

# F5 NETWORKS INC

FORM S-1/A  
(Securities Registration Statement)

Filed 5/14/1999

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Industry	Computer Networks
Sector	Technology
Fiscal Year	09/30

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REGISTRATION NO. 333-75817

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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 2  
TO 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 of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification 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,  
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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 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	AMOUNT TO BE REGISTERED (1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE (2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (2)	AMOUNT OF REGISTRATION FEE
Common Stock, no par value.....	3,450,000	\$12.00	\$41,400,000	\$11,509 (3)

(1) Includes 450,000 shares which the underwriters have the option to purchase to cover over-allotments, if any.

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

(3) \$11,120 of this amount has previously been paid.

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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.

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**SUBJECT TO COMPLETION, DATED MAY 14, 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 3,000,000 shares of common stock being sold in this offering, 2,860,000 shares are being sold by F5 and 140,000 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. See Management--Principal and Selling Shareholders on pages 49 and 50.

The estimated initial public offering price will be between \$10.00 and \$12.00 per share.

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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."

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

Three shareholders have granted the underwriters an option for a period of 30 days to purchase up to 450,000 additional shares of common stock.

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**INVESTING IN THE COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE "RISK**

**FACTORS" BEGINNING ON PAGE 7.**

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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

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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 products 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 help prevent system failure 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 400 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 UUNet, 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 help prevent system failure 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.....	2,860,000 shares
Common stock offered by the selling shareholder.....	140,000 shares
Common stock to be outstanding after this offering.....	17,877,469 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 31, 1999 and does not include the following:

- 2,425,805 shares subject to options outstanding as of March 31, 1999 with a weighted average exercise price of \$0.74 per share;
  - 2,904,352 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 31, 1999 with a weighted average exercise price of \$0.75 per share.
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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 31, 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.





## **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.

### **OUR LIMITED OPERATING HISTORY MAKES IT DIFFICULT TO EVALUATE OUR PROSPECTS.**

We were founded in February 1996 and have a limited operating history, which makes an evaluation of our prospects difficult. Because of our limited operating history, we have limited insight into trends that may emerge and affect our business. 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.

### **OUR QUARTERLY OPERATING RESULTS ARE VOLATILE, AND IT IS DIFFICULT TO PREDICT OUR FUTURE OPERATING RESULTS.**

Our quarterly operating results have varied significantly in the past and will vary significantly in the future, which makes it difficult for us to predict our future operating results. 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 these expectations will likely seriously harm the market price of our common stock.

### **WE HAVE INCURRED LOSSES AND WE EXPECT TO INCUR 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 March 31, 1999, we had an accumulated deficit of \$10.6 million, and we expect to incur significant losses in the future.

We intend to substantially increase our operating expenses. 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. 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-REGISTERED TRADEMARK- CONTROLLER.**

We currently derive approximately 80% of our net revenues from sales of our BIG/ip Controller. In addition, we expect to derive a significant portion of our net revenues from sales of BIG/ip in the future. 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, our business and results of operations will be seriously harmed.

#### **OUR SUCCESS DEPENDS ON OUR TIMELY DEVELOPMENT OF NEW PRODUCTS AND FEATURES.**

We expect the Internet traffic management market to be characterized by rapid technological change, frequent new product introductions, changes in customer requirements and evolving industry standards. We are currently developing our global/SITE-TM- Controller and new features for our existing products. We expect to continue to develop new products and new product features in the future. If we fail to develop and deploy new products and new product features on a timely basis, our business and results of operations may be seriously harmed. See "Business--Product Development."

#### **WE MAY NOT BE ABLE TO COMPETE EFFECTIVELY IN THE EMERGING INTERNET TRAFFIC**

##### **MANAGEMENT MARKET.**

Our markets are new, rapidly evolving and highly competitive, and we expect competition to persist and intensify in the future. Our principal competitors in the Internet traffic management market include Cisco Systems, Alteon Web Systems, ArrowPoint Communications, HydraWeb Technology, RadWare and Resonate. We expect to continue to face additional competition as new participants enter the Internet traffic management market. In addition, 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. 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. See "Business--Competition."

#### **WE MAY NOT BE ABLE TO SUPPORT OUR RAPID GROWTH EFFECTIVELY.**

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 31, 1999, we increased the number of our employees from 20 to 124. We expect our growth to continue to strain our management, operational and financial resources. For example, we may not be able to install adequate financial 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. Our inability to manage growth effectively may seriously harm our business and results of operations.

#### **OUR EXPANSION INTO INTERNATIONAL MARKETS MAY NOT SUCCEED.**

We intend to expand into international markets. We have only limited experience in marketing, selling and supporting our products internationally. 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 5.1% for the six months ended March 31, 1999. We have recently engaged sales personnel in the United Kingdom and in Germany. Our continued growth will require further expansion of our international operations in selected countries in the European and Asia Pacific markets. 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. 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.

#### **WE MAY NOT BE ABLE TO SUSTAIN OR DEVELOP NEW DISTRIBUTION RELATIONSHIPS.**

Our sales strategy requires that we establish multiple distribution 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 17.6% of our net revenues for the six months ended March 31, 1999. Our inability to effectively establish our indirect sales channels 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 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 for direct sales and to develop leads for our indirect sales channels. 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 DEPEND ON OUR 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 personnel is intense, and there can be no assurance that we will be successful in attracting and retaining highly skilled 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. Historically, our sales cycle has ranged from approximately two to three months. Sales of BIG/ip, 3DNS and our see/IT-TM- Network Management Console require us to educate potential customers on their use and benefits. The sale of our products is 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.

**THE AVERAGE SELLING PRICES OF OUR PRODUCTS MAY 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 WILL NEED TO EXPAND OUR MANUFACTURING OPERATIONS.**

We rely on third party contract manufacturers to assemble our products. We outsource the manufacturing of our pre-configured, industry-standard hardware platforms to primarily two contract manufacturers, Micro Standard Distributors and Unisoft, who assemble these hardware platforms to our specifications. 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. See "Business--Manufacturing."

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

We currently purchase several hardware components used in the assembly of our products from limited sources. Lead times for these components vary significantly. 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. See "Business--Manufacturing."

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

Software products frequently contain undetected errors when first introduced or as new versions are released. We have experienced these errors in the past in connection with new products and product upgrades. We expect that these 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 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 of these 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. 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. 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. See "Business--Intellectual Property."

**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.**

The Year 2000 computer issue creates a significant risk for us 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.

A failure in any of these areas to be Year 2000 compliant may seriously harm our operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Year 2000 Compliance."

**LAWS RELATING TO ENCRYPTED SOFTWARE MAY LIMIT THE MARKETABILITY OF OUR PRODUCTS.**

The encryption technology contained in our products is subject to United States export controls. These export controls limit our ability to distribute encrypted software outside of the United States and Canada. While we take precautions against unlawful exportation, this 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. We may also encounter difficulties competing with non-United States producers of products containing encrypted software, who may both import their products into the United States and sell products overseas.

**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."

#### **OUR EXISTING SHAREHOLDERS HAVE VOTING CONTROL OVER F5.**

On completion of this offering, executive officers, directors and their affiliates and 5% shareholders will beneficially own, in the aggregate, approximately 72.6% 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 Shareholders."

#### **THIS OFFERING WILL BENEFIT OUR CURRENT SHAREHOLDERS.**

Our current shareholders, including members of management, will recognize significant benefits from this offering including the creation of a public market for our common stock. Assuming an initial public offering price of \$11.00, the selling shareholders will realize appreciation of \$1.5 million, or \$11.00 per share, or approximately \$6.2 million, or \$10.54 per share, if the underwriters exercise the over-allotment option in full. In addition, upon consummation of this offering, unrealized appreciation for the current shareholders, including members of management, will be \$151.4 million, or \$10.08 per share.

#### **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 \$9.19 in net tangible book value per share of common stock. Investors will incur additional dilution upon the exercise of outstanding stock options and warrants. See "Dilution."

#### **OUR STOCK PRICE MAY FLUCTUATE AFTER THIS OFFERING.**

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. 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 ANTI-TAKEOVER PROVISIONS THAT COULD DELAY OR PREVENT A CHANGE IN CONTROL OF F5.**

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 17,877,469

shares of common stock, assuming no exercise of outstanding options or warrants after March 31, 1999. 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. See "Dividend Policy."

**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 \$28,407,800 from the sale of 2,860,000 shares of common stock at an assumed initial public offering price of \$11.00 per share after deducting estimated underwriting commissions and discounts of \$2,202,200 and estimated expenses of \$850,000. 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 these 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 March 31, 1999

(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

(3) on a pro forma basis as adjusted to reflect, our receipt of the estimated net proceeds from the sale of 2,860,000 shares of common stock offered by us at an assumed initial public offering price of \$11.00 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.

	MARCH 31, 1999		
	ACTUAL	PRO FORMA (1)	PRO FORMA AS ADJUSTED
	(IN THOUSANDS) (UNAUDITED)		
Redeemable convertible preferred stock:			
Series D convertible: no par value, 1,138,438 shares issued and outstanding, actual; no shares issued and outstanding, pro forma and pro forma as adjusted.....	\$ 7,688	\$ --	\$ --
Shareholders' equity:			
Preferred stock: no par value, 10,000,000 shares authorized, 1,806,250 shares issued and outstanding, actual; 10,000,000 shares authorized, no shares issued and outstanding, pro forma and pro forma as adjusted.....	4,197	--	--
Common stock: no par value, 50,000,000 shares authorized, 6,903,093 issued and outstanding, actual; 50,000,000 shares authorized, 15,017,469 shares issued and outstanding, pro forma; and 100,000,000 shares authorized, 17,877,469 shares issued and outstanding, pro forma as adjusted.....	8,132	20,017	48,425
Note receivable from shareholder.....	(750)	(750)	(750)
Unearned compensation.....	(4,643)	(4,643)	(4,643)
Accumulated deficit.....	(10,617)	(10,617)	(10,617)
Total shareholders' equity (deficit).....	(3,681)	4,007	32,415
Total capitalization.....	\$ 4,007	\$ 4,007	\$ 32,415

(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:

- 2,425,805 shares subject to options outstanding as of March 31, 1999 with a weighted average exercise price of \$0.74 per share;

- 2,904,352 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 31, 1999 with a weighted average exercise price of \$0.75 per share.

## DILUTION

F5's pro forma net tangible book value as of March 31, 1999 was \$3.9 million, or approximately \$0.26 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 2,860,000 shares of common stock offered by us hereby at an assumed initial public offering price of \$11.00 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 March 31, 1999 would have been \$32.3 million, or approximately \$1.81 per share. This represents an immediate increase in pro forma net tangible book value of \$1.55 per share to existing shareholders and an immediate dilution in net tangible book value of \$9.19 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.....		\$ 11.00
Pro forma net tangible book value per share as of March 31, 1999.....	\$ 0.26	
Increase in net tangible book value per share attributable to new investors.....	1.55	
	-----	
Pro forma net tangible book value per share after this offering.....		1.81
		-----
Dilution in net tangible book value per share to new investors.....	\$ 9.19	
		-----
		-----

The following table sets forth, on a pro forma basis as of March 31, 1999, 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 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 \$11.00 per share.

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing shareholders.....	15,017,469	84.0%	\$13,807,000	30.5%	\$ 0.92
New investors.....	2,860,000	16.0%	31,460,000	69.5	11.00
	-----	-----	-----	-----	
Total.....	17,877,469	100.0%	\$45,267,000	100.0%	
	-----	-----	-----	-----	

The foregoing tables assume no exercise of the underwriters' over-allotment option and exclude the following: 2,425,805 shares subject to options outstanding as of March 31, 1999 with a weighted average exercise price of \$0.74 per share; 2,904,352 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 31, 1999 with a weighted average exercise price of \$0.75 per share. 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."

The sale by the selling shareholder in this offering will reduce the number of shares of common stock held by existing shareholders to 14,877,469, or approximately 83.2% 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 3,000,000, or approximately 16.8% of the total number of shares of common stock outstanding after this offering. See "Principal and Selling Shareholders."

## 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 March 31, 1998 and 1999 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 six months ended March 31, 1999 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 FEB. 26, 1996 (INCEPTION) TO SEPT. 30, 1996	FISCAL YEAR ENDED		SIX MONTHS ENDED																																																		
		SEPTEMBER 30,		MARCH 31,																																																		
		1997	1998	1998	1999																																																	
(UNAUDITED)																																																						
STATEMENT OF OPERATIONS DATA:																																																						
Net revenues:																																																						
Products.....	\$ 2	\$ 229	\$ 4,119	\$ 1,608	\$ 5,428																																																	
Services.....	--	--	770	229	1,029																																																	
Total net revenues.....	2	229	4,889	1,837	6,457																																																	
Cost of net revenues:																																																						
Products.....	1	71	1,091	402	1,449																																																	
Services.....	--	--	314	57	580																																																	
Total cost of net revenues.....	1	71	1,405	459	2,029																																																	
Gross profit.....	1	158	3,484	1,378	4,428																																																	
Operating expenses:																																																						
Sales and marketing.....	62	565	3,881	1,342	5,103																																																	
Research and development.....	103	569	1,810	534	2,344																																																	
General and administrative.....	180	383	1,041	438	1,191																																																	
Amortization of unearned compensation.....	4	69	420	91	1,038																																																	
Total operating expenses.....	349	1,586	7,152	2,405	9,676																																																	
Loss from operations.....	(348)	(1,428)	(3,668)	(1,027)	(5,248)																																																	
Interest income (expense), net.....	18	(28)	(4)	(19)	89																																																	
Net loss.....	\$ (330)	\$ (1,456)	\$ (3,672)	\$ (1,046)	\$ (5,159)																																																	
Net loss per share--basic and diluted.....	\$ (0.06)	\$ (0.24)	\$ (0.60)	\$ (0.17)	\$ (0.82)																																																	
Weighted average shares--basic and diluted.....	5,932	6,000	6,086	6,258	6,297																																																	
Pro forma net loss per share (unaudited):																																																						
Net loss per share--basic and diluted.....			\$ (0.26)		\$ (0.36)																																																	
Weighted average shares--basic and diluted.....			14,201		14,412																																																	
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2"></th> <th colspan="3">SEPTEMBER 30,</th> <th colspan="1">MARCH 31,</th> </tr> <tr> <th>1996</th> <th>1997</th> <th>1998</th> <th>1999</th> </tr> </thead> <tbody> <tr> <td colspan="5" style="text-align: right;">(UNAUDITED)</td> </tr> <tr> <td colspan="5">BALANCE SHEET DATA:</td> </tr> <tr> <td>Cash and cash equivalents.....</td> <td style="text-align: right;">\$ 624</td> <td style="text-align: right;">\$ 143</td> <td style="text-align: right;">\$ 6,206</td> <td style="text-align: right;">\$ 2,460</td> </tr> <tr> <td>Working capital (deficit).....</td> <td style="text-align: right;">617</td> <td style="text-align: right;">(317)</td> <td style="text-align: right;">6,763</td> <td style="text-align: right;">2,561</td> </tr> <tr> <td>Total assets.....</td> <td style="text-align: right;">817</td> <td style="text-align: right;">919</td> <td style="text-align: right;">9,432</td> <td style="text-align: right;">8,516</td> </tr> <tr> <td>Long-term obligations.....</td> <td style="text-align: right;">29</td> <td style="text-align: right;">216</td> <td style="text-align: right;">--</td> <td style="text-align: right;">--</td> </tr> <tr> <td>Redeemable convertible preferred stock.....</td> <td style="text-align: right;">--</td> <td style="text-align: right;">--</td> <td style="text-align: right;">7,688</td> <td style="text-align: right;">7,688</td> </tr> <tr> <td>Shareholders' equity (deficit).....</td> <td style="text-align: right;">737</td> <td style="text-align: right;">(231)</td> <td style="text-align: right;">(80)</td> <td style="text-align: right;">(3,681)</td> </tr> </tbody> </table>							SEPTEMBER 30,			MARCH 31,	1996	1997	1998	1999	(UNAUDITED)					BALANCE SHEET DATA:					Cash and cash equivalents.....	\$ 624	\$ 143	\$ 6,206	\$ 2,460	Working capital (deficit).....	617	(317)	6,763	2,561	Total assets.....	817	919	9,432	8,516	Long-term obligations.....	29	216	--	--	Redeemable convertible preferred stock.....	--	--	7,688	7,688	Shareholders' equity (deficit).....	737	(231)	(80)	(3,681)
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## 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 investments 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 130 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 \$6.5 million for the six months ended March 31, 1999. Currently, we derive approximately 80% of our revenues from sales of BIG/ip. One of our resellers, Exodus Communications, accounted for approximately 17.6% of our net revenues for the six months ended March 31, 1999. In addition, we expect to derive a significant portion of our net revenues from sales of BIG/ip in the future.

