Stock upon the exercise of this Warrant shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder or in such name or names as may be directed by the Holder.

## 6. NO RIGHTS AS SHAREHOLDERS

This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise thereof.

## 7. REGISTRY OF WARRANT

The Company shall maintain at the above-mentioned office or agency a registry showing the name and address of the Holder of this Warrant. This Warrant may be surrendered for exchange, transfer or exercise, in accordance with its terms, at such office or agency of the Company, and the Company shall be entitled to rely in all respects, prior to written notice to the contrary, upon such registry.

## 8. LOSS, THEFT, DESTRUCTION OR MUTILATION OF WARRANT

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Warrant, if mutilated, the Company will make and deliver a new Warrant of like tenor and dated as of such cancellation, in lieu of this Warrant.

## 9. SATURDAYS, SUNDAYS, HOLIDAYS, ETC.

If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a legal holiday.

## 10. EARLY TERMINATION; RECLASSIFICATION

(a) MERGER, SALE OF ASSETS. If at any time the Company proposes to merge with or into any other corporation, effect a reorganization or sell or convey all or substantially all of its assets to any other entity in a transaction in which the shareholders of the Company immediately before the transaction own immediately after the transaction less than a majority of the outstanding voting securities of the surviving entity (or its parent), then: (i) the Company shall give the Holder thirty (30) days notice of the proposed effective date of such transaction; and (ii) if the Warrant has not been exercised by the effective date of such transaction it shall terminate.

(b) RECLASSIFICATION, ETC. If the Company at any time shall, by subdivision, combination or reclassification of securities or otherwise, change any of the securities to which purchase rights under this Warrant exist into the same or a different number of securities of any other class or classes, this Warrant shall thereafter be to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities which were subject to the purchase rights under this Warrant immediately prior to such subdivision, combination, reclassification or other change.

(c) AUTHORIZED SHARES. The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of shares of Common Stock upon the exercise of any purchase rights under this Warrant.

11. MISCELLANEOUS

This Warrant shall be binding upon any successors or assigns of the Company. This Warrant shall constitute a contract under the laws of the State of Washington and for all purposes shall be construed in accordance with and governed by the laws of said state.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed as of August 5, 1997.

**F5 LABS, INC.**

*By /s/ Jeffrey S. Hussey*  
-----  
*Jeffrey S. Hussey, President*

**ACCEPTED:**

**BRITANNIA HOLDINGS LIMITED**

By

## NOTICE OF EXERCISE

**TO: F5 LABS, INC.**

(1) The undersigned hereby elects to purchase \_\_\_\_\_ shares of Common Stock of F5 Labs, Inc. pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price in full, together with all applicable transfer taxes, if any.

(2) Please issue a certificate or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below.

---

(Name)

---

(Address)

(3) The undersigned represents that the aforesaid shares of Common Stock are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or reselling such shares.

---

(Date) (Signature)

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 ("SECURITIES ACT") OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

**WARRANT TO PURCHASE 12,500 SHARES  
OF COMMON STOCK OF  
F5 LABS, INC.**

(VOID AFTER THE EARLIER OF 2-25-2009 OR INITIAL REGISTRATION UNDER  
THE SECURITIES ACT.)

This certifies that PSINet Inc., a New York corporation (the "Holder") having a place of business at 510 Huntmar Park Drive, Herndon, VA, 20170, or its assigns, for value received, is entitled to purchase from F5 Labs, Inc., a Washington corporation (the "Company"), having a place of business at 200 First Avenue West, Suite 500, Seattle, WA 98119, a maximum of twelve thousand five hundred (12,500) fully paid and nonassessable shares of the Company's Common Stock ("Common Stock") for cash at a price of \$8.00 per share (the "Stock Purchase Price") at the earlier of (i) the time the Company files a registration statement covering the Common Stock under the Securities Act, or (ii) at any time or from time to time after December 31, 1999 up to and including 5:00 p.m. (Pacific time) November 1, 2008. This Warrant will expire on the earlier of such registration or November 1, 2008 ("Expiration Date"). In the event that the Expiration Date of this Warrant falls on a day which is not a Business Day, the Expiration Date shall be adjusted to the Business Day immediately following such Expiration Date. As used herein, the term "Business Day" means each day other than a Saturday, Sunday or other day on which banks in the location of the principal offices of the Company are legally authorized to close. This Warrant may be exercised upon surrender to the Company at its principal office (or at such other location as the Company may advise the Holder in writing) of this Warrant properly endorsed with the Form of Subscription attached hereto duly filled in and signed and, if applicable, upon payment in cash or by check of the aggregate Stock Purchase Price for the number of shares for which this Warrant is being exercised determined in accordance with the provisions hereof. The Stock Purchase Price and the number of shares purchasable hereunder are subject to adjustment as provided in Section 3 of this Warrant.

This Warrant is subject to the following terms and conditions:

**1. EXERCISE; ISSUANCE OF CERTIFICATES; PAYMENT FOR SHARES.**

1.1 GENERAL. This Warrant is exercisable at the option of the holder of record hereof, as described above, up to the Expiration Date for all or any part of the shares of Common Stock (but not for a fraction of a share) which may be purchased hereunder. The Company agrees that the shares of Common Stock purchased under this Warrant shall be and are deemed to be issued to the Holder hereof as the record owner of such shares as of the close of business on the date on which this Warrant shall have been surrendered, properly endorsed, the completed,

executed Subscription Form delivered and payment made for such shares. Certificates for the shares of Common Stock so purchased, together with any other securities or property to which the Holder hereof is entitled upon such exercise, shall be delivered to the Holder hereof by the Company at the Company's expense within a reasonable time after the rights represented by this Warrant have been so exercised. In case of a purchase of less than all the shares which may be purchased under this Warrant, the Company shall cancel this Warrant and execute and deliver a new Warrant or Warrants of like tenor for the balance of the shares purchasable under the Warrant surrendered upon such purchase to the Holder hereof within a reasonable time. Each stock certificate so delivered shall be in such denominations of Common Stock as may be requested by the Holder hereof and shall be registered in the name of such Holder.

1.2 NET ISSUE EXERCISE. Notwithstanding any provisions herein to the contrary, if the fair market value of one share of the Company's Common Stock is greater than the Stock Purchase Price (at the date of calculation as set forth below), in lieu of exercising this Warrant for cash, the Holder may elect to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being canceled) by surrender of this Warrant at the principal office of the Company together with the properly endorsed Form of Subscription and notice of such election in which event the Company shall issue to the Holder a number of shares of Common Stock computed using the following formula:

$$X = Y(A-B)$$

A

Where	X=	the number of shares of Common Stock to be issued to the Holder
	Y=	the number of shares of Common Stock purchasable under the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being canceled (at the date of such calculation)
	A=	the fair market value of one share of the Company's Common Stock (at the date of such calculation)
	B=	Stock Purchase Price (as adjusted to the date of such calculation)

2. For purposes of the above calculation, the fair market value of one share of Common Stock shall be determined by the Company's Board of Directors in good faith; provided, however, that in the event the Common Stock is traded on a securities exchange or the Nasdaq National Market System, the value shall be deemed to be the average of the closing sale prices for the Common Stock over the 5-day period ending one (1) days prior to the proposed effective date for the net issue exercise described above. **SHARES TO BE FULLY PAID; RESERVATION OF SHARES.** The Company covenants and agrees that all shares of Common Stock which may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be duly authorized, validly issued, fully paid and nonassessable and free from all preemptive rights of

any stockholder and free of all taxes, liens and charges with respect to the issue thereof. The Company further covenants and agrees that, during the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized and reserved, for the purpose of issue or transfer upon exercise of the subscription rights evidenced by this Warrant, a sufficient number of shares of authorized but unissued Common Stock, or other securities and property, when and as required to provide for the exercise of the rights represented by this Warrant. The Company will take all such action as may be necessary to assure that such shares of Common Stock may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of any domestic securities exchange upon which the Common Stock may be listed; provided, however, that the Company shall not be required to effect a registration under Federal or State securities laws with respect to such exercise. The Company will not take any action which would result in any adjustment of the Stock Purchase Price (as set forth in Section 3 hereof) if the total number of shares of Common Stock issuable after such action upon exercise of all outstanding warrants, together with all shares of Common Stock then outstanding and all shares of Common Stock then issuable upon exercise of all options and upon the conversion of all convertible securities then outstanding, would exceed the total number of shares of Common Stock then authorized by the Company's Articles of Incorporation, as amended. The Company agrees that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for shares of Common Stock upon the exercise of this Warrant.

**3. ADJUSTMENT OF STOCK PURCHASE PRICE AND NUMBER OF SHARES.** The Stock Purchase Price and the number of shares purchasable upon the exercise of this Warrant shall be subject to adjustment from time to time upon the occurrence of certain events described in this Section 3. Upon each adjustment of the Stock Purchase Price, the Holder of this Warrant shall thereafter be entitled to purchase, at the Stock Purchase Price resulting from such adjustment, the number of shares obtained by multiplying the Stock Purchase Price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment, and dividing the product thereof by the Stock Purchase Price resulting from such adjustment.

**3.1 SUBDIVISION OR COMBINATION OF STOCK.** In case the Company shall at any time subdivide its outstanding shares of Common Stock into a greater number of shares, the Stock Purchase Price in effect immediately prior to such subdivision shall be proportionately reduced, and conversely, in case the outstanding shares of Common Stock of the Company shall be combined into a smaller number of shares, the Stock Purchase Price in effect immediately prior to such combination shall be proportionately increased.