Net revenues derived from customers located outside of the United States were \$15,000 in 1997, \$172,000 in 1998 and \$327,000 for the six months ended March 31, 1999. 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 consulting services and renew their initial customer support contract. 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 service contract term. Consulting services are customarily billed at fixed rates, plus out-of-pocket expenses. 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 March 31, 1999, had an accumulated deficit of \$10.6 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 \$6.2 million of unearned compensation costs since our inception through March 31, 1999. 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 ratably over a four-year period. We are amortizing these costs over the vesting period of the options and have recorded unearned compensation charges of \$69,000 and \$420,000 for the years ended September 30, 1997 and 1998, respectively, and \$91,000 and \$1.0 million for the six months ended March 31, 1998 and 1999, respectively.

We expect to recognize amortization expense related to unearned compensation of approximately \$2.5 million, \$1.8 million, \$961,000 and \$408,000 during 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, these software development costs are capitalized. These costs are then amortized over the estimated economic life of the products, generally two years.

Through March 31, 1999, 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 \$31,000 and \$52,000 for the six months ended March 31, 1998 and 1999, 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, we believe amounts from February 26, 1996 through September 30, 1996 are not comparable to 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		SIX MONTHS ENDED	
	SEPTEMBER 30,		MARCH 31,	
	1997	1998	1998	1999
				(UNAUDITED)
STATEMENT OF OPERATIONS DATA:				
Net revenues:				
Products.....	100.0%	84.3%	87.5%	84.1%
Services.....	--	15.7	12.5	15.9
Total net revenues.....	100.0	100.0	100.0	100.0
Cost of net revenues:				
Products.....	31.0	22.3	21.9	22.4
Services.....	--	6.4	3.0	9.0
Total cost of net revenues.....	31.0	28.7	24.9	31.4
Gross margin.....	69.0	71.3	75.1	68.6
Operating expenses:				
Sales and marketing.....	246.8	79.4	73.1	79.0
Research and development.....	248.5	37.0	29.1	36.3
General and administrative.....	167.2	21.3	23.8	18.5
Amortization of unearned compensation.....	30.1	8.6	5.0	16.1
Total operating expenses.....	692.6	146.3	131.0	149.9
Loss from operations.....	(623.6)	(75.0)	(55.9)	(81.3)
Interest income (expense), net.....	(12.2)	(0.1)	(1.0)	1.4
Net loss.....	(635.8)%	(75.1)%	(56.9)%	(79.9)%

#### SIX MONTHS ENDED MARCH 31, 1998 AND 1999 (UNAUDITED)

##### Net Revenues:

Net revenues consist of sales of our products and services, which include software license and services. Services include revenue from service and support agreements provided as part of the initial product sale, sales of extended service and support contracts and consulting services.

**PRODUCT REVENUES.** Product revenues increased by 237.6% from \$1.6 million for the six months ended March 31, 1998 to \$5.4 million for the six months ended March 31, 1999. This increase in product revenues was due primarily to an increase in the quantity of our products sold through our direct and indirect sale channels.

**SERVICE REVENUES.** Service revenues increased by 349.3% from \$229,000 for the six months ended March 31, 1998 to \$1.0 million for the six months ended March 31, 1999. This increase was due primarily to an increase in the installed base of our products which resulted in increased revenues from service and support contracts.

As our net revenue base increases, we do not believe we can sustain percentage growth rates of net revenues that we have experienced historically.

## **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, service and support personnel and an allocation of our facilities and depreciation expenses.

**COST OF PRODUCT REVENUES.** Cost of product revenues, increased 260.4%, from \$402,000 for the six months ended March 31, 1998 to \$1.4 million for the six months ended March 31, 1999. This increase was due primarily to higher sales volumes. Cost of product revenues increased as a percent of product revenues from 25.0% for the six months ended March 31, 1998, to 26.7% for the six months ended March 31, 1999. This increase was due primarily to an increase in the percentage of product revenues generated from resellers who buy our products for lower average prices than our direct sales prices. Resellers accounted for approximately 5.0% of our product revenues for the six months ended March 31, 1998, and approximately 33.0% of our product revenues for the six months ended March 31, 1999. To the extent that we experience price erosion or sales of our products by resellers increase more rapidly than direct sales, our profit margins will decline.

**COST OF SERVICE REVENUES.** Cost of service revenues increased 917.5%, from \$57,000 for the six months ended March 31, 1998 to \$580,000 for the six months ended March 31, 1999. Cost of service revenues increased as a percent of service revenues from 24.9% for the six months ended March 31, 1998 to 56.4% for the six months ended March 31, 1999. The increases in cost of service revenues in absolute dollars and as a percent of service revenues was due primarily to increases in service and support personnel.

**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 280.3%, from \$1.3 million for the six months ended March 31, 1998 to \$5.1 million for the six months ended March 31, 1999. This increase was due to an increase in sales and marketing personnel and professional services personnel from 24 to 54, and increased advertising and promotional activities. 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 339.0%, from \$534,000 for the six months ended March 31, 1998 to \$2.3 million for the six months ended March 31, 1999. This increase was due to an increase in product development personnel from 9 to 46. 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 sophisticated 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 171.9% from \$438,000 for the six months ended March 31, 1998 to \$1.2 million for the six months ended March 31, 1999. This increase was due primarily to an increase in general and administrative personnel from 7 to 24. 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 \$91,000 and \$1.0 million for the six months ended March 31, 1998 and 1999, 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 \$19,000 for the six months ended March 31, 1998 compared to net interest income of \$89,000 for the six months ended March 31, 1999. 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:**

**PRODUCT REVENUES.** Product revenues increased by 1,698.7% from \$229,000 in 1997 to \$4.1 million in 1998. This increase was due primarily to an increase in the quantity of our products sold.

**SERVICE REVENUES.** There were no service revenues in 1997 because the initial product sales during that period did not include a service and support contract. Beginning in fiscal year 1998, our products included a service and support contract. Service revenues were \$770,000 in 1998. This increase in service revenues was due to an increase in the installed base of our products which included a service and support contract.

### **Cost of Net Revenues:**

**COST OF PRODUCT REVENUES.** Cost of product revenues increased by 1,436.6% from \$71,000 in 1997 to \$1.1 million in 1998. This increase was due primarily to the increase in our products sold. Cost of product revenues as a percentage of net revenues decreased from 31.0% to 26.5% due to a decrease in direct product costs including costs of manufacturing personnel as a percentage of revenue.

**COST OF SERVICE REVENUES.** Cost of service revenues was \$314,000 in 1998. Cost of service revenues as a percent of service revenues was 40.8% in 1998. We expect that the cost of service revenues will fluctuate in the future based on the rate of increase in service and support personnel compared with increases in service revenues.

**SALES AND MARKETING.** Our sales and marketing expenses increased by 586.9%, 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 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 218.1% 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 171.8% 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 seven quarters ended March 31, 1999 in dollars and as a percentage of net revenues. You should read the following tables in conjunction with our financial statements and related notes 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:						
Products.....	\$ 166	\$ 742	\$ 866	\$ 929	\$ 1,582	\$ 2,282
Services.....	--	100	129	215	326	413
Total net revenues.....	166	842	995	1,144	1,908	2,695
Cost of net revenues:						
Products.....	55	201	202	291	397	624
Services.....	--	9	47	115	143	196
Total 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)

MARCH 31,  
1999

Net revenues:	
Products.....	\$3,146
Services.....	616
Total net revenues.....	3,762
Cost of net revenues:	
Products.....	825
Services.....	384
Total cost of net revenues.....	1,209
Gross profit.....	2,553
Operating expenses:	
Sales and marketing.....	2,887
Research and development.....	1,324
General and administrative.....	666
Amortization of unearned compensation.....	670
Total operating expenses.....	5,547
Loss from operations.....	(2,994)
Interest income (expense), net.....	31
Net loss.....	\$(2,963)

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	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:						
Products.....	100.0%	88.1%	87.0%	81.2%	82.9%	84.7%
Services.....	--	11.9	13.0	18.8	17.1	15.3
Total net revenues.....	100.0	100.0	100.0	100.0	100.0	100.0
Cost of net revenues:						
Products.....	33.1	23.9	20.3	25.4	20.8	23.1
Services.....	--	1.0	4.7	10.1	7.5	7.3
Total 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)%
	MARCH 31, 1999					
Net revenues:						
Products.....	83.6%					
Services.....	16.4					
Total net revenues.....	100.0					
Cost of net revenues:						
Products.....	21.9					
Services.....	10.2					
Total cost of net revenues.....	32.1					
Gross margin.....	67.9					
Operating expenses:						
Sales and marketing.....	76.7					
Research and development.....	35.2					
General and administrative.....	17.8					
Amortization of unearned compensation.....	17.8					
Total operating expenses.....	147.5					
Loss from operations.....	(79.6)					
Interest income (expense), net.....	0.8					
Net loss.....	(78.8)%					

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 primarily financed our operations through private placements of our preferred stock. Through March 31, 1999, gross proceeds from private placements of preferred stock totaled approximately \$12.4 million. To a lesser extent, we have financed our operations through equipment financing, traditional lines of credit, and the exercise of options and warrants to purchase common stock.

As of March 31, 1999, we had cash and cash equivalents of \$2.5 million, an increase of \$2.3 million from cash and cash equivalents held as of March 31, 1998. This increase was due primarily to the sale of our preferred stock, which raised approximately \$9.2 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 all of 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 March 31, 1999, there were no outstanding borrowings under this line of credit. We also had a capital equipment line with a lender for \$100,000. 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 \$3.5 million for the six months ended March 31, 1999. These net cash outflows resulted from operating losses as well as increases in accounts receivable 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 March 31, 1999 was approximately \$1.9 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 fiscal 1999 due to the costs of expansion and expenditures for information systems and test equipment.

As of March 31, 1999, 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. These operating expenses will consume a material amount of our cash resources, including a portion of the net proceeds of this offering. We believe that the net proceeds from this offering, cash from operations and borrowings under our credit facility will be sufficient to meet our working capital and capital expenditures 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. 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.

**OUR EXTERNAL VENDORS.** We periodically verify Year 2000 compliance by external vendors that supply us with material software and information systems and communicate with our significant suppliers to determine their Year 2000 readiness. As part of our assessment, we periodically evaluate the level of validation we require of third parties to ensure their Year 2000 readiness. To date, we have not encountered any material Year 2000 problems with software and information systems provided to us by third parties.

**OUR INTERNAL SYSTEMS.** We periodically review our internal management information and other systems to identify any products, services or systems that may not be Year 2000 compliant and to take corrective action when required. To date, we have not encountered any material Year 2000 problems with our computer systems or any other equipment that might be subject to such problems.

**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.

**CONTINGENCY PLANNING.** We have not formulated a contingency plan at this time but expect to have specific contingency plans in place prior to November 30, 1999.

## 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 products 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 help prevent system failure 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 300 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 UUNet, 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 help prevent system failure 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 products 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 products 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 automatically synchronize content 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:

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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 our proprietary software, which we load 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 these 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 help prevent system failure 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 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 is compatible with any system that uses the standard Internet communication method, also known as Internet protocol or IP, 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, which is the standard method of transferring files over the Internet. BIG/ip also manages traffic for network devices such as firewalls that prevent unauthorized access to a network system, cache servers that store frequently accessed Web content 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 our proprietary software, which we load 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 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 our proprietary software, which we will load 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 31, 1999, we employed 46 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 six months ended March 31, 1999 were \$103,000, \$569,000, \$1.8 million and \$2.3 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 400 end-

customers. Our largest reseller, Exodus Communications, accounted for 17.6% of our net revenues for the six months ended March 31, 1999. The following is a list of customers that have purchased at least \$100,000 of our products since the end of March 1998:

Resellers	- Exodus Communications - Frontier GlobalCenter - Vanstar
ISP/Web Hosting	- Exodus Communications - MCI WorldCom - PSINet Inc. - StarMedia Network, Inc.
Intranet/Enterprise	- BankAmerica Corporation - BellSouth.net - Encyclopedia Britannica, Inc. - Microsoft Corporation - Motorola, Inc. - People's Bank - Techwave Corporation - Unum Corporation

## 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. Typically, our agreements with our channel partners are not exclusive and do not prevent our channel partners from selling competitive products. These agreements typically have terms of one or two years with no obligation to renew, and typically do not provide for exclusive sales territories or minimum purchase requirements.

Exodus and Frontier Global Center account for most of our indirect sales. We are in the process of seeking international channel partners for our products in the United States and 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 31, 1999, we employed 40 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 31, 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, Micro Standard Distributors and Unisoft, who assemble these 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 minor delays in shipments from these contract manufacturers in the past which have not had a material impact on our results of operations. We 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. 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. These standard hardware parts and components consist of motherboards, reboot cards and chasses.

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 these 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 this competition to persist and intensify in the future. We compete in the Internet traffic management market primarily on the basis of price, service, warranty and product performance. Our principal competitors in the Internet traffic management market include Cisco Systems, Alteon Web Systems, ArrowPoint Communications, HydraWeb Technology, RadWare and Resonate. We expect to continue to face additional competition as new participants enter the Internet traffic management market. 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.

Cisco Systems has a product offering similar to ours and holds the dominant share of the market. Cisco has a longer operating history and significantly greater financial, technical, marketing and other resources than we do. Cisco also has a more extensive customer base and broader customer relationships including relationships with many of our current and potential customers that could be leveraged. In addition, Cisco has significantly more established customer support and professional services organizations and more extensive direct sales force and direct and indirect sales channels than we do. Cisco and our other competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements than we can. 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.

We incorporate software that is licensed from several third party sources into our products. These licenses generally renew automatically on an annual basis. We believe that alternative technologies for this licensed software are available both domestically and internationally.

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 these 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 of these 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 31, 1999, we employed 124 full-time persons, 46 of whom were engaged in product development, 40 in sales and marketing, 14 in professional services and technical support and 24 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 these 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 MARCH 31, 1999:

#### 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 Logicraft. From March 1995 to December 1996, Mr. Goldman served as Executive Vice President, North American Operations, for Logicraft, 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 the fiscal year ended September 30, 1998.

### 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	\$ 648,788	--	177,750(2)	--	\$1,946,363

(1) Based on the assumed initial public offering price of \$11.00 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. 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 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 the 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 these 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 the stock bonus or restricted stock purchase agreement specifically provides for transferability.

Upon certain changes in control of F5 as provided under the plan, 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 these awards, then with respect to persons whose service with F5 or an affiliate of F5 has not terminated before the change in control, the vesting of 50% of these stock awards (and the time during which these awards may be exercised) will accelerate and the awards terminated if not exercised before the change in control.

As of March 31, 1999, we had issued 133,000 shares upon the exercise of options granted under the plan and options to purchase 461,258 shares were outstanding with 205,742 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. 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 this 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 the cessation or a 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 a 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 as provided under the plan, 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 31, 1999, we had issued 438,843 shares upon the exercise of options granted under the plan and options to purchase 1,768,547 shares were outstanding with 98,610 shares reserved for future



grants or purchases under either this plan or our Amended and Restated Directors' Nonqualified Stock Option Plan. 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 our stock (or with the investment in our stock by an affiliated or representative entity of the non-employee director) 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, 1998, each newly appointed 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 cessation, unless these 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 as provided under the plan, the plan's options will automatically become fully vested and be exercisable for the duration of the option term.

As of March 31, 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 98,610 shares reserved for future grants or purchases under either this plan or 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 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, employees who work at least 20 hours per week and 5 months per calendar year may deduct 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 the employee's rights to purchase our stock to accrue at a rate which exceeds \$25,000 of fair market value of this stock for each calendar year in which these rights are outstanding. No employee is eligible for the grant of any rights under the purchase plan if immediately after we grant these rights, the 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 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 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 any 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 of these persons in any action or proceeding, including any action by us arising out of the 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 as provided under the 1998 Equity Incentive Plan, all outstanding stock awards under this plan will either be assumed or substituted by the surviving entity. If the surviving entity determines not to assume or substitute these awards, then with respect to persons whose service with F5 or an affiliate of F5 has not terminated before the change in control, the vesting of 50% of these stock awards and the time during which these awards may be exercised will be accelerated and the awards terminated if not exercised before the change in control.

Upon certain changes of control of F5 as provided under the Amended and Restated 1996 Stock Option Plan, 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 this plan will automatically become fully vested and exercisable for the duration of the option term.

Upon certain changes of control of F5 as provided under the Amended and Restated Directors' Nonqualified Stock Option Plan, all outstanding 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 through March 31, 1999, 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.....	--	--	--	--	--	92,250
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 our directors, is President of Alexander Hutton Capital, L.L.C.

In March and August of 1997, we issued Britannia Holdings a warrant exercisable for 100,000 and 600,000 shares of common stock in conjunction with convertible note agreements of \$500,000 and \$300,000, respectively. The warrants have per share exercise prices of \$0.64 and \$0.50, respectively.

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 warrant exercisable for 1,125,000 shares of common stock at a per share exercise price of \$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 187,500 shares of common stock at a per share exercise price of \$1.60, which was exercised 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.

In March 1999, we issued 150,000 shares of our common stock to Mr. Chamberlain in exchange for a promissory note. 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 partially guaranteed by Mr. Chamberlain 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 except under certain circumstances as provided under the pledge agreement.

We plan to enter into indemnification agreements with our directors and certain officers for the indemnification of and advancement of expenses to these 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.

## PRINCIPAL AND SELLING SHAREHOLDERS

The following table summarizes certain information regarding the beneficial ownership of our outstanding common stock as of March 31, 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)
<b>5% SHAREHOLDERS</b>					
Michael D. Almquist .....	1,480,000	9.86%	140,000	1,340,000	7.50%
2232 12th Avenue West Seattle, Washington 98119					
Britannia Holdings Limited (3) .....	4,300,000	25.53	--	4,300,000	21.82
P.O. Box 556 Main Street Charlestown, Nevis					
Menlo Ventures VII, L.P. (4) .....	1,687,852	11.24	--	1,687,852	9.44
3000 Sand Hill Rd., Bldg. 4-100 Menlo Park, California 94025					
Cypress Partners Limited Partnership .....	1,125,000	7.49	--	1,125,000	6.29
P.O. Box 9006 Seattle, Washington 98109					
Encompass Ventures, Inc. (5) .....	1,100,000	7.23	--	1,100,000	6.09
777 - 108th Avenue N.E., Suite 2300 Bellevue, Washington 98004					
<b>CURRENT EXECUTIVE OFFICERS AND DIRECTORS</b>					
Jeffrey S. Hussey (6).....	3,048,000	20.30	--	3,048,000	17.05
Steven Goldman (7).....	134,250	*	--	134,250	*
Carlton G. Amdahl(8).....	28,000	*	--	28,000	*
Kimberly D. Davis (9).....	589,024	3.92	--	589,024	3.29
Alan J. Higginson (10).....	141,300	*	--	141,300	*
Sonja L. Hoel (11).....	1,687,852	11.24	--	1,687,852	9.44
Kent L. Johnson (12).....	384,000	2.55	--	384,000	2.14
All directors and executive officers as a group (10 persons) (13).....	6,787,930	44.31	--	6,787,930	37.47

\* 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 31, 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 15,017,469 shares of common stock outstanding as of March 31, 1999 and 17,877,469 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 31, 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 31, 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 Brian Dixon as trustee of the Hussey Family Trust fbo Mr. Hussey's minor child.

(7) Includes 42,000 shares issuable upon exercise of options exercisable within 60 days of March 31, 1999.

(8) Consists of 28,000 shares issuable upon exercise of options exercisable within 60 days of March 31, 1999.

(9) 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 this partnership.

(10) Includes 84,000 shares issuable upon exercise of options exercisable within 60 days of March 31, 1999.

(11) 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 this partnership.

(12) Consists of 56,000 shares held by Mr. Johnson, including 28,000 shares issuable upon exercise of options exercisable within 60 days of March 31, 1999, 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 this limited liability company.

(13) Includes 150,000 shares subject to repurchase by F5 and 300,691 shares issuable upon exercise of options exercisable within 60 days of March 31, 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 31, 1999, there were 15,017,469 shares of common stock outstanding assuming conversion of all shares of the preferred stock, which were held by 86 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.

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 the 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 31, 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 these shares under state and federal securities laws. These rights, which are assignable, are outlined in an agreement between F5 and these 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, these holders may also include their common stock subject to these rights in the registration, subject to the ability of the underwriters to limit the number of shares included in the 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 this form becomes available, provided that among other limitations, the proposed aggregate offering price would be at least \$2.0 million. The registration rights of a holder terminates, when the holder can, within a three month period, offer and sell all of his or her 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, these 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 the 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 17,877,469 shares of common stock, assuming the issuance of 3,000,000 shares of common stock offered hereby, conversion of all shares of preferred stock and no exercise of options or warrants after March 31, 1999. Of these shares, the 3,000,000 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 14,877,469 shares of common stock, assuming conversion of all shares of preferred stock, held by existing shareholders as of March 31, 1999 were issued and sold by us in reliance on exemptions from the registration requirements of the Securities Act. Of these shares, 14,757,469 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, 14,607,469 shares will become eligible for sale, subject in most cases to the limitations of Rules 144 and 701. 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 THE EFFECTIVE DATE	SHARES ELIGIBLE FOR SALE	COMMENT
Upon effectiveness.....	3,000,000	Shares sold in the offering
90 days.....	120,000	Shares salable under Rule 144 that are not subject to the lock-up
180 days.....	14,607,469	Lock-up released: shares salable under Rules 144 and 701
After 180 days.....	150,000	Shares will become salable at various times after 180 days after the effective date

As of March 31, 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 31, 1999, there were a total of 2,425,805 shares of common stock subject to outstanding options under our stock plans, 200,751 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. 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 178,775 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 this 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 these 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 these 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.....	3,000,000

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 these 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 this price less a concession not in excess of \$ per share. The underwriters may allow and these 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 450,000 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 this 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 14,607,469 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 so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

### **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.**

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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	MARCH 31, 1999	MARCH 31, 1999 PRO FORMA SHAREHOLDERS' EQUITY (UNAUDITED) NOTE 2
	-----	-----	-----	-----
			(UNAUDITED)	
ASSETS				
Current assets:				
Cash and cash equivalents.....	\$ 143	\$ 6,206	\$ 2,460	
Accounts receivable, net of allowances of \$0, \$382 and \$550.....	329	2,032	3,379	
Inventories.....	77	99	398	
Deferred finance costs.....			395	
Other current assets.....	68	250	438	
	-----	-----	-----	
Total current assets.....	617	8,587	7,070	
Property and equipment, net.....	196	682	1,219	
Software development costs, net of accumulated amortization of \$4, \$83 and \$135.....	52	118	66	
Other assets.....	54	45	161	
	-----	-----	-----	
Total assets.....	\$ 919	\$ 9,432	\$ 8,516	
	-----	-----	-----	
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)				
Current liabilities:				
Current portion of long-term debt.....	\$ 500			
Capital lease obligations, current portion.....	19	\$ 19	\$ 8	
Accounts payable.....	117	559	1,458	
Accrued liabilities.....	114	458	1,475	
Deferred revenue.....	184	788	1,568	
	-----	-----	-----	
Total current liabilities.....	934	1,824	4,509	
Capital lease obligations, net of current portion.....	19			
Long-term debt, net of current portion.....	197			
	-----	-----	-----	
Total liabilities.....	1,150	1,824	4,509	
	-----	-----	-----	
Commitments (Note 9)				
Redeemable convertible preferred stock, no par value:				
Series D Convertible, \$0, \$15,460, \$15,460 and no liquidation preference, no, 1,138,438, 1,138,438 and no shares issued and outstanding.....		7,688	7,688	
		-----	-----	
Shareholders' equity (deficit):				
Preferred stock, no par value; 10,000,000 shares authorized				
Series A Convertible, \$1,200 \$1,200, \$1,200 and no liquidation preference, 400,000, 400,000, 400,000 and no shares issued and outstanding....	1,123	1,123	1,123	
Series B Convertible, \$250, \$2,000, \$2,000 and no liquidation preference, 156,250, 1,250,000, 1,250,000 and no shares issued and outstanding.....	208	1,656	1,656	
Series C Convertible, \$0, \$1,500, \$1,500 and no liquidation preference, no, 156,250, 156,250 and no shares issued and outstanding.....		1,418	1,418	
Common stock, no par value; 50,000,000 shares authorized, 100,000,000 shares authorized pro forma, 6,000,000, 6,021,500, 6,903,093 and 15,017,469 shares issued and outstanding.....	393	2,875	8,132	20,017
Note receivable from shareholder.....			(750)	(750)
Unearned compensation.....	(169)	(1,694)	(4,643)	(4,643)
Accumulated deficit.....	(1,786)	(5,458)	(10,617)	(10,617)
	-----	-----	-----	-----
Total shareholders' equity (deficit).....	(231)	(80)	(3,681)	4,007
	-----	-----	-----	-----
Total liabilities and shareholders' equity (deficit).....	\$ 919	\$ 9,432	\$ 8,516	
	-----	-----	-----	

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,		SIX MONTHS ENDED MARCH 31,	
	-----	1997	1998	-----	-----
	-----	-----	-----	1998	1999
	-----	-----	-----	-----	-----
				(UNAUDITED)	(UNAUDITED)
Net revenues:					
Products.....	\$ 2	\$ 229	\$ 4,119	\$ 1,608	\$ 5,428
Services.....	--	--	770	229	1,029
Total net revenues.....	2	229	4,889	1,837	6,457
Cost of net revenues:					
Products.....	1	71	1,091	402	1,449
Services.....	--	--	314	57	580
Total cost of net revenues.....	1	71	1,405	459	2,029
Gross profit.....	1	158	3,484	1,378	4,428
Operating expenses:					
Sales and marketing.....	62	565	3,881	1,342	5,103
Research and development.....	103	569	1,810	534	2,344
General and administrative.....	180	383	1,041	438	1,191
Amortization of unearned compensation.....	4	69	420	91	1,038
Total operating expenses.....	349	1,586	7,152	2,405	9,676
Loss from operations.....	(348)	(1,428)	(3,668)	(1,027)	(5,248)
Other income (expense):					
Interest expense.....	--	(46)	(42)	(26)	(1)
Interest income.....	18	18	38	7	90
Net loss.....	\$ (330)	\$ (1,456)	\$ (3,672)	\$ (1,046)	\$ (5,159)
Net loss per share--basic and diluted.....	\$ (0.06)	\$ (0.24)	\$ (0.60)	\$ (0.17)	\$ (0.82)
Weighted average shares--basic and diluted.....	5,932	6,000	6,086	6,258	6,297
Pro forma net loss per share (unaudited):					
Net loss per share--basic and diluted.....			\$ (0.26)		\$ (0.36)
Weighted average shares--basic and diluted.....			14,201		14,412

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 MARCH 31, 1999**  
**(IN THOUSANDS, EXCEPT SHARE DATA)**

	CONVERTIBLE PREFERRED STOCK AMOUNT			
	SHARES	SERIES A	SERIES B	SERIES C
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 \$30).....	1,093,750		1,740	
Sales of Series C Convertible Preferred Stock, (net of issuance costs of \$7).....	156,250			\$1,493
Value ascribed to warrants issued in conjunction with sales of Convertible Preferred Stock.....			(292)	(75)
Exercise of stock options by employees.....				
Exercise of stock warrants....				
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...	1,806,250	1,123	1,656	1,418
Exercise of stock options by employees (unaudited).....				
Exercise of stock warrants (unaudited).....				
Note receivable from shareholder for exercise of stock options (unaudited)...				
Unearned compensation				

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

Balance, March 31, 1999 (unaudited).....	1,806,250	\$1,123	\$1,656	\$1,418
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	COMMON STOCK		SUBSCRIPTIONS /NOTES 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 \$30).....						1,740
Sales of Series C Convertible Preferred Stock, (net of issuance costs of \$7).....						1,493
Value ascribed to warrants issued in conjunction with sales of Convertible Preferred Stock.....		367				
Exercise of stock options by employees.....	215,750	29				29
Exercise of stock warrants....	5,750	5				5
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)	(80)
Exercise of stock options by employees (unaudited).....	304,093	100				100