**3.2 DIVIDENDS IN COMMON STOCK, OTHER STOCK, PROPERTY, RECLASSIFICATION.** If at any time or from time to time the Holders of Common Stock (or any shares of stock or other securities at the time receivable upon the exercise of this Warrant) shall have received or become entitled to receive, without payment therefor:



(A) Common Stock or any shares of stock or other securities which are at any time directly or indirectly convertible into or exchangeable for Common Stock, or any rights or options to subscribe for, purchase or otherwise acquire any of the foregoing by way of dividend or other distribution;

(B) any cash paid or payable otherwise than as a cash dividend; or

(C) Common Stock or additional stock or other securities or property (including cash) by way of spin-off, split-up, reclassification, combination of shares or similar corporate rearrangement (other than shares of Common Stock issued as a stock split or adjustments in respect of which shall be covered by the terms of Section 3.1 above), then and in each such case, the Holder hereof shall, upon the exercise of this Warrant, be entitled to receive, in addition to the number of shares of Common Stock receivable thereupon, and without payment of any additional consideration therefor, the amount of stock and other securities and property (including cash in the cases referred to in clause (b) above and this clause (c)) which the Holder would hold on the date of such exercise had the Holder been the holder of record of such Common Stock as of the date on which holders of Common Stock received or became entitled to receive such shares or all other additional stock and other securities and property.

**3.3 REORGANIZATION, RECLASSIFICATION, CONSOLIDATION, MERGER OR SALE.** If any recapitalization, reclassification or reorganization of the capital stock of the Company, or any consolidation or merger of the Company with another corporation, or the sale of all or substantially all of its assets or other transaction shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities, or other assets or property (a "Change"), then lawful and adequate provisions shall be made by the Company whereby the Holder hereof shall, until the consummation of such Change, provided adequate notice thereof is given as provided below, have the right to elect to purchase and receive (in lieu of the shares of the Common Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby) such shares of stock, securities or other assets or property as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby. Unless exercised prior to such Change, provided adequate notice thereof is given as provided below, this Warrant will expire.

**3.4 NEW ISSUANCE OR SALE.** If the Company shall issue or sell any shares of Common Stock, excluding any stock issued under any employee stock option or other compensation plan, for a consideration per share less than the Stock Purchase Price in effect at such date, as specified herein, or without consideration, such Stock Purchase Price shall forthwith be reduced to a price determined by dividing:

(A) an amount equal to (i) the number of shares of Common Stock outstanding immediately prior to such issuance or sale multiplied by the Stock Purchase Price, plus, (ii) the consideration, if any, received by the Company upon such issuance or sale, by

(B) the number of shares of Common Stock outstanding immediately after such issuance or sale.

Upon each such subsequent issue and sale of shares of Common Stock of the Company for a consideration per share less than the Stock Purchase Price then in effect as so adjusted, or without consideration, the Stock Purchase Price as so adjusted shall be forthwith reduced in the same manner as specified above.

**3.5 OTHER EVENTS.** If any event occurs as to which, in the opinion of the Board of Directors of the Company, the other provisions of this Section 3 are not strictly applicable or if strictly applicable, would not adequately protect from dilution the exercise rights of the Holder in accordance with the intent and principles of such provision, then the Board of Directors of the Company shall make an equitable adjustment in the application of such provisions, so as to protect the exercise rights as aforesaid, but in no event shall such adjustment have the effect of overriding the Stock Purchase Price.

#### **NOTICES OF ADJUSTMENT.**

(A) Immediately upon any adjustment in the number or class of shares subject to this Warrant and of the Stock Purchase Price, the Company shall give written notice thereof to the Holder, setting forth in reasonable detail and certifying the calculation of such adjustment.

(B) The Company shall give written notice to the Holder at least 10 business days prior to the date on which the Company closes its books or takes a record for determining rights to receive any dividends or distributions. (C) The Company shall also give written notice to the Holder at least 30 business days prior to the date on which a Change shall take place. **4. ISSUE TAX.** The issuance of certificates for shares of Common Stock upon the exercise of the Warrant shall be made without charge to the Holder of the Warrant for any issue tax (other than any applicable income taxes) in respect thereof; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the then Holder of the Warrant being exercised.

**5. CLOSING OF BOOKS.** The Company will at no time close its transfer books against the transfer of any warrant or of any shares of Common Stock issued or issuable upon the exercise of any warrant in any manner which interferes with the timely exercise of this Warrant.

**6. NO VOTING OR DIVIDEND RIGHTS; LIMITATION OF LIABILITY.** Subject to Article 3 of this Warrant, nothing contained in this Warrant shall be construed as conferring upon the Holder hereof the right to vote or to consent or to receive notice as a stockholder of the Company or any other matters or any rights whatsoever as a stockholder of the Company. No dividends or interest shall be payable or accrued in respect of this Warrant or the interest

represented hereby or the shares purchasable hereunder until, and only to the extent that, this Warrant shall have been exercised. No provisions hereof, in the absence of affirmative action by the holder to purchase shares of Common Stock, and no mere enumeration herein of the rights or privileges of the holder hereof, shall give rise to any liability of such Holder for the Stock Purchase Price or as a stockholder of the Company, whether such liability is asserted by the Company or by its creditors.

7. **WARRANTS TRANSFERABLE.** Subject to compliance with applicable federal and state securities laws, this Warrant and all rights hereunder are transferable, in whole or in part, without charge to the holder hereof (except for transfer taxes), only with the prior written consent of the Company, provided that no such consent is required after the Company has filed a registration statement under the Securities Act and such registration statement has become effective. Subject to the foregoing, each taker and holder of this Warrant, by taking or holding the same, consents and agrees that this Warrant, when endorsed in blank, shall be deemed negotiable, and that the holder hereof, when this Warrant shall have been so endorsed, may be treated by the Company, at the Company's option, and all other persons dealing with this Warrant, as the absolute owner hereof for any purpose and as the person entitled to exercise the rights represented by this Warrant.

8. **RIGHTS AND OBLIGATIONS SURVIVE EXERCISE OF WARRANT.** The rights and obligations of the Company, of the holder of this Warrant and of the holder of shares of Common Stock issued upon exercise of this Warrant shall survive the exercise of this Warrant.

9. **MODIFICATION AND WAIVER.** This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of the same is sought.

10. **NOTICES.** Any notice, request or other document required or permitted to be given or delivered to the holder hereof or the Company shall be delivered personally, by confirmed facsimile or shall be sent by certified mail, postage prepaid, to each such holder at its address as shown on the books of the Company or to the Company at the address indicated therefor in the first paragraph of this Warrant or such other address as either may from time to time provide to the other.

11. **BINDING EFFECT ON SUCCESSORS.** All of the obligations of the Company relating to the Common Stock issuable upon the exercise of this Warrant shall survive the exercise and termination of this Warrant. All of the covenants and agreements of the Company shall inure to the benefit of the successors and assigns of the holder hereof.

12. **DESCRIPTIVE HEADINGS AND GOVERNING LAW.** The descriptive headings of the several sections and paragraphs of this Warrant are inserted for convenience only and do not constitute a part of this Warrant. This Warrant shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of Washington, without regard to conflicts of laws principles.

13. **LOST WARRANTS.** The Company represents and warrants to the Holder hereof that upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft or destruction, upon receipt of an indemnity reasonably satisfactory to the Company, or in the case of any such mutilation upon surrender and cancellation of such Warrant, the Company, at its expense, will make and deliver a new Warrant, of like tenor and amount, in lieu of the lost, stolen, destroyed or mutilated Warrant.

14. **FRACTIONAL SHARES.** No fractional shares shall be issued upon exercise of this Warrant. The Company shall, in lieu of issuing any fractional share, pay the holder entitled to such fraction a sum in cash equal to such fraction multiplied by the then effective Stock Purchase Price.

15. **REPRESENTATIONS AND WARRANTIES OF THE HOLDER.**

15.1 **PURCHASE FOR OWN ACCOUNT.** The Holder represents that it is acquiring this Warrant and the Common Stock issuable upon conversion of the Warrant (collectively, the "Securities") solely for its own account and beneficial interest for investment and not for sale or with a view to distribution of the Securities or any part thereof, has no present intention of selling (in connection with a distribution or otherwise), granting any participation in, or otherwise distributing the same, and does not presently have reason to anticipate a change in such intention. The foregoing shall in no way prejudice the Holder's rights at all times to sell or otherwise dispose of all or any part of such securities under a registration under the Securities Act or an exemption from such registration.

15.2 **INFORMATION AND SOPHISTICATION.** The Holder acknowledges that it has received all the information it has requested from the Company and considers necessary or appropriate for deciding whether to acquire the Warrant. The Holder represents that it has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Warrant and to obtain any additional information necessary to verify the accuracy of the information given the Holder. The Holder further represents that it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risk of this investment.

15.3 **ABILITY TO BEAR ECONOMIC RISK.** The Holder acknowledges that investment in the Warrant involves a high degree of risk, and represents that it is able, without materially impairing its financial condition, to hold the Securities for an indefinite period of time and to suffer a complete loss of its investment.

15.4 **FURTHER LIMITATIONS ON DISPOSITION.** The Holder has been informed that under the Securities Act, the Securities must be held indefinitely unless they are subsequently registered under the Securities Act or unless an exemption from such registration (such as Rule 144) is available with respect to any proposed transfer or disposition by the Holder of the Securities. The Holder further agrees that the Company may refuse to permit the Holder to sell, transfer or dispose of the Securities (except as permitted under Rule 144) unless there is in effect

a registration statement under the Securities Act and any applicable state securities laws covering such transfer, or unless the Holder furnishes an opinion of counsel reasonably satisfactory to counsel for the Company, to the effect that such registration is not required.

**15.5 LIMITATION ON DISPOSITION POST REGISTRATION.** The Holder acknowledges and agrees that the Company (or a representative of the underwriters) may, in connection with the Company's registration of any securities of the Company under the Securities Act, require that the Holder not sell, dispose of, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, any shares of Common Stock or other securities of the Company held by the Holder, for a period of time specified by the underwriter(s) (not to exceed one hundred eighty (180) days) following the effective date of the registration statement of the Company filed under the Securities Act. The Holder further agrees to execute and deliver such other agreements as may be reasonably requested by the Company and/or the underwriter(s) which are consistent with the foregoing or which are necessary to give further effect thereto. In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the Holder's Common Stock until the end of such period.

**15.6 EXPERIENCE.** The Holder is an "accredited investor" as such term is defined in Rule 501 under the Securities Act.

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by its officers, thereunto duly authorized this 25th day of February , 1999.

**F5 LABS, INC.**

*By: /s/ Jeffrey Hussey  
Jeffrey Hussey*

*Title: CEO*

**ACKNOWLEDGED AND AGREED:**

**PSINET, INC.**

*By: /s/ Michael Mael  
-----  
Title: V.P. Web Services  
-----*

**EXHIBIT A**

**SUBSCRIPTION FORM**

Date: \_\_\_\_\_, \_\_\_\_\_

F5 Labs, Inc.  
200 First Avenue West  
Suite 500  
Seattle, WA 98119  
Attn: Brian Dixon

Ladies and Gentlemen:

// The undersigned hereby elects to exercise the warrant issued to it by F5 Labs, Inc. (the "Company") and dated November 1, 1998, Warrant No. CS-\_\_\_\_ (the "Warrant") and to purchase thereunder \_\_\_\_\_ shares of the Common Stock of the Company (the "Shares") at a purchase price of \_\_\_\_\_ Dollars (\$\_\_\_\_) per Share (the "Purchase Price").

// The undersigned hereby elects to convert \_\_\_\_\_ percent (\_\_\_\_%) of the value of the Warrant pursuant to the provisions of Section 1.2 of the Warrant.

Please issue a new Warrant for the unexercised portion of the attached Warrant in the name of the undersigned or in such other name as is specified below.

(Name)

Pursuant to the terms of the Warrant, the undersigned has delivered the Purchase Price herewith in full in cash or by certified check or wire transfer. The undersigned also makes the representations set forth on the attached Exhibit B of the Warrant.

Very truly yours,

**PSINet Inc.**

By:

Title:

## EXHIBIT B

### INVESTMENT REPRESENTATION

THIS AGREEMENT MUST BE COMPLETED, SIGNED AND RETURNED TO F5 LABS, INC. ALONG WITH THE SUBSCRIPTION FORM BEFORE THE COMMON STOCK ISSUABLE UPON EXERCISE OF THE WARRANT DATED NOVEMBER 1, 1998, WILL BE ISSUED.

, 19  
F5 Labs, Inc.  
200 First Avenue West  
Suite 500  
Seattle, WA 98119  
Attn: Brian Dixon

Ladies and Gentlemen:

The undersigned, PSINet Inc. or its assigns (the "Purchaser"), intends to acquire up to \_\_\_\_\_ (\_\_\_\_\_) shares of the Common Stock (the "Common Stock") of F5 Labs, Inc. (the "Company") from the Company pursuant to the exercise or conversion of certain Warrants to purchase Common Stock held by Purchaser. The Common Stock will be issued to Purchaser in a transaction not involving a public offering and pursuant to an exemption from registration under the Securities Act of 1933, as amended (the "1933 Act") and applicable state securities laws. In connection with such purchase and in order to comply with the exemptions from registration relied upon by the Company, Purchaser represents, warrants and agrees as follows:

Purchaser is acquiring the Common Stock for its own account, to hold for investment, and Purchaser shall not make any sale, transfer or other disposition of the Common Stock in violation of the 1933 Act or the General Rules and Regulations promulgated thereunder by the Securities and Exchange Commission (the "SEC") or in violation of any applicable state securities law. The foregoing shall in no way prejudice the Holder's rights at all times to sell or otherwise dispose of all or any part of such securities under a registration under the Securities Act or an exemption from such registration.

Purchaser has been advised that the Common Stock has not been registered under the 1933 Act or state securities laws on the ground that this transaction is exempt from registration, and that reliance by the Company on such exemptions is predicated in part on Purchaser's representations set forth in this letter.

Purchaser has been informed that under the 1933 Act, the Common Stock must be held indefinitely unless it is subsequently registered under the 1933 Act or unless an exemption from such registration (such as Rule 144) is available with respect to any proposed transfer or disposition by Purchaser of the Common Stock. Purchaser further agrees that the Company may refuse to permit Purchaser to sell, transfer or dispose of the Common Stock (except as permitted under Rule

144) unless there is in effect a registration statement under the 1933 Act and any applicable state securities laws covering such transfer, or unless Purchaser furnishes an opinion of counsel reasonably satisfactory to counsel for the Company, to the effect that such registration is not required.

Purchaser also understands and agrees that there will be placed on the certificate(s) for the Common Stock, or any substitutions therefor, a legend stating in substance:

"The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws. These shares have been acquired for investment purposes only and may not be sold or otherwise transferred in the absence of an effective registration statement for these shares under the Securities Act and applicable state securities laws, or an opinion of counsel satisfactory to the Company that registration is not required and that an applicable exemption is available."

Purchaser has carefully read this letter and has discussed its requirements and other applicable limitations upon Purchaser's resale of the Common Stock with Purchaser's counsel.

Very truly yours,

**PSINet Inc.**

By:

Title:



## **Amendment to PSINet Inc. Warrant**

This Amendment to PSINet Inc. Warrant ("Amendment") by and between F5 Networks, Inc., (formerly F5 Labs, Inc.) a Washington corporation, ("F5") and PSINet Inc., a New York corporation, ("PSI") is effective as of March 1, 1999. This Amendment amends the terms of that certain Warrant dated February 25, 1999 to purchase 12,500 shares of F5 common stock that was granted by F5 to PSI ("Warrant").

F5 and PSI agree that the term "Expiration Date" as used in the Warrant will be amended to mean the earlier of the date that is two years from the effective date of F5's initial registration under the Securities Act or February 25, 2009. All other terms and conditions of the Warrant will remain in full force and effect.

### **Acknowledged and Agreed:**

#### **F5 Networks, Inc.**

By:     /s/   Robert Chamberlain  
-----  
      Robert Chamberlain  
      Vice President of Finance and  
      Chief Financial Officer

#### **PSINet Inc.**

By: /s/ Kathleen B. Horne  
-----  
      Kathleen B. Horne  
      Vice President and  
      Deputy General Counsel

**F5 LABS, INC.**

**INVESTOR RIGHTS AGREEMENT**

**F5 LABS, INC.**

**INVESTOR RIGHTS AGREEMENT**

THIS INVESTOR RIGHTS AGREEMENT (the "Agreement") is entered into as of the 21st day of August, 1998 by and among F5 LABS, INC., a Washington corporation (the "Company"), the holders of the Company's Series A Stock, Series B Stock and Series C Stock (with respect to Section 2 only) and the purchasers of the Series D Stock, all as set forth on Exhibit A hereto. The holders of the Series A, B and C Stock shall be referred to hereinafter as the "Prior Shareholders" and each individually as a "Prior Shareholder." The purchasers of the Series D Stock shall be referred to hereinafter as the "Investors" and each individually as an "Investor."

**RECITALS**

WHEREAS, the Company has issued Series A Stock, Series B Stock, Series C Stock and Warrants to purchase Common Stock and has granted registration rights to the holders thereof pursuant to (i) Section 6 of the Series A Preferred Stock Purchase Agreement (the "Series A Agreement"), dated April 11, 1996, (ii) Section 5 of the Series B Stock Purchase Agreement (the "Series B Agreement"), dated August, 1997, (iii) Section 5 of the Series B Preferred Stock and Common Stock Warrant Purchase Agreement (the "Series B and Warrant Agreement"), dated October 27, 1997, and (iv) Section 5 of the Series C Preferred Stock and Common Stock Warrant Purchase Agreement (the "Series C Agreement"), dated April 15, 1998, (collectively, the "Prior Agreements");

WHEREAS, the Company and the undersigned holders of Series A Stock, Series B Stock, Series C Stock and Warrants to purchase Common Stock desire to terminate the registration rights under the Prior Agreements and to accept the rights created pursuant hereto in lieu of such rights under the Prior Agreements;

WHEREAS, the Company proposes to sell and issue up to 1,138,438 shares of its Series D Stock pursuant to the Series D Preferred Stock Purchase Agreement (the "Purchase Agreement"); and

WHEREAS, as a condition of entering into the Purchase Agreement, the Investors have requested that the Prior Shareholders terminate their registration rights under the Prior Agreements and become parties to this Agreement and that the Company extend to the Investors registration rights, information rights and other rights as set forth below.

NOW, THEREFORE, in consideration of the mutual promises, representations, warranties, covenants and conditions set forth in this Agreement and in the Purchase Agreement, the parties mutually agree as follows:

1.

## SECTION 1. GENERAL

1.1 DEFINITIONS. As used in this Agreement the following terms shall have the following respective meanings:

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

"FORM S-3" means such form under the Securities Act as in effect on the date hereof or any successor registration form under the Securities Act subsequently adopted by the SEC which permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

"HOLDER" means any person owning of record Registrable Securities that have not been sold to the public or any assignee of record of such Registrable Securities in accordance with Section 2.10 hereof.

"INITIAL OFFERING" means the Company's first firm commitment underwritten public offering of its Common Stock registered under the Securities Act prior to or in connection with which all outstanding shares of the Series D Preferred Stock are converted to Common Stock.

"REGISTER," "REGISTERED," and "REGISTRATION" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of effectiveness of such registration statement or document.

"REGISTRABLE SECURITIES" means (a) any shares of Common Stock of the Company issued or issuable upon conversion of the Shares, (b) any Common Stock issued upon exercise of the Warrants, and (c) any shares of Common Stock of the Company issued as (or issuable upon the conversion or exercise of any warrant, right or other security which is issued as) by way of dividend, distribution, exchange, replacement or otherwise with respect to such above described securities. Notwithstanding the foregoing, Registrable Securities shall not include any securities sold by a person to the public either pursuant to a registration statement or Rule 144 or sold in a private transaction in which the transferor's rights under Section 2 of this Agreement are not assigned.

"REGISTRABLE SECURITIES THEN OUTSTANDING" shall be the number of shares determined by calculating the total number of shares of the Company's Common Stock that are Registrable Securities and either (a) are then issued and outstanding or (b) are issuable pursuant to then exercisable or convertible securities.