Exercise of stock warrants (unaudited).....	427,500	420				420
Note receivable from shareholder for exercise of stock options (unaudited)...	150,000	750	(750)			
Unearned compensation (unaudited).....		3,987		(3,987)		
Amortization of unearned compensation (unaudited)....				1,038		1,038
Net loss (unaudited).....					(5,159)	(5,159)
	-----	-----	-----	-----	-----	-----
Balance, March 31, 1999 (unaudited).....	6,903,093	\$8,132	\$(750)	\$(4,643)	\$(10,617)	\$(3,681)
	-----	-----	-----	-----	-----	-----

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,		SIX MONTHS ENDED MARCH 31,	
		1997	1998	1998	1999
				(UNAUDITED)	(UNAUDITED)
Cash flows from operating activities:					
Net loss.....	\$ (330)	\$ (1,456)	\$ (3,672)	\$ (1,046)	\$ (5,159)
Adjustments to reconcile net loss to net cash used in operating activities:					
Amortization of unearned compensation.....	4	69	420	91	1,038
Provision for doubtful accounts and sales returns.....			412	105	246
Depreciation and amortization.....	14	59	323	115	235
Non cash interest expense.....		6	12	12	
Changes in operating assets and liabilities:					
Accounts receivable.....	(1)	(328)	(2,115)	(826)	(1,593)
Inventories.....	(29)	(48)	(22)	(31)	(299)
Other current assets.....	(7)	(55)	(186)	(34)	(188)
Other assets.....	(6)	(48)	9	(114)	(116)
Accounts payable and accrued liabilities.....	37	194	806	699	1,521
Deferred revenue.....		184	604	65	780
Net cash used in operating activities...	(318)	(1,423)	(3,409)	(964)	(3,535)
Cash flows from investing activities:					
Issuance of notes to officer.....			(10)		
Purchases of property and equipment.....	(150)	(98)	(731)	(267)	(720)
Additions to software development costs.....		(56)	(145)	(130)	
Proceeds from sale leaseback.....	30				
Net cash used in investing activities...	(120)	(154)	(886)	(397)	(720)
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 Redeemable Convertible Preferred Stock.....			7,688		
Proceeds from the exercise of stock options and warrants.....			34	23	520
Repurchase of common stock under shareholder agreement.....			(245)	(245)	
Proceeds from issuance of common stock under shareholder agreement.....			172	172	
Proceeds from line of credit.....			825	250	
Repayments of line of credit.....			(825)		
Proceeds from issuance of long-term debt.....		800			
Principal payments on capital lease obligations.....	(1)	(14)	(19)	(9)	(11)
Net cash provided by financing activities.....	1,062	1,096	10,358	1,426	509
Net increase (decrease) in cash and cash equivalents.....	624	(481)	6,063	65	(3,746)
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	\$ 208	\$ 2,460

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 March 31, 1998 and 1999 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 March 31, 1998 and 1999 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 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 \$108,000 and \$327,000, for the six months ended March 31, 1998 and 1999. For the six months ended March 31, 1999, one customer accounted

## F5 NETWORKS, INC.

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED) for 17.6% 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 six months ended March 31, 1998, no single customer accounted for more than 10% of the Company's net revenues. At March 31, 1998, two customers represented 23.4% of accounts receivable and at March 31, 1999, one customer represented 18.3% of accounts receivable. At September 30, 1997 and 1998, 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. Manufacturing tools 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, 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 the 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



## **F5 NETWORKS, INC.**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED) exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated 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 the 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 sells products through resellers, original equipment manufacturers and other channel partners, as well as to end users, under similar terms. 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, net of an allowance for estimated returns, 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 \$256,000 for the period from February 26, 1996 (inception) to September 30, 1996 and the years ended September 30, 1997 and 1998, respectively, and \$42,000 and \$537,000, for the six months ended March 31, 1998 and 1999, 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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

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, between the deemed fair value of the Company's stock and the exercise price of the option. The unearned compensation is being amortized in accordance with Financial Accounting Standards Board Interpretation No. 28 on an accelerated basis over the vesting period of the individual options. 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.

Dilutive securities include options, warrants and preferred stock on an as if converted basis. Potentially dilutive securities totaling 3,636,000 for the period from February 26, 1996 (inception) to September 30, 1996 and 5,066,000 and 11,506,626 for the years ended September 30, 1997 and 1998, respectively, and 8,687,876 and 12,752,681 for the six months ended March 31, 1998 and 1999 (unaudited), respectively, and were excluded from historical basic and diluted loss per share because of their anti-dilutive effect.

**PRO FORMA SHAREHOLDERS' EQUITY**

Upon completion of the Company's qualified initial public offering as described in Note 8a, all of the convertible and redeemable preferred stock outstanding as of the closing date will automatically be converted into an aggregate 8,114,376 shares of common stock.

Unaudited pro forma shareholders' equity at March 31, 1999, as adjusted for the conversion of the convertible preferred stock outstanding at March 31, 1999 (see Note 8c) is disclosed on the accompanying balance sheet.

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,		SIX MONTHS ENDED MARCH 31,	
		1997	1998	1998	1999
		(IN THOUSANDS, EXCEPT PER SHARE DATA)			
		(UNAUDITED)			
Net loss.....	\$ (330)	\$ (1,456)	\$ (3,672)	\$ (1,046)	\$ (5,159)
Weighted average shares of common stock outstanding (shares used in computing basic and diluted net loss per share).....	5,932	6,000	6,086	6,258	6,297
Basic and diluted net loss per share.....	\$ (0.06)	\$ (0.24)	\$ (0.60)	\$ (0.17)	\$ (0.82)
Shares used in computing basic and diluted net loss per share.....			6,086	6,258	6,297
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		14,412
Pro forma basic and diluted net loss per share.....			\$ (0.26)		\$ (0.36)

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 March 31, 1999, property and equipment were approximately as follows:

	SEPTEMBER 30,		MARCH 31,
	-----		1999
	1997	1998	(UNAUDITED)
	---		-----
	(IN THOUSANDS)		
Computer equipment.....	\$ 161	\$ 529	\$ 955
Equipment under capital leases.....	54	54	54
Office furniture and equipment.....	17	293	418
Leasehold improvements.....	29	116	148
Manufacturing tools.....			137
	---	-----	-----
	261	992	1,712
Accumulated amortization for equipment under capital leases.....	(15)	(33)	(42)
Accumulated depreciation.....	(50)	(277)	(451)
	---	-----	-----
	\$ 196	\$ 682	\$ 1,219
	---	-----	-----
	---	-----	-----

Depreciation expense was approximately \$14,000 for the period from February 26, 1996 (inception) to September 30, 1996 and \$55,000 and \$244,000 for the years ended September 30, 1997 and 1998, respectively. Depreciation expense was approximately \$93,000 and \$183,000 for the six months ended March 31, 1998 and 1999, respectively (unaudited).

4. ACCRUED LIABILITIES:

At September 30, 1997 and 1998, and March 31, 1999, accrued liabilities were approximately as follows:

	SEPTEMBER 30,		MARCH 31,
	-----		1999
	1997	1998	(UNAUDITED)
	---		-----
	(IN THOUSANDS)		
Accrued payroll and benefits.....	\$ 37	\$ 237	\$ 449
Accrued deferred financing costs.....			395
Accrued sales and use taxes.....	17	141	155
Other.....	60	80	476
	---	---	-----
	\$ 114	\$ 458	\$ 1,475
	---	---	-----
	---	---	-----

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.....	---	---
Non-deductible stock compensation.....	(34)%	(34 )%
Other.....	3%	1%
	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)
	-----	-----
Valuation allowance.....	570	1,670
	(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 March 31, 1999 (unaudited).

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 bore simple interest at 11% annually, matured 18 months from the date of the respective agreements and were 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 Convertible 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 was accounted for as a component of interest expense using a method which approximated 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 bore interest at 9% per annum and had maturity periods

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. SHAREHOLDERS' EQUITY: (CONTINUED) 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.

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 purchase 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 purchase 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 purchase 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 Redeemable Convertible Preferred Stock for an aggregate purchase price of approximately \$7.7 million. Holders of the Company's Series D Redeemable 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



NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. SHAREHOLDERS' EQUITY: (CONTINUED) initial public offering in which the per share price equals or exceeds \$5.00 and gross proceeds are equal to or exceed \$15.0 million. The Company is required to redeem all outstanding shares of the Series D Redeemable Convertible Preferred Stock at \$6.79 per share, plus all declared and unpaid dividends, either in August 2005 or in three annual installments beginning August 2003 at the request of holders of at least two-thirds of the outstanding Series D Redeemable Convertible Preferred Stock. The holders of the Series D Redeemable Convertible Preferred Stock have certain voting rights and liquidation preferences equal to \$13.58 per share.

The Company has reserved 8,114,376 shares of the Company's common stock for issuance upon the conversion of the Company's Convertible Preferred Stock and Redeemable Convertible Preferred Stock.

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 these 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.

In February 1999, the Company issued a warrant to purchase up to 12,500 shares of the Company's common stock at \$8.00 per share to a certain customer in conjunction with a sale of products.

The Company has issued warrants to purchase common stock to investors and to a certain customer. The aggregate consideration for each respective transaction was allocated to securities or debt and the warrants based on their relative fair values. All the warrants were exercisable at the time of issuance. The assumptions applied in the determination of the fair value of warrants issued were (i) use of the Black-Scholes pricing model, (ii) risk free interest rates ranging from 5.2% to 6.2%, (iii) expected volatility rates of approximately 70% (based on disclosed expected volatility rates of comparable companies) (iv) assumed expected lives of 4 to 10 years, and (v) no expected dividends.

F5 NETWORKS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. SHAREHOLDERS' EQUITY: (CONTINUED)

At March 31, 1999, warrants outstanding were as follows (unaudited):

WARRANT TO PURCHASE	SHARES OF COMMON STOCK	EXERCISE PRICE	AGGREGATE EXERCISE PRICE
Common stock.....	100,000	\$ 0.64	\$ 64,000
Common stock.....	600,000	0.50	300,000
Common stock.....	1,500,000	0.80	1,200,000
Common stock.....	12,500	8.00	100,000
	2,212,500		\$ 1,664,000

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 this offering, all of the outstanding Series A, B, and C Convertible Preferred Stock, and Series D Redeemable Convertible Preferred Stock will be converted into 8,114,376 shares of common stock. Also, upon completion of this offering, the Company's number of authorized shares of Common Stock will increase to 100,000,000.

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 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

F5 NETWORKS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. SHAREHOLDERS' EQUITY: (CONTINUED)

whose service with the Company or an affiliate of the Company has not terminated before a change in control, the vesting of 50% of these options or stock awards (and the time during which these awards may be exercised) will accelerate and the options or awards terminated if not exercised before the 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 these stock options of approximately \$238,000 and \$1.9 million was deferred during fiscal years 1997 and 1998, respectively, and \$251,000 and \$3,986,000 for the six months ended March 31, 1998 and 1999, 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 \$91,000 and \$1,038,000 for the six months ended March 31, 1998 and 1999, respectively (unaudited).

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).....	981,448	2.27
Options exercised (unaudited).....	(454,093)	1.91
Options canceled (unaudited).....	(178,800)	0.38
	-----	
Balances at March 31, 1999 (unaudited).....	2,425,805	0.74
	-----	

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 with the following weighted-average

F5 NETWORKS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. SHAREHOLDERS' EQUITY: (CONTINUED) 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

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)	(1,468)	(3,742)
Net loss per share--as reported.....	(0.06)	(0.24)	(0.60)
Net loss per share--pro forma.....	(0.06)	(0.24)	(0.61)

F5 NETWORKS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. SHAREHOLDERS' EQUITY: (CONTINUED) 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

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

**F5 NETWORKS, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

9. COMMITMENTS: (CONTINUED) 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 \$71,000 and \$168,000 for the six months ended March 31, 1998 and 1999, respectively (unaudited).

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
	--
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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

F5 NETWORKS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. RELATED PARTY TRANSACTIONS: (CONTINUED) 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, partially guaranteed by the officer 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.

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 six months ended March 31, 1998 and 1999:

	PERIOD FROM	YEAR ENDED		SIX MONTHS	
	FEBRUARY 26, 1996 (INCEPTION) TO SEPTEMBER 30, 1996	SEPTEMBER 30,		ENDED MARCH 31,	
		1997	1998	1998	1999
		(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 Stock.....		42	292	292	
Value ascribed to warrants issued with note payable.....		109			
Conversion of note payable to common stock.....			209	209	
Note receivable from shareholder for exercise of options....					\$750
Unearned compensation.....	4	238	1,945	252	3,987
Write-off of accounts receivable.....			30		78
Cash paid for interest.....		19	30	12	1

**3,000,000 SHARES**

[LOGO]

**COMMON STOCK**

**PROSPECTUS**

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

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, 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.

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**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.....	\$ 11,509
NASD filing fee.....	4,640
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.....	53,851
	-----
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 this 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. The registrant's second amended and restated articles of incorporation, (Exhibit 3.2 hereto) contains provisions implementing, to the fullest extent permitted by Washington law, these 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 these transactions. All recipients had adequate access to information about F5, through their relationships with F5.

Since March 31, 1996, F5 has issued and sold the following unregistered securities:

- (1) From March 31, 1996 to March 31, 1999, F5 granted stock options to purchase an aggregate of 5,019,448 shares of common stock at exercise prices ranging from \$0.05 to \$8.00 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 convertible preferred stock to 31 private investors at an aggregate purchase price of \$1,200,000 or \$3.00 per share.
- (3) From May 15, 1996 to February 25, 1999, F5 issued warrants to four private investors, one consultant and one customer to purchase an aggregate of 2,645,750 shares of common stock with a weighted average exercise price of \$0.79.
- (4) In September, October and November 1997, F5 sold an aggregate of 1,250,000 shares of Series B convertible preferred stock to three private 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 convertible preferred stock to one private investor 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 redeemable convertible preferred stock to three private 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 Brittainia Holdings Limited.
- 10.19\* Common Stock Warrant, dated August 5, 1997, between Registrant and Brittainia 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\* Early Exercise Stock Purchase Agreement, dated March 10, 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.

\* Previously filed.

## ITEM 17. UNDERTAKINGS

The registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in the denominations and registered in the 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 this indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against these 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 a 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 this indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of this 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 these 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 Amendment No. 2 to the Registration Statement to be signed on its behalf by the undersigned, thereinto duly authorized, in the City of Seattle, State of Washington, on the 14th day of May, 1999.

F5 NETWORKS, INC.

By: \_\_\_\_\_  
 \_\_\_\_\_  
 Jeffrey S. Hussey  
 CHIEF EXECUTIVE OFFICER AND PRESIDENT

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 2 to the Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
_____ * _____ Jeffrey S. Hussey	Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)	May 14, 1999
_____ /s/ ROBERT J. CHAMBERLAIN _____ Robert J. Chamberlain	Vice President of Finance, Chief Financial Officer and Treasurer (Principal Finance and Accounting Officer)	May 14, 1999
_____ * _____ Carlton G. Amdahl	Director	May 14, 1999
_____ * _____ Kimberly D. Davis	Director	May 14, 1999
_____ * _____ Alan J. Higginson	Director	May 14, 1999
_____ * _____ Sonja L. Hoel	Director	May 14, 1999
_____ * _____ Kent L. Johnson	Director	May 14, 1999

\*By: \_\_\_\_\_  
 \_\_\_\_\_  
 Robert J. Chamberlain  
 (ATTORNEY-IN-FACT)

## EXHIBIT INDEX

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

\* Previously filed.

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**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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**EXHIBITS  
TO  
FORM S-1**

**REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

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**F5 NETWORKS, INC.**

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**F5 NETWORKS, INC.**

\_\_\_\_\_ **SHARES(1)**

**COMMON STOCK**

**UNDERWRITING AGREEMENT**

\_\_\_\_\_, 1999

**HAMBRECHT & QUIST LLC**

**BANCBOSTON ROBERTSON STEPHENS INC**

DAIN RAUSCHER WESSELS, a division of Dain Rauscher Incorporated c/o Hambrecht & Quist LLC

One Bush Street

San Francisco, CA 94104

Ladies and Gentlemen:

F5 Networks, Inc., a Washington corporation (herein called the Company), proposes to issue and sell \_\_\_\_\_ shares of its authorized but unissued Common Stock, no par value (herein called the "Common Stock"), and the shareholder of the Company named in part A of Schedule II hereto (herein collectively called the "Primary Selling Securityholder") severally proposes to sell an aggregate of \_\_\_\_\_ shares of Common Stock of the Company (said \_\_\_\_\_ shares of Common Stock being herein called the "Underwritten Stock"). Certain shareholders of the Company named in Part B of Schedule II hereto ("Additional Selling Securityholders," which term shall include, except where otherwise noted, the shareholder named as an Affiliated Selling Securityholder in Schedule II hereto, herein called the "Affiliated Selling Securityholder") propose to grant to the Underwriters (as hereinafter defined) an option to purchase up to \_\_\_\_\_ additional shares of Common Stock, said \_\_\_\_\_ shares of Common Stock being herein called "Option Stock" and with the Underwritten Stock herein collectively called the "Stock." The Common Stock is more fully described in the Registration Statement and the Prospectus hereinafter mentioned. The Primary Selling Securityholder and the Additional Selling Securityholders shall collectively be referred to herein as the "Selling Securityholders."

The Company and the Selling Securityholders severally hereby confirm the agreements made with respect to the purchase of the Stock by the several underwriters, for whom you are acting, named in Schedule I hereto (herein collectively called the Underwriters, which term shall also include any underwriter purchasing Stock pursuant to Section 3(b) hereof). You represent and warrant that you have been authorized by each of the other Underwriters to enter into this Agreement on its behalf and to act for it in the manner herein provided.

1. REGISTRATION STATEMENT. The Company has filed with the Securities and Exchange Commission (herein called the "Commission") a registration statement on Form S-1 (No.333-75817), including the related preliminary prospectus, for the registration under the Securities Act of 1933, as amended (herein called the "Securities Act") of the Stock. Copies of such registration statement and of each amendment thereto, if any, including the related preliminary prospectus (meeting the requirements of Rule 430A of the rules and regulations of the Commission) heretofore filed by the Company with the Commission have been delivered to you.

\_\_\_\_\_  
(1) Plus an option to purchase from the Additional Selling Securityholders up to \_\_\_\_\_ additional shares to cover over-allotments.

The term Registration Statement as used in this agreement shall mean such registration statement, including all exhibits and financial statements, all information omitted therefrom in reliance upon Rule 430A and contained in the Prospectus referred to below, in the form in which it became effective, and any registration statement filed pursuant to Rule 462(b) of the rules and regulations of the Commission with respect to the Stock (herein called a "Rule 462(b) Registration Statement"), and, in the event of any amendment thereto after the effective date of such registration statement (herein called the "Effective Date"), shall also mean (from and after the effectiveness of such amendment) such registration statement as so amended (including any Rule 462(b) registration statement). The term Prospectus as used in this Agreement shall mean the prospectus relating to the Stock first filed with the Commission pursuant to Rule 424(b) and Rule 430A (or if no such filing is required, as included in the Registration Statement) and, in the event of any supplement or amendment to such prospectus after the Effective Date, shall also mean (from and after the filing with the Commission of such supplement or the effectiveness of such amendment) such prospectus as so supplemented or amended. The term Preliminary Prospectus as used in this Agreement shall mean each preliminary prospectus included in such registration statement prior to the time it becomes effective.

The Registration Statement has been declared effective under the Securities Act, and no post-effective amendment to the Registration Statement has been filed as of the date of this Agreement. The Company has caused to be delivered to you copies of each Preliminary Prospectus and has consented to the use of such copies for the purposes permitted by the Securities Act.

## 2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND THE SELLING SECURITYHOLDERS.

(a) The Company hereby represents and warrants as follows:

(i) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has full corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement and the Prospectus and as being conducted, and is duly qualified as a foreign corporation and in good standing in all jurisdictions in which the character of the property owned or leased or the nature of the business transacted by it makes qualification necessary (except where the failure to be so qualified would not have a material adverse effect on the business, properties, financial condition or results of operations of the Company (a "Material Adverse Effect")).

(ii) Since the respective dates as of which information is given in the Registration Statement and the Prospectus, there has not been any material adverse change in the business, properties, financial condition or results of operations of the Company whether or not arising from transactions in the ordinary course of business, other than as set forth in the Registration Statement and the Prospectus, and since such dates, except in the ordinary course of business, the Company has not entered into any material transaction not referred to in the Registration Statement and the Prospectus.

(iii) The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus relating to the proposed offering of the Stock nor instituted or threatened instituting proceedings for that purpose. The Registration Statement and the Prospectus comply, and on the Closing Date (as hereinafter defined) and any later date on which Option Stock is to be purchased, the Prospectus will comply, in all material respects, with the provisions of the Securities Act and the rules and regulations of the Commission thereunder; on the Effective Date, the Registration Statement did not contain any untrue statement of a material fact and did not omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; and, on the Effective Date the Prospectus did not and, on the Closing Date and any later date on which Option Stock is to be purchased, will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; PROVIDED, HOWEVER, that none of the representations and warranties in this subparagraph (iii) shall apply to statements in, or omissions from, the Registration Statement or the Prospectus made in reliance upon and in conformity with information herein or otherwise furnished in writing to the Company by or on behalf of the Underwriters for use in the Registration Statement or the Prospectus.

(iv) The Company's authorized, issued and outstanding capitalization as of March 31, 1999 is as set forth under the caption Capitalization in the Prospectus. The Stock is duly and validly

authorized, and, when issued and sold to the Underwriters and upon the delivery of and payment for such shares of the Stock, as provided herein, will be duly and validly issued, fully paid and nonassessable, and the Underwriters will receive good and marketable title thereto, free and clear of all liens, encumbrances, equities, security interests and claims whatsoever. The capital stock conforms in all material respects to the description thereof contained in the Prospectus. No further approval or authority of the shareholders or the Board of Directors of the Company will be required for the issuance and sale of the Stock by the Company as contemplated herein or to the knowledge of the Company for the transfer and sale of the Stock to be sold by the Selling Securityholders. The shares of capital stock outstanding prior to the issuance of the Underwritten Stock and, if any, the Option Stock have been duly authorized and are validly issued, fully paid and nonassessable.

(v) Prior to the Closing Date, the Stock to be issued and sold under this Agreement will be authorized for listing by the Nasdaq National Market (herein called "NNM") upon official notice of issuance of the Stock.

(vi) Except as disclosed in the Registration Statement, and except for stock options and shares of Common Stock granted or purchased in the ordinary course of business after March 31, 1999 pursuant to the equity incentive plans disclosed in the Registration Statement ("Option Plans"), the Company does not have outstanding any options or warrants to purchase, or any preemptive rights, or other rights to subscribe or to purchase or rights of co-sale, any securities or obligations convertible or exercisable into, or any contracts or commitments to issue or sell or register for sale, shares of its capital stock or any such options, warrants, rights, convertible securities, exercisable securities or obligations.

(vii) PricewaterhouseCoopers LLP, who have certified the consolidated financial statements included in the Registration Statement, have represented to the Company that they are, and the Company has no reason to believe that such representation is incorrect, independent public accountants as required by the Securities Act and the rules and regulations of the Commission thereunder.

(viii) The financial statements of the Company, together with related notes and schedules as set forth in the Registration Statement ("Financial Statements"), present fairly the financial position and the results of operations of the Company, at the indicated dates and for the indicated periods. The Financial Statements have been prepared in accordance with generally accepted accounting principles, consistently applied throughout the periods involved, and all adjustments necessary for a fair presentation of results for such periods have been made. The selected and summary financial data contained in the Registration Statement and the financial information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" present fairly the information shown therein and have been compiled on a basis consistent with the Financial Statements. As of March 31, 1999, other than as set forth in the Financial Statements, the Company has no material liabilities, contingent or otherwise, other than liabilities incurred in the ordinary course of business and described in the Registration Statement.

(ix) The Company has filed all tax returns required to be filed and has paid or is contesting in good faith all taxes shown thereon as due, and there is no tax deficiency that has been or might be asserted against the Company that will or might have a Material Adverse Effect as of the date hereof, and all tax liabilities are adequately provided for in the Financial Statements of the Company as of the date thereof.

(x) The Company is not in violation or default under any provision of its Articles of Incorporation or Bylaws as of the Closing Date and any later date upon which the Option Stock is purchased, or any indenture, license, mortgage, lease, franchise, permit, deed of trust or other agreement or instrument to which the Company is a party or by which the Company or any of its properties is bound or may be affected, except where such violation or default would not have a Material Adverse Effect.

(xi) The Company has full legal right, power and authority to enter into this Agreement and perform the transactions contemplated hereby. This Agreement has been duly authorized, executed and delivered by the Company and is a valid and binding agreement on the part of the Company, enforceable in accordance with its terms, except as rights to indemnity and contribution hereunder may be limited by applicable laws and except as the enforcement hereof may be limited by applicable bankruptcy, insolvency, reorganization,

moratorium or other similar laws affecting creditors' rights generally, or by general equitable principles. The execution and performance of this Agreement and the consummation of the transactions herein contemplated, including, but not limited to, the issuance and sale of the Stock by the Company and the sale of the Stock by the Selling Securityholders do not and will not: (i) conflict with, or result in a breach of, or violation of, any of the terms or provisions of, or constitute, either by itself or upon notice or the passage of time or both, a default under, any indenture, license, mortgage, lease, franchise, permit, deed of trust or other agreement or instrument to which the Company is a party or by which the Company or any of its properties is bound or may be affected, except where such breach, violation or default would not have a Material Adverse Effect, (ii) violate any of the provisions of the Articles of Incorporation or Bylaws of the Company in effect as of the Closing Date and any later date upon which the Option Stock is purchased, (iii) violate any order, judgment, statute, rule or regulation applicable to the Company or of any regulatory, administrative or governmental body or agency having jurisdiction over the Company or any of its properties or assets, or (iv) result in the creation or imposition of any lien, charge or encumbrance upon any assets or properties of the Company.

(xii) Any consent, approval, authorization, order, registration, filing, qualification, license or permit of or with any court or any public, governmental or regulatory agency or body having jurisdiction over the Company or any of its properties or assets which is required for the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby, including the issuance, sale and delivery of the Stock to be issued, sold and delivered by the Company hereunder, have been obtained, including the registration of the Stock under the Securities Act, listing of the shares on the NNM and such consents, approvals, authorizations, orders, registrations, filings, qualifications, licenses and permits as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Stock by the Underwriters.

(xiii) There is no pending or, to the Company's knowledge, threatened action, suit, claim or proceeding against the Company or any of its officers or any of its properties, assets or rights before any court or governmental agency or body or otherwise which (i) might have a Material Adverse Effect, (ii) might prevent consummation of the transactions contemplated hereby or (iii) is required to be disclosed in the Registration Statement and not otherwise disclosed; and there are no contracts or documents of the Company that are required to be described in the Prospectus or to be filed as exhibits to the Registration Statement which have not been fairly and accurately described in all material respects in the Prospectus and filed as exhibits to the Registration Statement. The contracts so described in the Prospectus are in full force and effect on the date hereof, and neither the Company nor, to the Company's knowledge, any other party is in breach of or default under any of such contracts.

(xiv) Other than as set forth in the Registration Statement, no claim is pending or, to the Company's knowledge, threatened to the effect that the present or past operations of the Company infringe upon or conflict with the rights of others with respect to any licenses, patents, patent rights, patent applications, trademarks, trademark applications, trade names, copyrights, trade secrets, drawings, schematics, applications, technology, know-how and other tangible and intangible proprietary information or material ("Intellectual Property") which would impair the ability of the Company to conduct its businesses as currently conducted; no claim is pending or, to the Company's knowledge, threatened regarding the Company's ownership or other interest in, or rights under, any Intellectual Property which is necessary in any respect to permit the Company to conduct its businesses as currently conducted; and, no claim is pending or, to the Company's knowledge, threatened to the effect that any Intellectual Property owned by or licensed to the Company is invalid or unenforceable. Except as disclosed in the Prospectus, the Company owns, or has licensed or otherwise has sufficient rights to, all Intellectual Property used or proposed to be used in the business of the Company as currently conducted. Except as otherwise disclosed in the Prospectus, no contract, agreement or understanding between the Company and any other party exists which would impede or prevent in any respect the continued use by the Company of the entire right, title and interest of the Company in and to any Intellectual Property used in the business of the Company as currently conducted.

(xv) The Company has not taken and will not take, directly or indirectly, any action designed to or that might be reasonably expected to cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Stock.

(xvi) Except as described in the Prospectus, no holder of securities of the Company has any rights to the registration of securities of the Company because of the filing of the Registration Statement or otherwise in connection with the sale of the Stock contemplated hereby, other than those that have been expressly waived prior to the date hereof. There are no registration rights with respect to the sale and issuance of the Stock, other than those that have been expressly waived prior to the date hereof.

(xvii) The Company 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, and the rules and regulations thereunder.

(b) Each of the Selling Securityholders, severally and not jointly, hereby represents and warrants as follows:

(i) Such Selling Securityholder has good and marketable title to all the shares of Stock to be sold by such Selling Securityholder hereunder, free and clear of all liens, encumbrances, equities, security interests and claims whatsoever, with full right and authority to deliver the same hereunder, subject, in the case of each Selling Securityholder, to the rights of American Stock Transfer & Trust Company, as custodian (herein called the "Custodian"), and that upon the delivery of and payment for such shares of the Stock hereunder, the Underwriters will receive good and marketable title thereto, free and clear of all liens, encumbrances, equities, security interests and claims whatsoever.