"REGISTRATION EXPENSES" shall mean all expenses incurred by the Company in complying with Sections 2.2, 2.3, 2.4 and 2.5 hereof, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for the Company, reasonable fees and disbursements not to exceed fifteen thousand dollars (\$15,000) of a single special counsel for the Holders, blue sky fees and expenses and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of the Company which shall be paid in any event by the Company).

"SEC" or "COMMISSION" means the Securities and Exchange Commission.

"SECURITIES ACT" shall mean the Securities Act of 1933, as amended.

"SELLING EXPENSES" shall mean all underwriting discounts and selling commissions applicable to the sale.

"SERIES A STOCK" shall mean the Company's Series A Preferred Stock, no par value.

"SERIES B STOCK" shall mean the Company's Series B Preferred Stock, no par value.

"SERIES C STOCK" shall mean the Company's Series C Preferred Stock, no par value.

"SERIES D STOCK" shall mean the Company's Series D Preferred Stock, no par value.

"SHARES" shall mean the Series A Stock, Series B Stock, Series C Stock, Series D Stock held by the Investors and Prior Shareholders as of the date hereof or subsequently acquired by the Investors or Prior Shareholders and held by the Investors and Prior Shareholders listed on Exhibit A hereto and their permitted assigns.

"WARRANTS" shall mean (i) the warrants issued to the holders of the Series C Preferred Stock to purchase up to 93,750 shares of Common Stock, (ii) the outstanding warrants issued to the holders of the Series B Stock to purchase 562,500 shares of Common Stock, (iii) the outstanding warrants issued to Britannia Holdings, Ltd. to purchase an aggregate 537,500 shares of Common Stock, and (iv) an outstanding warrant issued to Alexander Hutton Capital, L.L.C. to purchase 120,000 shares of Common Stock.

## SECTION 2. REGISTRATION; RESTRICTIONS ON TRANSFER

### 2.1 RESTRICTIONS ON TRANSFER.

(a) Each Holder agrees not to make any disposition of all or any portion of the Shares or Registrable Securities unless and until:

(i) There is then in effect a registration statement under the Securities Act covering such proposed disposition and such disposition is made in accordance with such registration statement; or

(ii) (A) The transferee has agreed in writing to be bound by the terms of this Agreement, (B) such Holder shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and (C) if reasonably requested by the Company, such Holder shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of such shares under the

Securities Act. It is agreed that the Company will not require opinions of counsel for transactions made pursuant to Rule 144 except in unusual circumstances.

(iii) Notwithstanding the provisions of paragraphs (i) and

(ii) above, no such registration statement or opinion of counsel shall be necessary for a transfer by a Holder which is (A) a partnership to its partners or former partners in accordance with partnership interests, (B) a limited liability company to its members or former members in accordance with their interest in the limited liability company, or (C) to the Holder's family member or trust for the benefit of an individual Holder, or (D) any transferee who acquires at least 50,000 of Registrable Securities; PROVIDED that in each case the transferee will be subject to the terms of this Agreement to the same extent as if he were an original Holder hereunder.

(b) Each certificate representing Shares or Registrable Securities shall (unless otherwise permitted by the provisions of the Agreement) be stamped or otherwise imprinted with a legend substantially similar to the following (in addition to any legend required under applicable state securities laws):

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED.

(c) The Company shall be obligated to reissue promptly unlegended certificates at the request of any holder thereof if the holder shall have obtained an opinion of counsel (which counsel may be counsel to the Company) reasonably acceptable to the Company to the effect that the securities proposed to be disposed of may lawfully be so disposed of without registration, qualification or legend.

(d) Any legend endorsed on an instrument pursuant to applicable state securities laws and the stop-transfer instructions with respect to such securities shall be removed upon receipt by the Company of an order of the appropriate blue sky authority authorizing such removal.

## 2.2 DEMAND REGISTRATION.

(a) Subject to the conditions of this Section 2.2, if the Company shall receive a written request from the Holders of a majority of the Registrable Securities then outstanding (the "Initiating Holders") that the Company file a registration statement under the Securities Act covering the registration of Registrable Securities then outstanding such that the anticipated aggregate offering price, net of underwriting discounts and commissions, would exceed \$5,000,000 (a "Qualified Public Offering"), then the Company shall, within thirty (30) days of the receipt thereof, give written notice of such request to all Holders, and subject to the

limitations of this Section 2.2, use its best efforts to effect, as soon as practicable, the registration under the Securities Act of all Registrable Securities that the Holders request to be registered.

(b) If the Initiating Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to this Section 2.2 or any request pursuant to Section 2.4 and the Company shall include such information in the written notice referred to in Section 2.2(a) or Section 2.4(a), as applicable. In such event, the right of any Holder to include its Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by a majority in interest of the Initiating Holders (which underwriter or underwriters shall be reasonably acceptable to the Company). Notwithstanding any other provision of this Section 2.2 or Section 2.4, if the underwriter advises the Company that marketing factors require a limitation of the number of securities to be underwritten (including Registrable Securities) then the Company shall so advise all Holders of Registrable Securities which would otherwise be underwritten pursuant hereto, and the number of shares that may be included in the underwriting shall be allocated, first, to the Holders of Series D Stock on a pro rata basis based on the total number of Registrable Securities held by all such Holders of Series D Stock and, second, to all other Holders of Registrable Securities on a pro rata basis based on the total number of Registrable Securities held by all such Holders. Any Registrable Securities excluded or withdrawn from such underwriting shall be withdrawn from the registration.

(c) The Company shall not be required to effect a registration pursuant to this Section 2.2:

(i) prior to the later of (A) the third anniversary of the date of this Agreement and (B) one hundred eighty (180) days following the effective date of the registration statement pertaining to the Initial Offering;

(ii) after the Company has effected two (2) registrations pursuant to this Section 2.2, and such registrations have been declared or ordered effective;

(iii) during the period starting 30 days prior to the date of filing of, and ending on the date one hundred eighty (180) days following the effective date of the registration statement pertaining to a public offering of securities by the Company; PROVIDED that the Company makes reasonable good faith efforts to cause such registration statement to become effective;

(iv) if the Company shall furnish to Holders requesting a registration statement pursuant to this Section 2.2, a certificate signed by the Chairman of the Board stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its shareholders for such registration statement to be effected at such time, in which event the Company shall have the right to defer such filing for a period of not more than ninety (90) days after receipt of the request of the Initiating Holders; PROVIDED that

such right to delay a request shall be exercised by the Company not more than once in any twelve (12) month period; or

(v) if the Initiating Holders propose to dispose of shares of Registrable Securities that may be immediately registered on Form S-3 pursuant to a request made pursuant to Section 2.4 below.

**2.3 PIGGYBACK REGISTRATIONS.** The Company shall notify all Holders of Registrable Securities in writing at least fifteen (15) days prior to the filing of any registration statement under the Securities Act for purposes of a public offering of securities of the Company (including a registration statement filed pursuant to Section 2.2 or 2.4 of this Agreement and including, but not limited to, registration statements relating to secondary offerings of securities of the Company, but excluding registration statements relating to employee benefit plans or with respect to corporate reorganizations or other transactions under Rule 145 of the Securities Act) and will afford each such Holder an opportunity to include in such registration statement all or part of such Registrable Securities held by such Holder. Each Holder desiring to include in any such registration statement all or any part of the Registrable Securities held by it shall, within fifteen (15) days after the above-described notice from the Company, so notify the Company in writing. Such notice shall state the intended method of disposition of the Registrable Securities by such Holder. If a Holder decides not to include all of its Registrable Securities in any registration statement thereafter filed by the Company, such Holder shall nevertheless continue to have the right to include any Registrable Securities in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth herein.

(a) **UNDERWRITING.** If the registration statement under which the Company gives notice under this Section 2.3 is for an underwritten offering, the Company shall so advise the Holders of Registrable Securities. In such event, the right of any such Holder to be included in a registration pursuant to this Section 2.3 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their Registrable Securities through such underwriting shall enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company. Notwithstanding any other provision of the Agreement, if the underwriter determines in good faith that marketing factors require a limitation of the number of shares to be underwritten, the number of shares that may be included in the underwriting shall be allocated, first, to the Company; second, to the Holders on a PRO RATA basis based on the total number of Registrable Securities held by the Holders; and third, to any shareholder of the Company (other than a Holder) on a PRO RATA basis. No such reduction shall (i) reduce the securities being offered by the Company for its own account to be included in the registration and underwriting, or (ii) reduce the amount of securities of the selling Holders included in the registration below twenty-five percent (25%) of the total amount of securities included in such registration, unless such offering is the Initial Offering, in which event any or all of the Registrable Securities of the Holders may be excluded in accordance with the immediately preceding sentence. In no event will shares of any other selling shareholder be included in such registration which would reduce the number of shares which may be included by Holders without the written consent of Holders of not less than a majority of the Registrable Securities proposed to be sold in the offering. If any



Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the underwriter, delivered at least ten (10) business days prior to the effective date of the registration statement. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration. For any Holder which is a partnership or corporation, the partners, retired partners and shareholders of such Holder, or the estates and family members of any such partners and retired partners and any trusts for the benefit of any of the foregoing person shall be deemed to be a single "Holder", and any PRO RATA reduction with respect to such "Holder" shall be based upon the aggregate amount of shares carrying registration rights owned by all entities and individuals included in such "Holder," as defined in this sentence.

(b) **RIGHT TO TERMINATE REGISTRATION.** The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 2.3 prior to the effectiveness of such registration whether or not any Holder has elected to include securities in such registration. The Registration Expenses of such withdrawn registration shall be borne by the Company in accordance with Section 2.5 hereof.