(ii) Certificates in negotiable form for the shares of the Stock to be sold by such Selling Securityholder have been placed in custody under a Custody Agreement for delivery under this Agreement with the Custodian; such Selling Securityholder specifically agrees that the shares of the Stock represented by the certificates so held in custody for such Selling Securityholder are subject to the interests of the Underwriters and the Company, that the arrangements made by such Selling Securityholder for such custody, including the Power of Attorney provided for in such Custody Agreement, are to that extent irrevocable, and that the obligations of such Selling Securityholder shall not be terminated by any act of such Selling Securityholder or by operation of law, whether by the death or incapacity of such Selling Securityholder (or, in the case of a Selling Securityholder that is not an individual, the dissolution or liquidation of such Selling Securityholder) or the occurrence of any other event; if any such death, incapacity, dissolution, liquidation or other such event should occur before the delivery of such shares of the Stock hereunder, certificates for such shares of the Stock shall be delivered by the Custodian in accordance with the terms and conditions of this Agreement as if such death, incapacity, dissolution, liquidation or other event had not occurred, regardless of whether the Custodian shall have received notice of such death, incapacity, dissolution, liquidation or other event.

(c) The Affiliated Selling Securityholder hereby represents and warrants that such Affiliated Selling Securityholder has reviewed the Registration Statement and Prospectus and, although such Affiliated Selling Securityholder has not independently verified the accuracy or completeness of all the information contained therein, nothing has come to the attention of such Affiliated Selling Securityholder that would lead such Affiliated Selling Securityholder to believe that on the Effective Date, the Registration Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; and, on the Effective Date the Prospectus contained and, on the Closing Date and any later date on which Option Stock is to be purchased, contains any untrue statement of a material fact or omitted or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; PROVIDED, HOWEVER, that none of the representations and warranties in this paragraph (c) shall apply to statements in, or omissions from, the Registration Statement or the Prospectus made in reliance upon and in conformity with information herein or otherwise furnished in writing to the Company by or on behalf of the Underwriters for use in the Registration Statement or the Prospectus.

### 3. PURCHASE OF THE STOCK BY THE UNDERWRITERS.

(a) On the basis of the representations and warranties and subject to the terms and conditions herein set forth, the Company agrees to issue and sell 2,860,000 shares of the Underwritten Stock to the

Underwriters, the Primary Selling Securityholder agrees to sell to the Underwriters the number of shares of the Underwritten Stock set forth in Schedule II opposite the name of such Primary Selling Securityholder, and each of the Underwriters agrees to purchase from the Company and the Primary Selling Securityholder the respective aggregate number of shares of Underwritten Stock set forth opposite its name in Schedule I. The price at which such shares of Underwritten Stock shall be sold by the Company and the Primary Selling Securityholder and purchased by the Underwriters shall be \$\_\_\_\_\_ per share. The obligation of each Underwriter to the Company and the Primary Selling Securityholder shall be to purchase from the Company and the Primary Selling Securityholder that number of shares of the Underwritten Stock which represents the same proportion of the total number of shares of the Underwritten Stock to be sold by each of the Company and the Primary Selling Securityholder pursuant to this Agreement as the number of shares of the Underwritten Stock set forth opposite the name of such Underwriter in Schedule I hereto represents of the total number of shares of the Underwritten Stock to be purchased by all Underwriters pursuant to this Agreement, as adjusted by Hambrecht & Quist LLC in such manner as Hambrecht & Quist LLC deems advisable to avoid fractional shares. In making this Agreement, each Underwriter is contracting severally and not jointly; except as provided in paragraphs (b) and (c) of this Section 3, the agreement of each Underwriter is to purchase only the respective number of shares of the Underwritten Stock specified in Schedule I.

(b) If for any reason one or more of the Underwriters shall fail or refuse (otherwise than for a reason sufficient to justify the termination of this Agreement under the provisions of Section 8 or 9 hereof) to purchase and pay for the number of shares of the Stock agreed to be purchased by such Underwriter or Underwriters, the Company or the Selling Securityholders shall immediately give notice thereof to you, and the non-defaulting Underwriters shall have the right within 24 hours after the receipt by you of such notice to purchase, or procure one or more other Underwriters to purchase, in such proportions as may be agreed upon between you and such purchasing Underwriter or Underwriters and upon the terms herein set forth, all or any part of the shares of the Stock which such defaulting Underwriter or Underwriters agreed to purchase. If the non-defaulting Underwriters fail so to make such arrangements with respect to all such shares and portion, the number of shares of the Stock which each non-defaulting Underwriter is otherwise obligated to purchase under this Agreement shall be automatically increased on a pro rata basis to absorb the remaining shares and portion which the defaulting Underwriter or Underwriters agreed to purchase; PROVIDED, HOWEVER, that the non-defaulting Underwriters shall not be obligated to purchase the shares and portion which the defaulting Underwriter or Underwriters agreed to purchase if the aggregate number of such shares of the Stock exceeds 10% of the total number of shares of the Stock which all Underwriters agreed to purchase hereunder. If the total number of shares of the Stock which the defaulting Underwriter or Underwriters agreed to purchase shall not be purchased or absorbed in accordance with the two preceding sentences, the Company and the Selling Securityholders shall have the right, within 24 hours next succeeding the 24-hour period above referred to, to make arrangements with other underwriters or purchasers satisfactory to you for purchase of such shares and portion on the terms herein set forth. In any such case, either you or the Company and the Selling Securityholders shall have the right to postpone the Closing Date determined as provided in Section 5 hereof for not more than seven business days after the date originally fixed as the Closing Date pursuant to said Section 5 in order that any necessary changes in the Registration Statement, the Prospectus or any other documents or arrangements may be made. If neither the non-defaulting Underwriters nor the Company and the Selling Securityholders shall make arrangements within the 24-hour periods stated above for the purchase of all the shares of the Stock which the defaulting Underwriter or Underwriters agreed to purchase hereunder, this Agreement shall be terminated without further act or deed and without any liability on the part of the Company or the Selling Securityholders to any non-defaulting Underwriter and without any liability on the part of any non-defaulting Underwriter to the Company or the Selling Securityholders. Nothing in this paragraph (b), and no action taken hereunder, shall relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

(c) On the basis of the representations, warranties and covenants herein contained, and subject to the terms and conditions herein set forth, the Additional Selling Securityholders grant an option to the several Underwriters to purchase, severally and not jointly, up to 450,000 shares in the aggregate of the Option Stock from such Additional Selling Securityholders at the same price per share as the Underwriters shall pay for the Underwritten Stock. Said option may be exercised only to cover over-allotments in the sale of the Underwritten Stock by the Underwriters and may be exercised in whole or in part at any time (but not more than once) on or before the thirtieth day after the date of this Agreement upon written or telegraphic notice by you to the Company setting forth the aggregate number of shares of the Option Stock as to which the several Underwriters are exercising

the option. Delivery of certificates for the shares of Option Stock, and payment therefor, shall be made as provided in Section 5 hereof. The number of shares of the Option Stock to be purchased by each Underwriter shall be the same percentage of the total number of shares of the Option Stock to be purchased by the several Underwriters as such Underwriter is purchasing of the Underwritten Stock, as adjusted by you in such manner as you deem advisable to avoid fractional shares.

#### 4. OFFERING BY UNDERWRITERS.

(a) The terms of the initial public offering by the Underwriters of the Stock to be purchased by them shall be as set forth in the Prospectus. The Underwriters may from time to time change the public offering price after the closing of the initial public offering and increase or decrease the concessions and discounts to dealers as they may determine.

(b) The information set forth in the last paragraph on the front cover page and under "Underwriting" in the Registration Statement, any Preliminary Prospectus and the Prospectus relating to the Stock filed by the Company (insofar as such information relates to the Underwriters) constitutes the only information furnished by the Underwriters to the Company for inclusion in the Registration Statement, any Preliminary Prospectus, and the Prospectus, and you on behalf of the respective Underwriters represent and warrant to the Company that the statements made therein are correct.

#### 5. DELIVERY OF AND PAYMENT FOR THE STOCK.

(a) Delivery of certificates for the shares of the Underwritten Stock and the Option Stock (if the option granted by Section 3(c) hereof shall have been exercised not later than 7:00 A.M., San Francisco time, on the date two business days preceding the Closing Date), and payment therefor, shall be made at the office of Cooley Godward LLP, 4205 Carillon Point, Kirkland, WA 98033-7355, at 7:00a.m., San Francisco time, on the fourth business day after the date of this Agreement, or at such time on such other day, not later than seven full business days after such fourth business day, as shall be agreed upon in writing by the Company, the Selling Securityholders and you. The date and hour of such delivery and payment (which may be postponed as provided in Section 3(b) hereof) are herein called the Closing Date.

(b) If the option granted by Section 3(c) hereof shall be exercised after 7:00 a.m., San Francisco time, on the date two business days preceding the Closing Date, delivery of certificates for the shares of Option Stock, and payment therefor, shall be made at the office of Cooley Godward LLP, 4205 Carillon Point, Kirkland, WA 98033-7355, at 7:00a.m., San Francisco time, on the third business day after the exercise of such option.

(c) Payment for the Stock purchased from the Company shall be made to the Company or its order and payment for the Stock purchased from the Selling Securityholders shall be made to the Custodian, for the account of the Selling Securityholders, in each case by wire transfer of immediately available funds. Such payment shall be made upon delivery of certificates for the Stock to you for the respective accounts of the several Underwriters against receipt therefor signed by you. Certificates for the Stock to be delivered to you shall be registered in such name or names and shall be in such denominations as you may request at least one business day before the Closing Date, in the case of Underwritten Stock, and at least one business day prior to the purchase thereof, in the case of the Option Stock. Such certificates will be made available to the Underwriters for inspection, checking and packaging at the offices of Lewco Securities Corporation, 2 Broadway, New York, New York 10004 on the business day prior to the Closing Date or, in the case of the Option Stock, by 3:00 p.m., New York time, on the business day preceding the date of purchase.

It is understood that you, individually and not on behalf of the Underwriters, may (but shall not be obligated to) make payment to the Company and the Selling Securityholders for shares to be purchased by any Underwriter whose check shall not have been received by you on the Closing Date or any later date on which Option Stock is purchased for the account of such Underwriter. Any such payment by you shall not relieve such Underwriter from any of its obligations hereunder.

6. FURTHER AGREEMENTS OF THE COMPANY. The Company covenants and agrees as follows:

(a) The Company will (i) prepare and timely file with the Commission under Rule 424(b) a Prospectus containing information previously omitted at the time of effectiveness of the Registration Statement in reliance on Rule 430A and (ii) not file any amendment to the Registration Statement or supplement to the Prospectus of which you shall not previously have been advised and furnished with a copy or to which you shall have reasonably objected in writing or which is not in compliance with the Securities Act or the rules and regulations of the Commission.

(b) The Company will promptly notify each Underwriter in the event of (i) the request by the Commission for amendment of the Registration Statement or for supplement to the Prospectus or for any additional information, (ii) the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement, (iii) the institution or notice of intended institution of any action or proceeding for that purpose,

(iv) the receipt by the Company of any notification with respect to the suspension of the qualification of the Stock for sale in any jurisdiction, or

(v) the receipt by it of notice of the initiation or threatening of any proceeding for such purpose. The Company will make every reasonable effort to prevent the issuance of such a stop order and, if such an order shall at any time be issued, to obtain the withdrawal thereof at the earliest possible moment.

(c) The Company will (i) on or before the Closing Date, deliver to you a signed copy of the Registration Statement as originally filed and of each amendment thereto filed prior to the time the Registration Statement becomes effective and, promptly upon the filing thereof, a signed copy of each post-effective amendment, if any, to the Registration Statement (together with, in each case, all exhibits thereto unless previously furnished to you) and will also deliver to you, for distribution to the Underwriters, a sufficient number of additional conformed copies of each of the foregoing (but without exhibits) so that one copy of each may be distributed to each Underwriter, (ii) as promptly as possible deliver to you and send to the several Underwriters, at such office or offices as you may designate, as many copies of the Prospectus as you may reasonably request, and (iii) thereafter from time to time during the period in which a prospectus is required by law to be delivered by an Underwriter or dealer, likewise send to the Underwriters as many additional copies of the Prospectus and as many copies of any supplement to the Prospectus and of any amended prospectus, filed by the Company with the Commission, as you may reasonably request for the purposes contemplated by the Securities Act.

(d) If at any time during the period in which a prospectus is required by law to be delivered by an Underwriter or dealer any event relating to or affecting the Company, or of which the Company shall be advised in writing by you, shall occur as a result of which it is necessary, in the opinion of counsel for the Company or of counsel for the Underwriters, to supplement or amend the Prospectus in order to make the Prospectus not misleading in the light of the circumstances existing at the time it is delivered to a purchaser of the Stock, the Company will forthwith prepare and file with the Commission a supplement to the Prospectus or an amended prospectus so that the Prospectus as so supplemented or amended will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time such Prospectus is delivered to such purchaser, not misleading. If, after the initial public offering of the Stock by the Underwriters and during such period, the Underwriters shall propose to vary the terms of offering thereof by reason of changes in general market conditions or otherwise, you will advise the Company in writing of the proposed variation, and, if in the opinion either of counsel for the Company or of counsel for the Underwriters such proposed variation requires that the Prospectus be supplemented or amended, the Company will forthwith prepare and file with the Commission a supplement to the Prospectus or an amended prospectus setting forth such variation. The Company authorizes the Underwriters and all dealers to whom any of the Stock may be sold by the several Underwriters to use the Prospectus, as from time to time amended or supplemented, in connection with the sale of the Stock in accordance with the applicable provisions of the Securities Act and the applicable rules and regulations thereunder for such period.

(e) Prior to the filing thereof with the Commission, the Company will submit to you, for your information, a copy of any post-effective amendment to the Registration Statement and any supplement to the Prospectus or any amended prospectus proposed to be filed.

(f) The Company will cooperate, when and as requested by you, in the qualification of the Stock for offer and sale under the securities or blue sky laws of such jurisdictions as you may designate and, during



the period in which a prospectus is required by law to be delivered by an Underwriter or dealer, in keeping such qualifications in good standing under said securities or blue sky laws; PROVIDED, HOWEVER, that the Company shall not be obligated to file any general consent to service of process or to qualify as a foreign corporation in any jurisdiction in which it is not so qualified. The Company will, from time to time, prepare and file such statements, reports, and other documents as are or may be required to continue such qualifications in effect for so long a period as you may reasonably request for distribution of the Stock.

(g) During a period of five years commencing with the date hereof, the Company will furnish to you, and to each Underwriter who may so request in writing, copies of all periodic and special reports furnished to shareholders of the Company and of all information, documents and reports filed with the Commission.

(h) Not later than the 45th day following the end of the fiscal quarter first occurring after the first anniversary of the Effective Date, the Company will make generally available to its security holders an earnings statement in accordance with Section 11(a) of the Securities Act and Rule 158 thereunder.