**2.4 FORM S-3 REGISTRATION.** In case the Company shall receive from any Holder or Holders of Series D Stock a written request or requests that the Company effect a registration on Form S-3 (or any successor to Form S-3) or any similar short-form registration statement and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder or Holders of Series D Stock, the Company will:

(a) promptly give written notice of the proposed registration, and any related qualification or compliance, to all other Holders of Series D Stock; and

(b) as soon as practicable, effect such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holder's or Holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holder or Holders of Series D Stock joining in such request as are specified in a written request given within fifteen (15) days after receipt of such written notice from the Company pursuant to Section 2.3 hereof; PROVIDED, HOWEVER, that the Company shall not be obligated to effect any such registration, qualification or compliance pursuant to this Section 2.4:

(i) if Form S-3 (or any successor or similar form) is not available for such offering by the Holders, or

(ii) if the Holders, together with the holders of any other securities of the Company entitled to inclusion in such registration, propose to sell Registrable Securities and such other securities (if any) at an aggregate price to the public of less than two million dollars (\$2,000,000), or

(iii) if the Company shall furnish to the Holders a certificate signed by the Chairman of the Board of Directors of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its shareholders for such Form S-3 registration to be effected at such time, in which event the

Company shall have the right to defer the filing of the Form S-3 registration statement for a period of not more than ninety (90) days after receipt of the request of the Holder or Holders under this Section 2.4; PROVIDED, that such right to delay a request shall be exercised by the Company not more than once in any twelve (12) month period, or

(iv) during the period starting 30 days prior to the date of filing of, and ending on the date one hundred eighty (180) days following the effective date of the registration statement pertaining to a public offering of securities by the Company; provided that the Company makes reasonable good faith efforts to cause such registration statement to become effective, or

(v) if the Company has already effected two (2) registrations on Form S-3 for the Holders pursuant to this Section 2.4, or

(vi) in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.

(c) Subject to the foregoing, the Company shall file a Form S-3 registration statement covering the Registrable Securities and other securities so requested to be registered as soon as practicable after receipt of the request or requests of the Holders. Registrations effected pursuant to this Section 2.4 shall not be counted as demands for registration or registrations effected pursuant to Sections 2.2 or 2.3, respectively.

**2.5 EXPENSES OF REGISTRATION.** Except as specifically provided herein, all Registration Expenses incurred in connection with any registration, qualification or compliance pursuant to Section 2.2 or any registration under Section 2.3 or Section 2.4 herein shall be borne by the Company. All Selling Expenses incurred in connection with any registrations hereunder, shall be borne by the holders of the securities so registered PRO RATA on the basis of the number of shares so registered. The Company shall reimburse the reasonable itemized fees of and expenses of one special counsel of the selling Holders; PROVIDED, HOWEVER that such reasonable itemized fees and expenses shall not exceed \$15,000. The Company shall not, however, be required to pay for expenses of any registration proceeding begun pursuant to Section 2.2 or 2.4, the request of which has been subsequently withdrawn by the Initiating Holders unless (a) the withdrawal is based upon material adverse information concerning the Company of which the Initiating Holders were not aware at the time of such request or (b) the Holders of a majority of Registrable Securities agree to forfeit their right to one requested registration pursuant to Section 2.2 or Section 2.4, as applicable, in which event such right shall be forfeited by all Holders). If the Holders are required to pay the Registration Expenses, such expenses shall be borne by the holders of securities (including Registrable Securities) requesting such registration in proportion to the number of shares for which registration was requested. If the Company is required to pay the Registration Expenses of a withdrawn offering pursuant to clause (a) above, then the Holders shall not forfeit their rights pursuant to Section 2.2 or Section 2.4 to a demand registration.

**2.6 OBLIGATIONS OF THE COMPANY.** Whenever required to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use all reasonable efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for up to ninety (90) days or, if earlier, until the Holder or Holders have completed the distribution related thereto. The Company shall not be required to file, cause to become effective or maintain the effectiveness of any registration statement that contemplates a distribution of securities on a delayed or continuous basis pursuant to Rule 415 under the Securities Act.

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

(c) Furnish to the Holders such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(d) Use all reasonable efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders, PROVIDED that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(e) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter(s) of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(f) Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(g) Furnish, at the request of a majority of the Holders participating in the registration, on the date that such Registrable Securities are delivered to the underwriters for sale, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the registration statement with respect to such securities becomes effective, (i) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering and reasonably satisfactory to a majority in interest of the Holders requesting registration, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities and (ii) a letter dated as of such date, from the independent certified public accountants of the Company, in form and substance as is

customarily given by independent certified public accountants to underwriters in an underwritten public offering and reasonably satisfactory to a majority in interest of the Holders requesting registration, addressed to the underwriters, if any, and if permitted by applicable accounting standards, to the Holders requesting registration of Registrable Securities.

**2.7 TERMINATION OF REGISTRATION RIGHTS.** All registration rights granted under this Section 2 terminate to Holders, with respect to an individual Holder, when he/she can sell all shares in one quarter under Rule 144 and as to all Holders, three years after the Company becomes subject to the reporting requirements of the Securities Exchange Act of 1934, as amended.

**2.8 DELAY OF REGISTRATION; FURNISHING INFORMATION.**

(a) It shall be a condition precedent to the obligations of the Company to take any action pursuant to Section 2.2, 2.3 or 2.4 that the selling Holders shall furnish to the Company such information regarding themselves, the Registrable Securities held by them and the intended method of disposition of such securities as shall be required to effect the registration of their Registrable Securities.

(b) The Company shall have no obligation with respect to any registration requested pursuant to Section 2.2 or Section 2.4 if, due to the operation of subsection 2.2(b), the number of shares or the anticipated aggregate offering price of the Registrable Securities to be included in the registration does not equal or exceed the number of shares or the anticipated aggregate offering price required to originally trigger the Company's obligation to initiate such registration as specified in Section 2.2 or Section 2.4, whichever is applicable.

**2.9 INDEMNIFICATION.** In the event any Registrable Securities are included in a registration statement under Sections 2.2, 2.3 or 2.4:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Holder, the partners, officers and directors of each Holder, any underwriter (as defined in the Securities Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation") by the Company: (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law in connection with the offering covered by such registration statement; and the Company will pay as incurred to each such Holder, partner, officer, director, underwriter or controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage,

liability or action; PROVIDED HOWEVER, that the indemnity agreement contained in this Section 2.9(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company, which consent shall not be unreasonably withheld, nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by such Holder, partner, officer, director, underwriter or controlling person of such Holder.

(b) To the extent permitted by law, each Holder will, if Registrable Securities held by such Holder are included in the securities as to which such registration qualifications or compliance is being effected, indemnify and hold harmless the Company, each of its directors, its officers and each person, if any, who controls the Company within the meaning of the Securities Act, any underwriter and any other Holder selling securities under such registration statement or any of such other Holder's partners, directors or officers or any person who controls such Holder, against any losses, claims, damages or liabilities (joint or several) to which the Company or any such director, officer, controlling person, underwriter or other such Holder, or partner, director, officer or controlling person of such other Holder may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder under an instrument duly executed by such Holder and stated to be specifically for use in connection with such registration; and each such Holder will pay as incurred any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, underwriter or other Holder, or partner, officer, director or controlling person of such other Holder in connection with investigating or defending any such loss, claim, damage, liability or action if it is judicially determined that there was such a Violation; PROVIDED, HOWEVER, that the indemnity agreement contained in this Section 2.9(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; PROVIDED FURTHER, that in no event shall any indemnity under this Section 2.9 exceed the gross proceeds from the offering received by such Holder.

(c) Promptly after receipt by an indemnified party under this Section 2.9 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 2.9, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; PROVIDED, HOWEVER, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if materially prejudicial to its

ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 2.9, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 2.9.

(d) If the indemnification provided for in this Section 2.9 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any losses, claims, damages or liabilities referred to herein, the indemnifying party, in lieu of indemnifying such indemnified party thereunder, shall to the extent permitted by applicable law contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the Violation(s) that resulted in such loss, claim, damage or liability, as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by a court of law by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; PROVIDED, that in no event shall any contribution by a Holder hereunder exceed the proceeds from the offering received by such Holder.

(e) The obligations of the Company and Holders under this

Section 2.9 shall survive completion of any offering of Registrable Securities in a registration statement and the termination of this agreement. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

**2.10 ASSIGNMENT OF REGISTRATION RIGHTS.** The rights to cause the Company to register Registrable Securities pursuant to this Section 2 may be assigned by a Holder to a transferee or assignee of Registrable Securities which (a) is a subsidiary, parent, general partner, limited partner, retired partner, member or retired member of a Holder, (b) is a Holder's family member or trust for the benefit of an individual Holder, or (c) acquires at least fifty thousand (50,000) shares of Registrable Securities (as adjusted for stock splits and combinations); provided, however, (i) the transferor shall, within ten (10) days after such transfer, furnish to the Company written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned and (ii) such transferee shall agree to be subject to all restrictions set forth in this Agreement.

**2.11 AMENDMENT OF REGISTRATION RIGHTS.** Any provision of this Section 2 may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the Holders of at least two-thirds (2/3) of the Registrable Securities then outstanding; PROVIDED, HOWEVER, that any amendment to this Section 2 that adversely affects the holders of Series D Preferred Stock shall require the written consent of the holders of at least two-thirds (2/3) of the

Series D Preferred Stock. Any amendment or waiver effected in accordance with this Section 2.11 shall be binding upon each Holder and the Company.

**2.12 LIMITATION ON SUBSEQUENT REGISTRATION RIGHTS.** After the date of this Agreement, the Company shall not, without the prior written consent of the Holders of two-thirds (2/3) of the Registrable Securities then outstanding, enter into any agreement with any holder or prospective holder of any securities of the Company that would grant such holder registration rights senior to or on parity with those granted to the Holders hereunder.

**2.13 "MARKET STAND-OFF" AGREEMENT; AGREEMENT TO FURNISH INFORMATION.** Each Holder hereby agrees that such Holder shall not sell or otherwise transfer or dispose of any Common Stock (or other securities) of the Company held by such Holder (other than those included in the registration) for a period specified by the representative of the underwriters of Common Stock (or other securities) of the Company not to exceed one hundred eighty (180) days following the effective date of a registration statement of the Company filed under the Securities Act; PROVIDED that:

- (i) such agreement shall apply only to the Company's Initial Offering; and
- (ii) all officers and directors of the Company enter into similar agreements.

Each Holder agrees to execute and deliver such other agreements as may be reasonably requested by the Company or the underwriter which are consistent with the foregoing or which are necessary to give further effect thereto. In addition, if requested by the Company or the representative of the underwriters of Common Stock (or other securities) of the Company, each Holder shall provide, within ten (10) days of such request, such information as may be required by the Company or such representative in connection with the completion of any public offering of the Company's securities pursuant to a registration statement filed under the Securities Act. The obligations described in this Section 2.13 shall not apply to a registration relating solely to employee benefit plans on Form S-1 or Form S-8 or similar forms that may be promulgated in the future, or a registration relating solely to a Commission Rule 145 transaction on Form S-4 or similar forms that may be promulgated in the future. The Company may impose stop-transfer instructions with respect to the shares of Common Stock (or other securities) subject to the foregoing restriction until the end of said one hundred eighty (180) day period.

**2.14 RULE 144 REPORTING.** With a view to making available to the Holders the benefits of certain rules and regulations of the SEC which may permit the sale of the Registrable Securities to the public without registration, the Company agrees to use its best efforts to:

- (a) Make and keep public information available, as those terms are understood and defined in SEC Rule 144 or any similar or analogous rule promulgated under the Securities Act, at all times after the effective date of the first registration filed by the Company for an offering of its securities to the general public;
- (b) File with the SEC, in a timely manner, all reports and other documents required of the Company under the Exchange Act; and

(c) So long as a Holder owns any Registrable Securities, furnish to such Holder forthwith upon request: a written statement by the Company as to its compliance with the reporting requirements of said Rule 144 of the Securities Act, and of the Exchange Act (at any time after it has become subject to such reporting requirements); a copy of the most recent annual or quarterly report of the Company; and such other reports and documents as a Holder may reasonably request in availing itself of any rule or regulation of the SEC allowing it to sell any such securities without registration.

2.15 TERMINATION OF REGISTRATION RIGHTS UNDER PRIOR AGREEMENTS. The registrations rights provided under (i) Section 6 of the Series A Agreement, (ii) Section 5 of the Series B Agreement, (iii) Section 5 the Series B and Warrant Agreement, and (iv) Section 5 of the Series C Preferred Stock and Common Stock Warrant Purchase Agreement are terminated in their entirety and shall have no further force or effect whatsoever. The registration rights contained in this Agreement set forth the sole and entire agreement among the Company and the Prior Shareholders on the subject matter hereof and supersede any and all rights granted and covenants made under any prior agreements (and the undersigned parties to the Prior Agreements hereby amend such agreements such that the registration rights provided for herein shall apply to all parties under the Prior Agreements).

### SECTION 3. COVENANTS OF THE COMPANY

#### 3.1 BASIC FINANCIAL INFORMATION AND REPORTING.

(a) The Company will maintain true books and records of account in which full and correct entries will be made of all its business transactions pursuant to a system of accounting established and administered in accordance with generally accepted accounting principles consistently applied, and will set aside on its books all such proper accruals and reserves as shall be required under generally accepted accounting principles consistently applied.

(b) As soon as practicable after the end of each fiscal year of the Company, and in any event within one hundred twenty (120) days thereafter, the Company will furnish each Investor a consolidated balance sheet of the Company, as at the end of such fiscal year, and a consolidated statement of income and a consolidated statement of cash flows of the Company, for such year, all prepared in accordance with generally accepted accounting principles consistently applied and setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, with the exception that no notes need be attached to such statements. The Company will furnish each Investor, as soon as practicable after the end of the first, second and third quarterly accounting periods in each fiscal year of the Company, and in any event within forty-five (45) days thereafter, a consolidated balance sheet of the Company as of the end of each such quarterly period, and a consolidated statement of income and a consolidated statement of cash flows of the Company for such period and for the current fiscal year to date, prepared in accordance with generally accepted accounting principles, with the exception that no notes need be attached to such statements and year-end audit adjustments may not have been made.

(c) The Company will additionally furnish each Investor that (with its affiliates) shall own not less than two hundred thousand (200,000) shares of Registrable



Securities (as adjusted for stock splits and combinations) (a "Major Investor") (i) at least thirty (30) days prior to the beginning of each fiscal year an annual budget and operating plans for such fiscal year and (ii) as soon as practicable after the end of each month a consolidated balance sheet of the Company as of the end of such month and consolidated statements of income and cash flows of the Company for each month and for the current fiscal year of the Company to date, all subject to normal year-end adjustments, together with a comparison of such statements against plan.

**3.2 INSPECTION RIGHTS.** Each Major Investor shall have the right to visit and inspect any of the properties of the Company or any of its subsidiaries, and to discuss the affairs, finances and accounts of the Company or any of its subsidiaries with its officers, and to review such information as is reasonably requested all at such reasonable times and as often as may be reasonably requested; provided, however, that the Company shall not be obligated under this Section 3.2 with respect to a competitor of the Company or with respect to information which the Board of Directors determines in good faith is confidential and should not, therefore, be disclosed.

**3.3 CONFIDENTIALITY OF RECORDS.** Each Investor agrees to use, and to use its best efforts to insure that its authorized representatives use, the same degree of care as such Investor uses to protect its own confidential information to keep confidential any information furnished to it which the Company identifies as being confidential or proprietary (so long as such information is not in the public domain), except that such Investor may disclose such proprietary or confidential information to any partner, subsidiary or parent of such Investor for the purpose of evaluating its investment in the Company as long as such partner, subsidiary or parent is advised of the confidentiality provisions of this Section 3.3.

**3.4 RESERVATION OF COMMON STOCK.** The Company will at all times reserve and keep available, solely for issuance and delivery upon the conversion of the Preferred Stock, all Common Stock issuable from time to time upon such conversion.

**3.5 STOCK VESTING.** Unless otherwise approved by the Board of Directors, all stock options and other stock equivalents issued after the date of this Agreement to employees, directors, consultants and other service providers shall be subject to vesting as follows: (a) twenty-five percent (25%) of such stock shall vest at the end of the first year following the earlier of the date of issuance or such person's services commencement date with the company, and (b) seventy-five percent (75%) of such stock shall vest monthly over the remaining three (3) years; provided that subsequent stock options granted to employees after their initial employment by the Company may vest over a four year monthly vesting schedule in which such monthly vesting would begin immediately. With respect to any shares of stock purchased by any such person, the Company's repurchase option shall provide that upon such person's termination of employment or service with the Company, with or without cause, the Company or its assignee (to the extent permissible under applicable securities laws and other laws) shall have the option to purchase at cost any unvested shares of stock held by such person.

**3.6 KEY MAN INSURANCE.** Subject to the approval of the Board of Directors, the Company will use its best efforts to obtain and maintain in full force and effect term life

insurance in the amount of one million (\$1,000,000) dollars on the life of Jeffrey Hussey, naming the Company as beneficiary.

**3.7 ASSIGNMENT OF INVENTIONS AGREEMENTS.** The Company shall require all officers, employees and consultants to execute and deliver an Assignment of Inventions Agreement in a form approved by the Company's Board of Directors.

**3.8 DIRECTORS AND OFFICERS LIABILITY INSURANCE.** The Company shall use its best efforts to secure and maintain directors and officers liability insurance no less than \$1,000,000, provided that such coverage is available at commercially reasonable rates, as determined by the Board of Directors of the Company. Such directors and officers liability insurance shall be maintained for so long as any of the representative(s) of the Investors serve on the Company's Board of Directors.

**3.9 REIMBURSEMENT OF EXPENSES FOR ATTENDING BOARD MEETINGS.** The Company will reimburse all directors for reasonable expenses (including airfare, lodging and other travel expenses) incurred in connection with attending meetings of the Company's Board of Directors.

**3.10 TERMINATION OF COVENANTS.** All covenants of the Company contained in Section 3 of this Agreement shall expire and terminate as to each Investor upon the earlier of (i) the effective date of the registration statement pertaining to the Initial Offering or (ii) upon (a) the acquisition of all or substantially all of the assets of the Company or (b) an acquisition of the Company by another corporation or entity by consolidation, merger or other reorganization in which the holders of the Company's outstanding voting stock immediately prior to such transaction own, immediately after such transaction, securities representing less than fifty percent (50%) of the voting power of the corporation or other entity surviving such transaction (a "Change in Control").

#### SECTION 4. RIGHTS OF FIRST REFUSAL

**4.1 SUBSEQUENT OFFERINGS.** Each Holder of Series D Preferred Stock shall have a right of first refusal to purchase its PRO RATA share of all Equity Securities, as defined below, that the Company may, from time to time, propose to sell and issue after the date of this Agreement, other than the Equity Securities excluded by Section 4.6 hereof. Each Investor's PRO RATA share is equal to the ratio of (a) the number of shares of the Company's Common Stock (including all shares of Common Stock issued or issuable upon conversion of the Shares) which such Investor is deemed to hold immediately prior to the issuance of such Equity Securities to (b) the total number of shares of the Company's outstanding Common Stock (including all shares of Common Stock issued or issuable upon conversion of the Shares or upon the exercise of any outstanding warrants or options) immediately prior to the issuance of the Equity Securities. The term "Equity Securities" shall mean (i) any Common Stock or Preferred Stock of the Company, (ii) any security convertible, with or without consideration, into any Common Stock or Preferred Stock (including any option to purchase such a convertible security), or (iii) any warrant or right to subscribe to or purchase any Common Stock or Preferred Stock

**4.2 EXERCISE OF RIGHTS.** If the Company proposes to issue any Equity Securities, it shall give each Holder written notice of its intention, describing the Equity Securities, the price

and the terms and conditions upon which the Company proposes to issue the same. Each Holder shall have fifteen (15) days from the giving of such notice to agree to purchase its pro rata share of the Equity Securities for the price and upon the terms and conditions specified in the notice by giving written notice to the Company and stating therein the quantity of Equity Securities to be purchased. Notwithstanding the foregoing, the Company shall not be required to offer or sell such Equity Securities to any Holder who would cause the Company to be in violation of applicable federal securities laws by virtue of such offer or sale.