(i) The Company agrees to pay all costs and expenses incident to the performance of the obligations of the Company and the Selling Securityholders under this Agreement, including all costs and expenses incident to (i) the preparation, printing and filing with the Commission and the National Association of Securities Dealers, Inc. ("NASD") of the Registration Statement, any Preliminary Prospectus and the Prospectus, (ii) the furnishing to the Underwriters of copies of any Preliminary Prospectus and of the several documents required by paragraph (c) of this Section 6 to be so furnished, (iii) the printing of this Agreement and related documents delivered to the Underwriters, (iv) the preparation, printing and filing of all supplements and amendments to the Prospectus referred to in paragraph (d) of this Section 6, (v) the furnishing to you and the Underwriters of the reports and information referred to in paragraph (g) of this Section 6 and (vi) the printing and issuance of stock certificates, including the transfer agents fees. The Selling Securityholders will pay any transfer taxes incident to the transfer to the Underwriters of the shares of Stock being sold by the Selling Securityholders.

(j) The Company agrees to reimburse you, for the account of the several Underwriters, for blue sky fees and related disbursements (including counsel fees and disbursements and cost of printing memoranda for the Underwriters) paid by or for the account of the Underwriters or their counsel in qualifying the Stock under state securities or blue sky laws and in the review of the offering by the NASD.

(k) The Company hereby agrees that, without the prior written consent of Hambrecht & Quist LLC on behalf of the Underwriters, the Company will not, for a period of 180 days following the effective date of the Registration Statement, directly or indirectly, sell, offer, contract to sell, transfer the economic risk of ownership in, make any short sale, pledge or otherwise dispose of any shares of Common Stock or any securities convertible into or exchangeable or exercisable for or any rights to purchase or acquire Common Stock. The foregoing sentence shall not apply to (A) the Stock to be sold to the Underwriters pursuant to this Agreement, (B) Common Stock or options to purchase Common Stock or other equity incentives granted under the Option Plans, (C) shares of Common Stock issued by the Company upon the exercise of options granted under the Option Plans or upon the exercise of warrants outstanding as of the date hereof, and (D) capital stock issued in connection with acquisitions entered into by the Company, provided that the Company shall notify Hambrecht & Quist LLC of such proposed acquisitions at least five (5) business days prior to entering into a legally binding letter of intent or a definitive agreement with respect to such acquisitions.

(l) If at any time during the 25-day period after the Registration Statement becomes effective any rumor, publication or event relating to or affecting the Company shall occur as a result of which in your opinion the market price for the Stock has been or is likely to be materially affected (regardless of whether such rumor, publication or event necessitates a supplement to or amendment of the Prospectus), the Company will, after written notice from you advising the Company to the effect set forth above, forthwith prepare, consult with you concerning the substance of, and disseminate a press release or other public statement, reasonably satisfactory to you, responding to or commenting on such rumor, publication or event.

(m) The Company is familiar with the Investment Company Act of 1940, as amended, and has in the past conducted its affairs, and will in the future conduct its affairs, in such a manner to ensure that the Company was not and will not be an "investment company" or a company "controlled" by an "investment

company" within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations thereunder.

## 7. INDEMNIFICATION AND CONTRIBUTION.

(a) The Company agrees to indemnify and hold harmless each Underwriter and each person (including each partner or officer thereof) who controls any Underwriter within the meaning of Section 15 of the Securities Act from and against any and all losses, claims, damages or liabilities, joint or several, to which such indemnified parties or any of them may become subject under the Securities Act, the Securities Exchange Act of 1934, as amended (herein called the Exchange Act), or the common law or otherwise, and the Company agrees to reimburse each such Underwriter and controlling person for any legal or other expenses (including, except as otherwise hereinafter provided, reasonable fees and disbursements of counsel) incurred by the respective indemnified parties in connection with defending against any such losses, claims, damages or liabilities or in connection with any investigation or inquiry of, or other proceeding which may be brought against, the respective indemnified parties, in each case arising out of or based upon

(i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (including the Prospectus as part thereof and any Rule 462(b) registration statement) or any post-effective amendment thereto (including any Rule 462(b) registration statement), or 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

(ii) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus or the Prospectus (as amended or as supplemented if the Company shall have filed with the Commission any amendment thereof or supplement thereto) or the omission or alleged omission to state therein a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; PROVIDED, HOWEVER, that (1) the indemnity agreements of the Company contained in this paragraph (a) shall not apply to any such losses, claims, damages, liabilities or expenses if such statement or omission was made in reliance upon and in conformity with information furnished as herein stated or otherwise furnished in writing to the Company by or on behalf of any Underwriter for use in any Preliminary Prospectus or the Registration Statement or the Prospectus or any such amendment thereof or supplement thereto and (2) the indemnity agreement contained in this paragraph (a) with respect to any Preliminary Prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any such losses, claims, damages, liabilities or expenses purchased the Stock which is the subject thereof (or to the benefit of any person controlling such Underwriter) if at or prior to the written confirmation of the sale of such Stock a copy of the Prospectus (or the Prospectus as amended or supplemented) was not sent or delivered to such person and the untrue statement or omission of a material fact contained in such Preliminary Prospectus was corrected in the Prospectus (or the Prospectus as amended or supplemented) unless the failure is the result of noncompliance by the Company with paragraph (c) of Section 6 hereof. The indemnity agreements of the Company contained in this paragraph (a) and the representations and warranties of the Company contained in Section 2 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any indemnified party and shall survive the delivery of and payment for the Stock.

(b) Subject to the provisions of paragraph (g) of this Section 7, the Selling Securityholders severally and not jointly agree to indemnify and hold harmless each Underwriter and each person (including each partner or officer thereof) who controls any Underwriter within the meaning of Section 15 of the Securities Act from and against any and all losses, claims, damages or liabilities, joint or several, to which such indemnified parties or any of them may become subject under the Securities Act, the Exchange Act or the common law or otherwise, and the Selling Securityholders severally and not jointly agree to reimburse each such Underwriter and each person (including each partner or officer thereof) who controls any Underwriter within the meaning of Section 15 of the Securities Act for any legal or other expenses (including, except as otherwise hereinafter provided, reasonable fees and disbursements of counsel) incurred by the respective indemnified parties in connection with defending against any such losses, claims, damages or liabilities or in connection with any investigation or inquiry of, or other proceeding which may be brought against, the respective indemnified parties, in each case arising out of or based upon (i) information pertaining to such Selling Securityholder furnished by or on behalf of such Selling Securityholder expressly for use in any Preliminary Prospectus or the Registration Statement or the Prospectus or any such amendment thereof or supplement thereto, (ii) facts that would constitute a breach of any representation or warranty of such Selling Securityholder set forth in

Section 2(b) hereof, or (iii) in the case of the Affiliated Selling Securityholder, facts that would constitute a breach of any representation or warranty of such Affiliated Selling Securityholder set forth in Section 2(c) hereof. The indemnity agreements of the Selling Securityholders contained

in this paragraph (b) and the representations and warranties of the Selling Securityholders contained in Section 2 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any indemnified party and shall survive the delivery of and payment for the Stock.

(c) Each Underwriter severally agrees to indemnify and hold harmless the Company and the Selling Securityholder, each of its officers who signs the Registration Statement on his own behalf or pursuant to a power of attorney, each of its directors, each other Underwriter and each person (including each partner or officer thereof) who controls the Company or any such other Underwriter within the meaning of Section 15 of the Securities Act and the Selling Securityholders, from and against any and all losses, claims, damages or liabilities, joint or several, to which such indemnified parties or any of them may become subject under the Securities Act, the Exchange Act, or the common law or otherwise and to reimburse each of them for any legal or other expenses (including, except as otherwise hereinafter provided, reasonable fees and disbursements of counsel) incurred by the respective indemnified parties in connection with defending against any such losses, claims, damages or liabilities or in connection with any investigation or inquiry of, or other proceeding which may be brought against, the respective indemnified parties, in each case arising out of or based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (including the Prospectus as part thereof and any Rule 462(b) registration statement) or any post-effective amendment thereto (including any Rule 462(b) registration statement) or 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 (ii) any untrue statement or alleged untrue statement of a material fact contained in the Prospectus (as amended or as supplemented if the Company shall have filed with the Commission any amendment thereof or supplement thereto) or the omission or alleged omission to state therein a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, if such statement or omission was made in reliance upon and in conformity with information furnished as herein stated or otherwise furnished in writing to the Company by or on behalf of such indemnifying Underwriter for use in the Registration Statement or the Prospectus or any such amendment thereof or supplement thereto. The indemnity agreement of each Underwriter contained in this paragraph (c) shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any indemnified party and shall survive the delivery of and payment for the Stock.

(d) Each party indemnified under the provisions of paragraphs (a), (b) and (c) of this Section 7 agrees that, upon the service of a summons or other initial legal process upon it in any action or suit instituted against it or upon its receipt of written notification of the commencement of any investigation or inquiry of, or proceeding against, it in respect of which indemnity may be sought on account of any indemnity agreement contained in such paragraphs, it will promptly give written notice (herein called the Notice) of such service or notification to the party or parties from whom indemnification may be sought hereunder. No indemnification provided for in such paragraphs shall be available to any party who shall fail so to give the Notice if the party to whom such Notice was not given was unaware of the action, suit, investigation, inquiry or proceeding to which the Notice would have related and was prejudiced by the failure to give the Notice, but the omission so to notify such indemnifying party or parties of any such service or notification shall not relieve such indemnifying party or parties from any liability which it or they may have to the indemnified party for contribution or otherwise than on account of such indemnity agreement. Any indemnifying party shall be entitled at its own expense to participate in the defense of any action, suit or proceeding against, or investigation or inquiry of, an indemnified party. Any indemnifying party shall be entitled, if it so elects within a reasonable time after receipt of the Notice by giving written notice (herein called the Notice of Defense) to the indemnified party, to assume (alone or in conjunction with any other indemnifying party or parties) the entire defense of such action, suit, investigation, inquiry or proceeding, in which event such defense shall be conducted, at the expense of the indemnifying party or parties, by counsel chosen by such indemnifying party or parties and reasonably satisfactory to the indemnified party or parties; PROVIDED, HOWEVER, that (i) if the indemnified party or parties reasonably determine that there may be a conflict between the positions of the indemnifying party or parties and of the indemnified party or parties in conducting the defense of such action, suit, investigation, inquiry or proceeding or that there may be legal defenses available to such indemnified party or parties different from or in addition to those available to the indemnifying party or parties, then counsel for the indemnified party or parties shall be entitled to conduct the defense to the extent reasonably determined by such counsel to be necessary to protect the interests of the indemnified party or parties and (ii) in any event, the indemnified party or parties shall be entitled to have counsel chosen by such indemnified party or parties participate in, but not conduct, the defense. If, within a reasonable time after receipt of the Notice, an indemnifying party gives a Notice of Defense and the counsel chosen by the indemnifying party or parties is reasonably

satisfactory to the indemnified party or parties, the indemnifying party or parties will not be liable under paragraphs (a) through (d) of this Section 7 for any legal or other expenses subsequently incurred by the indemnified party or parties in connection with the defense of the action, suit, investigation, inquiry or proceeding, except that (A) the indemnifying party or parties shall bear the legal and other expenses incurred in connection with the conduct of the defense as referred to in clause (i) of the proviso to the preceding sentence and (B) the indemnifying party or parties shall bear such other expenses as it or they have authorized to be incurred by the indemnified party or parties. If, within a reasonable time after receipt of the Notice, no Notice of Defense has been given, the indemnifying party or parties shall be responsible for any legal or other expenses incurred by the indemnified party or parties in connection with the defense of the action, suit, investigation, inquiry or proceeding.

(e) If the indemnification provided for in this Section 7 is unavailable or insufficient to hold harmless an indemnified party under paragraph (a), (b) or (c) of this Section 7, then each indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities referred to in paragraph (a), (b) or (c) of this Section 7(i) in such proportion as is appropriate to reflect the relative benefits received by each indemnifying party from the offering of the Stock or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of each indemnifying party in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, or actions in respect thereof, as well as any other relevant equitable considerations. The relative benefits received by the Company and the Selling Securityholders on the one hand and the Underwriters on the other shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the Stock received by the Company and the Selling Securityholders and the total underwriting discount received by the Underwriters, as set forth in the table on the cover page of the Prospectus, bear to the aggregate public offering price of the Stock. Relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by each indemnifying party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission.

The parties agree that it would not be just and equitable if contributions pursuant to this paragraph (e) were to be determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take into account the equitable considerations referred to in the first sentence of this paragraph (e). The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities, or actions in respect thereof, referred to in the first sentence of this paragraph (e) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigation, preparing to defend or defending against any action or claim which is the subject of this paragraph (e). Notwithstanding the provisions of this paragraph (e), no Underwriter shall be required to contribute any amount in excess of the underwriting discount applicable to the Stock purchased by such Underwriter. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this paragraph (e) to contribute are several in proportion to their respective underwriting obligations and not joint.

Each party entitled to contribution agrees that upon the service of a summons or other initial legal process upon it in any action instituted against it in respect of which contribution may be sought, it will promptly give written notice of such service to the party or parties from whom contribution may be sought, but the omission so to notify such party or parties of any such service shall not relieve the party from whom contribution may be sought from any obligation it may have hereunder or otherwise (except as specifically provided in paragraph (d) of this Section 7).

(f) Neither the Company nor the Selling Securityholders will, without the prior written consent of each Underwriter, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding in respect of which indemnification may be sought hereunder (whether or not such Underwriter or any person who controls such Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act is a party to such claim, action, suit or proceeding) unless such settlement, compromise or consent includes an unconditional release of such Underwriter and each such controlling person from all liability arising out of such claim, action, suit or proceeding.

(g) The liability of each Selling Securityholder under such Selling Securityholder's representations and warranties contained in paragraphs (b) and (c) of Section 2 hereof and under the indemnity and reimbursement agreements contained in the provisions of this Section 7 and Section 11 hereof shall be limited to an amount equal to the initial public offering price of the stock sold by such Selling Securityholder to the Underwriters. In addition, no Selling Securityholder shall be liable under the indemnity and reimbursement agreements of Sections 7 and 11 hereof unless and until the Underwriters have made written demand on the Company for payment under such Sections which shall not have been paid or agreed to be paid by the Company within 45 days after receipt by the Company of such demand. A copy of such demand when made to the Company shall be provided to the Selling Securityholders. The Company and the Selling Securityholders may agree, as among themselves and without limiting the rights of the Underwriters under this Agreement, as to the respective amounts of such liability for which they each shall be responsible.