**4.3 ISSUANCE OF EQUITY SECURITIES TO OTHER PERSONS.** If not all of the Holders elect to purchase their pro rata share of the Equity Securities, then the Company shall promptly notify in writing the Holders who do so elect and shall offer such Holders the right to acquire a pro rata share of such unsubscribed shares. The Holders shall have five (5) days after receipt of such notice to notify the Company of its election to purchase all or a portion thereof of the unsubscribed shares. If the Holders fail to exercise in full the rights of first refusal, the Company shall have ninety (90) days thereafter to sell the Equity Securities in respect of which the Holder's rights were not exercised, at a price and upon general terms and conditions materially no more favorable to the purchasers thereof than specified in the Company's notice to the Holders pursuant to Section 4.2 hereof. If the Company has not sold such Equity Securities within ninety (90) days of the notice provided pursuant to Section 4.2, the Company shall not thereafter issue or sell any Equity Securities without first offering such securities to the Holders in the manner provided above.

**4.4 TERMINATION AND WAIVER OF RIGHTS OF FIRST REFUSAL.** The rights of first refusal established by this Section 4 shall not apply to, and shall terminate upon the effective date of the registration statement pertaining to the Company's Initial Public Offering of the Company in which all of the Preferred Stock is converted into Common Stock.

**4.5 TRANSFER OF RIGHTS OF FIRST REFUSAL.** The rights of first refusal of each Holder under this Section 4 may be transferred to the same parties, and subject to the same restrictions, as any transfer of registration rights pursuant to Section 2.10.

**4.6 EXCLUDED SECURITIES.** The rights of first refusal established by this Section 4 shall have no application to any of the following Equity Securities:

(a) shares of Common Stock (and/or options, warrants or other Common Stock purchase rights issued pursuant to such options, warrants or other rights) issued or to be issued to employees, officers or directors of, or consultants or advisors to, the Company or any subsidiary, pursuant to stock purchase or stock option plans or other arrangements that are approved by the Board of Directors;

(b) stock issued pursuant to any rights or agreements outstanding as of the date of this Agreement, options and warrants outstanding as of the date of this Agreement; and stock issued pursuant to any such rights or agreements granted after the date of this Agreement, provided that the rights of first refusal established by this Section 4 applied with respect to the initial sale or grant by the Company of such rights or agreements;

- (c) any Equity Securities issued pursuant to a merger, consolidation, acquisition or similar business combination;
- (d) shares of Common Stock issued in connection with any stock split, stock dividend or recapitalization by the Company;
- (e) shares of Common Stock issued upon conversion of the Shares;
- (f) any Equity Securities issued pursuant to any equipment leasing arrangement, or pursuant to debt financing from a bank or other financial institution;
- (g) any Equity Securities that are issued by the Company pursuant to a registration statement filed under the Securities Act for the Company's Initial Offering;
- (h) shares of the Company's Common Stock or Preferred Stock issued in connection with strategic transactions involving the Company and other entities, including (A) joint ventures, manufacturing, marketing or distribution arrangements or (B) technology transfer or development arrangements; provided that such strategic transactions and the issuance of shares therein, have been approved by the Company's Board of Directors; and
- (i) any shares of Common Stock or options, warrants or convertible securities issued upon receipt of written consent or approval of the holders of two-thirds (2/3) of the Registrable Securities.

## SECTION 5. MISCELLANEOUS

**5.1 GOVERNING LAW.** This Agreement shall be governed by and construed under the laws of the State of California as applied to agreements among California residents entered into and to be performed entirely within California. In any action between or among any of the parties, whether arising out of this Agreement or otherwise, (a) each of the parties irrevocably and unconditionally consents to jurisdiction and venue in any federal or state court located in the State of Washington; and (b) if any such action is commenced in a state court, then, subject to applicable law, no party shall object to the removal of such action to any federal court located in the State of Washington.

**5.2 SURVIVAL.** The representations, warranties, covenants, and agreements made herein shall survive any investigation made by any Holder and the closing of the transactions contemplated hereby. All statements as to factual matters contained in any certificate or other instrument delivered by or on behalf of the Company pursuant hereto in connection with the transactions contemplated hereby shall be deemed to be representations and warranties by the Company hereunder solely as of the date of such certificate or instrument.

**5.3 SUCCESSORS AND ASSIGNS.** Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the parties hereto and shall inure to the benefit of and be enforceable by each person who shall be a holder of Registrable Securities from time to time; PROVIDED, HOWEVER, that prior to the receipt by the Company of adequate written notice of the transfer of any Registrable Securities specifying the full name and address of the transferee, the

Company may deem and treat the person listed as the holder of such shares in its records as the absolute owner and holder of such shares for all purposes, including the payment of dividends or any redemption price.

**5.4 ENTIRE AGREEMENT.** Except for those certain inspection rights granted pursuant to Section 7.2 of the Series A Agreement and Section 9.2 of the Series B and Warrant Agreement, which the parties hereto agree shall continue pursuant to the respective terms of such agreements, this Agreement, the Exhibits and Schedules hereto, the Purchase Agreement and the other documents delivered pursuant thereto constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and no party shall be liable or bound to any other in any manner by any representations, warranties, covenants and agreements except as specifically set forth herein and therein.

**5.5 SEVERABILITY.** In case any provision of the Agreement shall be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

**5.6 AMENDMENT AND WAIVER.**

(a) Except with respect to Section 2 and as otherwise expressly provided, this Agreement may be amended or modified only upon the written consent of the Company and the holders of at least two-thirds (2/3) of the Series D Preferred Stock.

(b) Except as otherwise expressly provided, the obligations of the Company and the rights of the Holders under this Agreement may be waived only with the written consent of the holders of at least two-thirds (2/3) of the Series D Preferred Stock.

(c) Notwithstanding the foregoing, this Agreement may be amended with only the written consent of the Company to include additional purchasers of Shares as "Investors," "Holders" and parties hereto.

(d) Notwithstanding the foregoing, Section 2 of this Agreement may be amended or modified only upon written consent of (i) the Company, (ii) the holders of a majority of the Registrable Securities and (iii) the holders of at least two-thirds (2/3) of the Series D Stock, and the obligations of the Company and the rights of the Holders under this Agreement may be waived only with the written consent of (i) the holders of a majority of the Registrable Securities and (ii) the holders of two-thirds (2/3) of the Series D Stock.

**5.7 DELAYS OR OMISSIONS.** It is agreed that no delay or omission to exercise any right, power, or remedy accruing to any Holder, upon any breach, default or noncompliance of the Company under this Agreement shall impair any such right, power, or remedy, nor shall it be construed to be a waiver of any such breach, default or noncompliance, or any acquiescence therein, or of any similar breach, default or noncompliance thereafter occurring. It is further agreed that any waiver, permit, consent, or approval of any kind or character on any Holder's part of any breach, default or noncompliance under the Agreement or any waiver on such Holder's part of any provisions or conditions of this Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement, by law, or otherwise afforded to Holders, shall be cumulative and not alternative.

5.8 NOTICES. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed telex or facsimile if sent during normal business hours of the recipient; if not, then on the next business day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the party to be notified at the address as set forth on the signature pages hereof or Exhibit A hereto or at such other address as such party may designate by five (5) days advance written notice to the other parties hereto.

5.9 ATTORNEYS' FEES. In the event that any dispute among the parties to this Agreement should result in litigation, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

5.10 TITLES AND SUBTITLES. The titles of the sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

5.11 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

**[THIS SPACE INTENTIONALLY LEFT BLANK]**

IN WITNESS WHEREOF, the parties hereto have executed this INVESTOR RIGHTS AGREEMENT as of the date set forth in the first paragraph hereof.

**COMPANY:**

**F5 LABS, INC.**

By:        /s/ Jeff Hussey  
-----  
Name:    Jeffrey S. Hussey  
-----  
Title: CEO & President  
-----

**INVESTORS:**

**SERIES D HOLDERS:**

**MENLO VENTURES VII, L.P.**

By: MV MANAGEMENT VII, L.L.C.  
Its General Partner

By: /s/ Sonya Hoel  
-----  
Managing Member

**MENLO ENTREPRENEURS FUND VII, L.P.**

By: MV MANAGEMENT VII, L.L.C.  
Its General Partner

By: /s/ Sonya Hoel  
-----  
Managing Member

**PACIFIC TECHNOLOGY VENTURES U.S.A., L.P.**

BY: IDG VENTURES, L.L.C.

Name: /s/ Kim Davis  
-----  
Title: General Partner Managing Member  
-----



## SERIES A HOLDERS:

By: /s/ Charles Anderson 8/20/98

Name: Charles L. Anderson

Title:

By: /s/ Richard Andrew 8/18/98

Name: Richard Andrew

Title:

By: /s/ Geoffrey Boguch

Name: Geoffrey Erin Boguch

Title:

By:

Name: John Crosby Barnett, Jr.

Title:

By: /s/ John Brazier

Name: John M. Brazier

Title:

By: /s/ Thomas F. Broderick

/s/ Joyce Broderick

Name: Thomas F. & Joyce Broderick

Title:

By: /s/ Gary L. Byland

/s/ Jacalyn O. Bylund

Name: Gary L. & Jacalyn O. Bylund

Title:

By: /s/ John Crutcher

Name: John Crutcher

Title:

By: /s/ James David

/s/ Patricia David

Name: James & Patricia David

Title:

By: /s/ Janet Elzey  
-----  
Name: Janet Elzey  
-----  
Title: \_\_\_\_\_

**Encompass Group, Inc.**

By: /s/ Craig D. McCallum  
-----  
Name: Craig D. McCallum  
-----  
Title: Senior Vice President  
-----

By: /s/ Penelope Genise  
-----  
Name: Robert and Penelope Genise  
-----  
Title: \_\_\_\_\_

By: /s/ Alan Higginson  
-----  
Name: Alan Higginson  
-----  
Title: Atrieva Corp.  
-----

By: /s/ Helen J. Hussey  
-----  
Name: Helen J. Hussey  
-----  
Title: \_\_\_\_\_

By: /s/ Joel R. Hussey  
-----  
/s/ Christi Hussey  
-----  
Name: Joel R. and Christi Hussey  
-----  
Title: \_\_\_\_\_

By: /s/ George Jansen  
-----  
Name: George Jansen  
-----  
Title: \_\_\_\_\_

**KLJ Ventures, LLC**

By: /s/ Kent Johnson  
-----  
Name: Kent Johnson  
-----  
Title: \_\_\_\_\_

By: /s/ Clinton Mead 8-19-98  
-----  
Name: Clinton Mead  
-----  
Title: \_\_\_\_\_

By: /s/ John Meisenbach  
-----  
Name: John Meisenbach

-----  
Title: -----

By: /s/ Jean Patterson  
-----

Name: Jean Patterson  
-----

Title: -----

**Pruzan Bldg. Co.**

By: /s/ Herbert Pruzan  
-----

Name: Herbert Pruzan  
-----

Title: -----

By: /s/ Peter Rettman  
-----

Name: Peter Rettman  
-----

Title: -----

By:        /s/ Herbert Rosen  
-----  
Name:    Herbert Rosen  
-----  
Title:     
-----

By:        /s/ Michael Sherry  
-----  
Name:    Michael Sherry  
-----  
Title:     
-----

By:        /s/ Richard Smith  
-----  
             /s/ Mayumi Smith  
-----  
Name:    Richard and Mayumi Smith  
-----  
Title:     
-----

By:        /s/ Bradley Spak for  
             Bradley Spak, Sheryl Bartel,  
             and William Whitlock  
             Trustees,  
             Anesthesia Service Inc.  
             FBO Bradley Spak  
-----  
Name:    Bradley Spak  
-----  
Title:     
-----

By:  
Name: Paul J. & Marie Anderson  
Title:

By:  
Name: Linda & Aljandro Aruffo  
Title:

By:  
Name: Sheryl J. Bartel & Lee Edward Christopher Mott  
Title:

By:  
Name: Joel & Rebecca Barton  
Title:

By:  
Name: Paul A. Christensen  
Title: DDS

By:  
Name: John F. & Marjorie A. Decker Title:

By:  
Name: Kristin N. Decker  
Title:

By:  
Name: Jeffrey J. Decker  
Title:

By:  
Name: Leland W. Foote  
Title:

By:  
Name: Chi-Dooh & Cynthia Mary Li Title:

By:  
Name: Chauncy F. Lufkin  
Title:

By:  
Name: Herbert & Rita Rosen  
Title: Trust

By:  
Name: Delaware Charter, Trustee FBO Richard T. Tschetter  
Title:

**SERIES B HOLDERS:**

**BRITANNIA HOLDINGS LIMITED**

By: /s/ Patrick Adrian Blin  
-----  
[Its General Partner]  
  
Name: Patrick Adrian Blin  
-----  
Title: Director  
-----

**ENCOMPASS GROUP INCORPORATED**

By: [\_\_\_\_\_]  
  
Name: /s/ Craig D. Whitlock  
-----  
Title: Senior Vice President  
-----

**GARY PITTMAN**

By: /s/ Gary Pittman  
  
Name: Gary Pittman  
-----  
Title: \_\_\_\_\_  
-----

**SERIES C HOLDERS:**

**CYPRESS PARTNERS, L.P.**

*By:     /s/ Richard C. Hedreen*

*-----  
[Its General Partner]*

*Name:   Richard C. Hedreen*

*-----  
Title: General Partner*

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**EXHIBIT A**

**SCHEDULE OF INVESTORS**

A-1

**INVESTOR RIGHTS AGREEMENT**

## SCHEDULE OF INVESTORS

Charles L. Anderson  
Richard G. Andrew  
John Crosby Barnettt, Jr.  
Geoffrey A. & Erin E. Boguch JWROS  
John M. Brazier  
Britannia Holdings Limited  
Thomas F. & Joyce S. Broderick  
Gary L. & Jacalyn O. Bylund  
Paul A. Christensen, D.D.S.  
Sheryl J. Bartel & Lee Edward Christopher Mott JTWROS John Crutcher  
Cypress Partners Limited Partnership  
James J. & Patricia F. David, Tenants In Common John F. Decker & Marjorie A. Decker, JTWROS Robert L. Smith & John F. Decker,  
JTWROS Delaware Charter, Trustee, fbo Helen J. Hussey IRA Delaware Charter, Trustee, fbo Richard W. Tschetter IRA Janet E. Elzey  
Encompass Group Incorporated  
Leland W. Foote  
Robert J. & Penelope W. Genise JTWROS  
Alan J. Higginson  
Joel R. & Christi L. Hussey  
George Jansen  
KLJ Ventures, L.L.C.  
Chi-Doo & Cynthia Mary Li  
Chauncey F. Lufkin  
Clinton T. Mead  
John Meisenbach  
Menlo Entrepreneurs Fund VII, L.P.  
Menlo Ventures VII, L.P.  
Pacific Technology Ventures U.S.A., L.P. Jean Patterson  
Gary Pittman  
Pruzan Building Company  
Peter Rettman  
Herbert I. Rosen  
Michael A. Sherry  
Richard N. & Mayumi N. Smith, Tenants in Common Bradley Spak, Sheryl Bartel & William Whitlock, Trustees, Anesthesia Services Inc.  
Deferred Retirement Plan fbo Bredley Spak

## PROMISSORY TERM NOTE

\$10,000

January 6, 1998

FOR VALUE RECEIVED, the undersigned promises to pay on January 5, 1999 to F5 Labs, Inc. (herein called "Company"), a corporation incorporated in Washington, at the office of 200 First Avenue West, Suite 500, Seattle, Washington, 98119, the principal sum of ten thousand dollars (\$10,000) plus accrued interest.

The unpaid principal outstanding shall bear interest at a rate per annum equal to the sum of 9.5% (as herinafter defined as the rate).

Accrued interest shall be payable at maturity, beginning with the fifth day of January, 1999. Interest shall be computed for the actual number of days elapsed on the basis of a year consisting of 365, or when appropriate 366 days.

This Note may be prepaid at any time in whole or in part without premium or penalty; provided that the amount of any prepayment shall be applied first to unpaid and accrued interest and second to principal.

Payments of both principal and interest are to be made in lawful money of the United States of America in immediately available funds.

This Note is made under and governed by the internal laws of the State of Washington.

F5 Labs, Inc.  
200 First Avenue West, Suite 500  
Seattle, WA 98119

*For the corporation*

*By: /s/Brian R. Dixon*

-----  
*Brian R. Dixon, V.P.-Finance*

*Personally*

*By: /s/Jeffrey S. Hussey*

-----  
*Jeffrey S. Hussey*

## AMENDMENT TO PROMISSORY TERM NOTE

This Amendment to Promissory Term Note (the "Amendment") by and between F5 Labs, Inc., a Washington Corporation, (the "Company") and Jeffrey Hussey, is effective as of January 4, 1999, and amends the Promissory Term Note, attached as an Exhibit, dated January 6, 1998 between F5 Labs, Inc. and Jeffrey S. Hussey (the "Note"). Pursuant to the terms of the Note, payment in full was due on January 5, 1999. The parties wish to extend the term of the Note such that the principal sum of ten thousand dollars (\$10,000) plus accrued interest calculated as described in the Note will be payable on January 5, 2000. All other terms of the Note remain in full force and effect.

### Acknowledged and Agreed:

#### F5 NETWORKS, INC.

By: /s/ Robert Chamberlain  
-----  
Robert Chamberlain  
Vice President of Finance and  
Chief Financial Officer

#### JEFFREY S. HUSSEY

/s/ Jeffrey S. Hussey  
-----

## **CONSENT OF INDEPENDENT ACCOUNTANTS**

We consent to the inclusion in this registration statement on Form S-1 of our report dated April 6, 1999, on our audits of the financial statements of F5 Networks, Inc. for the period from inception (February 26, 1996) to September 30, 1996 and for each of the two years ended September 30, 1998. We also consent to the reference to our firm under the caption "Experts" and "Selected Financial Data".

PricewaterhouseCoopers LLP  
Seattle, Washington  
April 6, 1999

## ARTICLE 5

PERIOD TYPE	12 MOS	3 MOS
FISCAL YEAR END	SEP 30 1998	SEP 30 1998
PERIOD START	OCT 01 1997	OCT 01 1998
PERIOD END	SEP 30 1998	DEC 31 1998
CASH	6,206	4,458
SECURITIES	0	0
RECEIVABLES	2,414	3,260
ALLOWANCES	382	354
INVENTORY	99	380
CURRENT ASSETS	8,587	7,976
PP&E	992	1,323
DEPRECIATION	310	403
TOTAL ASSETS	9,432	9,037
CURRENT LIABILITIES	1,824	3,107
BONDS	0	0
PREFERRED MANDATORY	0	0
PREFERRED	11,885	11,885
COMMON	2,875	4,355
OTHER SE	(7,152)	(10,310)
TOTAL LIABILITY AND EQUITY	9,432	9,037
SALES	4,889	2,695
TOTAL REVENUES	4,889	2,695
CGS	1,405	820
TOTAL COSTS	7,152	4,129
OTHER EXPENSES	0	0
LOSS PROVISION	0	0
INTEREST EXPENSE	42	1
INCOME PRETAX	(3,672)	(2,196)
INCOME TAX	0	0
INCOME CONTINUING	(3,672)	(2,196)
DISCONTINUED	0	0
EXTRAORDINARY	0	0
CHANGES	0	0
NET INCOME	(3,672)	(2,196)
EPS PRIMARY	(0.60)	(0.36)
EPS DILUTED	(0.60)	(0.36)

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**End of Filing**

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