8. **TERMINATION.** This Agreement may be terminated by you at any time prior to the Closing Date by giving written notice to the Company and the Selling Securityholders if after the date of this Agreement trading in the Common Stock shall have been suspended, or if there shall have occurred (i) the engagement in hostilities or an escalation of major hostilities by the United States or the declaration of war or a national emergency by the United States on or after the date hereof, (ii) any outbreak of hostilities or other national or international calamity or crisis or change in economic or political conditions if the effect of such outbreak, calamity, crisis or change in economic or political conditions in the financial markets of the United States would, in the Underwriters' reasonable judgment, make the offering or delivery of the Stock impracticable, (iii) suspension of trading in securities generally or a material adverse decline in value of securities generally on the New York Stock Exchange, the American Stock Exchange, The Nasdaq Stock Market, or limitations on prices (other than limitations on hours or numbers of days of trading) for securities on either such exchange or system, (iv) the enactment, publication, decree or other promulgation of any federal or state statute, regulation, rule or order of, or commencement of any proceeding or investigation by, any court, legislative body, agency or other governmental authority which in the Underwriters' reasonable opinion materially and adversely affects or will materially or adversely affect the business or operations of the Company, (v) declaration of a banking moratorium by either federal or New York State authorities or (vi) the taking of any action by any federal, state or local government or agency in respect of its monetary or fiscal affairs which in the Underwriters' reasonable opinion has a material adverse effect on the securities markets in the United States. If this Agreement shall be terminated pursuant to this Section 8, there shall be no liability of the Company or the Selling Securityholders to the Underwriters and no liability of the Underwriters to the Company or the Selling Securityholders; PROVIDED, HOWEVER, that in the event of any such termination the Company and the Selling Securityholders agree to indemnify and hold harmless the Underwriters from all costs or expenses incident to the performance of the obligations of the Company and the Selling Securityholders under this Agreement, including all costs and expenses referred to in paragraphs (i) and (j) of Section 6 hereof.

9. **CONDITIONS OF UNDERWRITERS' OBLIGATIONS.** The obligations of the several Underwriters to purchase and pay for the Stock shall be subject to the performance by the Company and by the Selling Securityholders of all their respective obligations to be performed hereunder at or prior to the Closing Date or any later date on which Option Stock is to be purchased, as the case may be, and to the following further conditions:

(a) The Registration Statement shall have become effective; and no stop order suspending the effectiveness thereof shall have been issued and no proceedings therefor shall be pending or threatened by the Commission.

(b) The legality and sufficiency of the sale of the Stock hereunder and the validity and form of the certificates representing the Stock, all corporate proceedings and other legal matters incident to the foregoing, and the form of the Registration Statement and of the Prospectus (except as to the financial statements contained therein), shall have been approved at or prior to the Closing Date by Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP, counsel for the Underwriters.

(c) You shall have received from Cooley Godward LLP, counsel for the Company and the Affiliated Selling Securityholders, an opinion, addressed to the Underwriters and dated the Closing Date, covering the matters set forth in Annex A hereto, and if Option Stock is purchased at any date after the Closing Date, an additional opinion from such counsel, addressed to the Underwriters and dated such later date, confirming that the statements expressed as of the Closing Date in such opinion remain valid as of such later date.

(d) You shall have received from Garvey, Schubert & Barer, counsel for Michael D. Almquist, an opinion, addressed to the Underwriters and dated the Closing Date, covering the matters set forth in Annex B hereto.

(e) You shall have received from \_\_\_\_\_, counsel for Britannia Holdings Limited, an opinion, addressed to the Underwriters and dated [\_\_\_\_\_] covering the matters set forth in Annex C hereto.

(f) You shall be satisfied that (i) as of the Effective Date, the statements made in the Registration Statement and the Prospectus were true and correct and neither the Registration Statement nor the Prospectus omitted to state any material fact required to be stated therein or necessary in order to make the statements therein, respectively, not misleading, (ii) since the Effective Date, no event has occurred which should have been set forth in a supplement or amendment to the Prospectus which has not been set forth in such a supplement or amendment, (iii) since the respective dates as of which information is given in the Registration Statement in the form in which it originally became effective and the Prospectus contained therein, there has not been any material adverse change or any development involving a prospective material adverse change in or affecting the business, properties, financial condition or results of operations of the Company, whether or not arising from transactions in the ordinary course of business, and, since such dates, except in the ordinary course of business, Company has not entered into any material transaction not referred to in the Registration Statement in the form in which it originally became effective and the Prospectus contained therein, (iv) the Company does not have any material contingent obligations which are not disclosed in the Registration Statement and the Prospectus, (v) there are not any pending or known threatened legal proceedings to which the Company is a party or of which property of the Company is the subject which are material and which are not disclosed in the Registration Statement and the Prospectus, (vi) there are not any franchises, contracts, leases or other documents which are required to be filed as exhibits to the Registration Statement which have not been filed as required,

(vii) the representations and warranties of the Company herein are true and correct in all material respects as of the Closing Date or any later date on which Option Stock is to be purchased, as the case may be, and (viii) there has not been any material change in the market for securities in general or in political, financial or economic conditions from those reasonably foreseeable as to render it impracticable in your reasonable judgment to make a public offering of the Stock, or a material adverse change in market levels for securities in general (or those of companies in particular) or financial or economic conditions which render it inadvisable to proceed.

(g) You shall have received on the Closing Date and on any later date on which Option Stock is purchased a certificate, dated the Closing Date or such later date, as the case may be, and signed by the President and the Chief Financial Officer of the Company, stating that the respective signers of said certificate have carefully examined the Registration Statement in the form in which it originally became effective and the Prospectus contained therein and any supplements or amendments thereto, and that the statements included in clauses (i) through (vii) of paragraph (f) of this Section 9 are true and correct.

(h) You shall have received from PricewaterhouseCoopers LLP, a letter or letters, addressed to the Underwriters and dated the Closing Date and any later date on which Option Stock is purchased, confirming that they are independent public accountants with respect to the Company within the meaning of the Securities Act and the applicable published rules and regulations thereunder and based upon the procedures described in their letter delivered to you concurrently with the execution of this Agreement (herein called the Original Letter), but carried out to a date not more than three business days prior to the Closing Date or such later date on which Option Stock is purchased (i) confirming, to the extent true, that the statements and conclusions set forth in the Original Letter are accurate as of the Closing Date or such later date, as the case may be, and (ii) setting forth any revisions and additions to the statements and conclusions set forth in the Original Letter which are necessary to reflect any changes in the facts described in the Original Letter since the date of the Original Letter or to reflect the availability of more recent financial statements, data or information. The letters shall not disclose any change, or any development involving a prospective change, in or affecting the business or properties of the Company which, in your sole judgment, makes it impractical or inadvisable to proceed with the public offering of the Stock or the purchase of the Option Stock as contemplated by the Prospectus.

(i) You shall have received from PricewaterhouseCoopers LLP a letter stating that their review of the Company's system of internal accounting controls, to the extent they deemed necessary in establishing

the scope of their examination of the Company's financial statements as at March 31, 1999, did not disclose any weakness in internal controls that they considered to be material weaknesses.

(j) You shall have been furnished evidence in usual written or telegraphic form from the appropriate authorities of the several jurisdictions, or other evidence satisfactory to you, of the qualification referred to in paragraph (f) of Section 6 hereof.

(k) Prior to the Closing Date, the Stock to be issued and sold by the Company shall have been duly authorized for listing by the NNM upon official notice of issuance.

(l) On or prior to the Closing Date, you shall have received from all directors and officers of the Company, and shareholders, comprising at least 98% of the outstanding shares of capital stock in the aggregate, agreements, in form reasonably satisfactory to Hambrecht & Quist LLC, stating that without the prior written consent of Hambrecht & Quist LLC on behalf of the Underwriters, such person or entity will not, for a period of 180 days following the effective date of the Registration Statement, directly or indirectly, sell, offer, contract to sell, transfer the economic risk of ownership in, make any short sale, pledge, or otherwise dispose of any shares of Common Stock or any securities convertible into or exchangeable or exercisable for or any other rights to purchase or acquire Common Stock.

All the agreements, opinions, certificates and letters mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP, counsel for the Underwriters, shall be reasonably satisfied that they comply in form and scope.

In case any of the conditions specified in this Section 9 shall not be fulfilled, this Agreement may be terminated by you by giving notice to the Company. Any such termination shall be without liability of the Company or Selling Securityholders to the Underwriters and without liability of the Underwriters to the Company or the Selling Securityholders; PROVIDED, HOWEVER, that (i) in the event of such termination, the Company and the Selling Securityholders agree to indemnify and hold harmless the Underwriters from all costs or expenses incident to the performance of the obligations of the Company and the Selling Securityholders under this Agreement, including all costs and expenses referred to in paragraphs (i) and (j) of Section 6 hereof, and (ii) if this Agreement is terminated by you because of any refusal, inability or failure on the part of the Company or the Selling Securityholders to perform any agreement herein, to fulfill any of the conditions herein, or to comply with any provision hereof other than by reason of a default by any of the Underwriters, the Company will reimburse the Underwriters severally upon demand for all out-of-pocket expenses (including reasonable fees and disbursements of counsel) that shall have been incurred by them in connection with the transactions contemplated hereby.

**10. CONDITIONS OF THE OBLIGATION OF THE COMPANY AND THE SELLING SECURITYHOLDERS.** The obligation of the Company and the Selling Securityholders to deliver the Stock shall be subject to the conditions that (a) the Registration Statement shall have become effective and (b) no stop order suspending the effectiveness thereof shall be in effect and no proceedings therefor shall be pending or threatened by the Commission.

In case either of the conditions specified in this Section 10 shall not be fulfilled, this Agreement may be terminated by the Company and the Selling Securityholders by giving notice to you. Any such termination shall be without liability of the Company and the Selling Securityholders to the Underwriters and without liability of the Underwriters to the Company or the Selling Securityholders; PROVIDED, HOWEVER, that in the event of any such termination the Company and the Selling Securityholders jointly and severally agree to indemnify and hold harmless the Underwriters from all costs or expenses incident to the performance of the obligations of the Company and the Selling Securityholders under this Agreement, including all costs and expenses referred to in paragraphs (i) and (j) of Section 6 hereof.

**11. REIMBURSEMENT OF CERTAIN EXPENSES.** In addition to its other obligations under Section 7 of this Agreement, the Company hereby agrees to reimburse on a quarterly basis the Underwriters for all reasonable legal and other expenses incurred in connection with investigating or defending any claim, action, investigation, inquiry or other proceeding arising out of or based upon any statement or omission, or any alleged statement or omission, described in paragraph (a) of Section 7 of this Agreement, notwithstanding the absence of a judicial determination as to the propriety and enforceability of the obligations under this Section 11 and the possibility that such payments

might later be held to be improper; PROVIDED, HOWEVER, that (i) to the extent any such payment is ultimately held to be improper, the persons receiving such payments shall promptly refund them and (ii) such persons shall provide to the Company, upon request, reasonable assurances of their ability to effect any refund, when and if due.

12. PERSONS ENTITLED TO BENEFIT OF AGREEMENT. This Agreement shall inure to the benefit of the Company, the Selling Securityholders and the several Underwriters and, with respect to the provisions of Section 7 hereof, the several parties (in addition to the Company, the Selling Securityholders and the several Underwriters) indemnified under the provisions of said Section 7, and their respective personal representatives, successors and assigns. Nothing in this Agreement is intended or shall be construed to give to any other person, firm or corporation any legal or equitable remedy or claim under or in respect of this Agreement or any provision herein contained. The term successors and assigns as herein used shall not include any purchaser, as such purchaser, of any of the Stock from any of the several Underwriters.

13. NOTICES. Except as otherwise provided herein, all communications hereunder shall be in writing or by telegraph and, if to the Underwriters, shall be mailed, telegraphed or delivered to Hambrecht & Quist LLC, One Bush Street, San Francisco, California 94104; and if to the Company, shall be mailed, telegraphed or delivered to it at its office, 200 First Avenue West, Suite 500, Seattle, Washington 98119, Attention: Chief Financial Officer; and if to the Selling Securityholders, shall be mailed, telegraphed or delivered to the Selling Securityholders in care of F5 Networks, Inc., 200 First Avenue West, Suite 500, Seattle, WA, 98119, Attention: Chief Financial Officer. All notices given by telegraph shall be promptly confirmed by letter.

14. MISCELLANEOUS. The reimbursement, indemnification and contribution agreements contained in this Agreement and the representations, warranties and covenants in this Agreement shall remain in full force and effect regardless of (a) any termination of this Agreement, (b) any investigation made by or on behalf of any Underwriter or controlling person thereof, or by or on behalf of the Company or the Selling Securityholders or their respective directors or officers, and (c) delivery and payment for the Stock under this Agreement; PROVIDED, HOWEVER, that if this Agreement is terminated prior to the Closing Date, the provision of paragraph (k) of Section 6 hereof shall be of no further force or effect.

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 and the same instrument.

This Agreement shall be governed by, and construed in accordance with, the laws of the State of California.



Please sign and return to the Company and to the Selling Securityholders in care of the Company the enclosed duplicates of this letter, whereupon this letter will become a binding agreement among the Company, the Selling Securityholders and the several Underwriters in accordance with its terms.

Very truly yours,

**F5 NETWORKS, INC.**

By

Jeffrey S. Hussey President and Chief Executive Officer

**Michael D. Almquist**

By:

Jeffrey S. Hussey Attorney-in-Fact

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**Jeffrey S. Hussey**

**Britannia Holdings Limited**

By:

Jeffrey S. Hussey Attorney-in-Fact

The foregoing Agreement is hereby confirmed and accepted as of the date first above written.

**HAMBRECHT & QUIST LLC**

**BANCBOSTON ROBERTSON STEPHENS INC**

DAIN RAUSCHER WESSELS, a division of Dain Rauscher Incorporated

By

Managing Director

Acting on behalf of the several Underwriters, including themselves, named in Schedule I hereto

**[LETTERHEAD]**

May 13, 1999

F5 Networks, Inc.  
2-- First Avenue West, Suite 500  
Seattle, WA 98119

Ladies and Gentlemen:

You have requested our opinion with respect to certain matters in connection with the filing by F5 Networks, Inc. (the "Company") of a Registration Statement on Form S-1 (the "Registration Statement") with the Securities and Exchange Commission (the "Commission") covering an underwritten public offering of up to three million four hundred fifty thousand (3,450,000) shares of Common Stock (the "Common Stock").

In connection with this opinion, we have (i) examined and relied upon the Registration Statement and related Prospectus, the Company's Amended and Restated Articles of Incorporation and Bylaws, as currently in effect, and the originals or copies certified to our satisfaction of such records, documents, certificates, memoranda and other instruments as in our judgment are necessary or appropriate to enable us to render the opinion expressed below; (ii) assumed that the Second Amended and Restated Articles of Incorporation, as set forth in Exhibit 3.2 of the Registration Statement, shall have been duly approved and filed with the office of the Washington Secretary of State; and (iii) that the shares of Common Stock will be sold by the Underwriters at a price established by the Pricing Committee of the Board of Directors of the Company.

On the basis of the foregoing, and in reliance thereon, we are of the opinion that the Common Stock, when sold and issued in accordance with the Registration Statement and related Prospectus, will be validly issued, fully paid and non-assessable.

We consent to the reference to our firm under the caption "Legal Matters" in the Prospectus included on the Registration Statement and to the filing of this opinion as an exhibit to the Registration Statement.

Very truly yours,

**COOLEY GODWARD LLP**

By: /s/ PATRICK A. POHLEN

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*Patrick A. Pohlen*

## CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in this Registration Statement on Form S-1 of our reports dated April 6, 1999 relating to the financial statements of F5 Networks, Inc., which appear in such Registration Statement. We also consent to the references to us under the headings "Experts" and "Selected Financial Data" in such Registration Statement.

**PricewaterhouseCoopers LLP**

Seattle, Washington  
May 13, 1999

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**End of Filing**

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