F5 NETWORKS INC
Form 10-K
November 26, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
ANNUAL REPORT PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .

Commission File Number 000-26041

F5 Networks, Inc.
(Exact name of Registrant as specified in its charter)

WASHINGTON	91-1714307
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
401 Elliott Ave West Seattle, Washington 98119	
(Address of principal executive offices)	
(206) 272-5555	
(Registrant's telephone number, including area code)	

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

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

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

Information required in response to Part III of this Form 10-K (Items 10, 11, 12, 13 and 14) is hereby incorporated by reference to the specified portions of the Registrant's Definitive Proxy Statement for the Annual Shareholders Meeting for fiscal year 2014, which Definitive Proxy Statement shall be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the end of the fiscal year to which this Report relates.

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Trademarks and Tradenames

F5, F5 Networks, F5 [DESIGN], F5 Management Pack, BIG-IP, CloudFucious, Data Manager, VIPRION, WA, WAN Optimization Manager, WOM, APM, Application Security Manager, ASM, Local Traffic Manager, LTM, Global Traffic Manager, GTM, IBR, Link Controller, Enterprise Manager, Traffic Management Operating System, TMOS, WANJet, FirePass, WebAccelerator, TrafficShield, iControl, TCP Express, Fast Application Proxy, 3DNS, iRules, iRules OnDemand, Packet Velocity, ZoneRunner, OneConnect, AskF5, Intelligent Compression, Transparent Data Reduction, TDR, L7 Rate Shaping, LC, IPv6 Gateway, SSL Acceleration, Fast Cache, iHealth, Intelligent Browser Referencing, Message Security Manager, PSM, MSM, NetCelera, Protocol Security Manager, DevCentral, DevCentral [DESIGN], Edge Client, Edge Gateway, EM, iQuery, Real Traffic Policy Builder, StrongBox, SYN Check, Access Policy Manager, Acopia, Acopia Networks, Advanced Client Authentication, Advanced Routing, ARX, Cloud Extender, CMP, DSI, DNS Express, DSC, Edge Portal, iApps, iSession, ScaleN, SuperVIP, UNITY, vCMP, Clustered Multiprocessing, COHESION, ELEVATE, ENGAGE, GUARDIAN, Signaling Delivery Controller, SDC, Traffix, Traffix Systems [DESIGN], VAULT, Virtual Clustered Multiprocessing, AAM, Application Acceleration Manager, AFM, Advanced Firewall Manager, BIG-IQ, F5 Certified [DESIGN], iCall, LineRate, LineRate Systems [DESIGN], LROS, LineRate Operating System, PEM, Policy Enforcement Manager, Application Cloud Services, Application Services Controller, BIG-IP EDGE GATEWAY, DDos Frontline, DDos Swat, Defense.Net, F5 Synthesis, F5 Synthesis [DESIGN], MobileSafe, SalesXchange, F5 SalesXchange [DESIGN], SDAS, Software Defined Application Services, Solutions for an application world, TechXchange, F5 TechXchange [DESIGN], TotALL, Versafe, Versafe [DESIGN], and WebSafe are trademarks or service marks of F5 Networks, Inc., or its subsidiaries in the U.S. and other countries. Any other trademarks, service marks and/or trade names appearing in this document are the property of their respective owners.

Unless the context otherwise requires, in this Annual Report on Form 10-K, the terms “F5 Networks,” “the Company,” “we,” “us,” and “our” refer to F5 Networks, Inc. and its subsidiaries. Our fiscal year ends on September 30, and fiscal years are referred to by the calendar year in which they end. For example, “fiscal year 2014” and “fiscal 2014” refer to the fiscal year ended September 30, 2014.

Forward-Looking Statements

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

Item 1. Business

General

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

Introduced in 2004, the TMOS platform supports the industry’s broadest array of features and functions designed to ensure that applications accessible over Internet Protocol (IP) networks are secure, fast and available. Our TMOS-based application services include local and global traffic management, network and application security, access management, web acceleration and a number of other network and application services. These services are available as software modules that can run individually or as part of an integrated solution on our high-performance, scalable, purpose-built BIG-IP appliances and chassis-based VIPRION systems, or as software-only Virtual Editions

that run on all major hypervisors. In conjunction with our BIG-IQ management software, the availability of our products as both hardware-based and software-only solutions gives customers the flexibility to create a dynamic control plane infrastructure tailored to the specific demands of private and public clouds as well as traditional data centers.

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

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plane events such as threshold breaches and adjust the behavior of our products accordingly. TMOS is designed to support the addition of new functionality as software modules and to exploit the performance-enhancing features of our purpose-built hardware.

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

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

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

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

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

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

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

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

In connection with our products, we offer a broad range of services including consulting, training, installation, maintenance and other technical support services.

F5 Networks was incorporated on February 26, 1996 in the State of Washington. Our headquarters is in Seattle, Washington, and our mailing address is 401 Elliott Avenue West, Seattle, Washington 98119. The telephone number at our executive offices is (206) 272-5555. We have subsidiaries or branch offices in Argentina, Australia, Brazil, the British Virgin Islands, Canada, Chile, China, Colombia, France, Germany, Hong Kong, India, Israel, Italy, Japan, Kingdom of Saudi Arabia,

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Mexico, Netherlands, New Zealand, Russia, Singapore, South Korea, Spain, Taiwan, the United Arab Emirates, and the United Kingdom. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are available free of charge on our website, www.f5.com, as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission.

Industry Background

Growth and Evolution of IP-Based Infrastructures

Internet Protocol (IP) is a communications language used to transmit data over the Internet. For more than two decades, large business and government organizations have been gradually replacing older data center architectures with IP-based infrastructures, deploying new IP-based applications and replacing or upgrading legacy applications with new IP-enabled versions. At the same time, organizations have become more geographically dispersed, and increasingly mobile workforces depend on access to corporate applications and data from remote locations and a variety of client devices including smartphones, tablets and laptops.

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

Emergence of the Dynamic Data Center

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

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

Need to Optimize the Secure Delivery of Applications and Data

With the ongoing evolution and increasing complexity of IT infrastructures, there is a growing need to optimize the secure delivery of applications and data over IP networks. IP-based traffic passing between end-user devices and servers is divided into discrete packets that travel by multiple routes to their destination where they are reassembled. The disassembly, routing, and reassembly of transmissions are relatively straightforward and require little intelligence.

By contrast, managing, inspecting, modifying, redirecting and securing application traffic going to and from servers requires intelligent systems capable of performing a broad array of functions. Broadly speaking, all of those functions are aspects of application delivery.

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

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common network functions, such as encryption, IPv4/IPv6 translation, compression, authentication, rate-shaping, and a variety of specialized functions, including network and application security services, policy management, and WAN optimization, that would otherwise run on the servers or be coded into applications. Since most large enterprises have hundreds — if not thousands — of servers and applications, it is not practical to replicate these functions on each server or within each virtual instance of an application. Doing so would take up valuable network resources and reduce the number of applications that could run on each server. Maintenance costs would be prohibitive and the net result would be a negative impact on the overall performance of servers and applications. Offloading specific functions onto point solutions can eliminate those problems but introduces a new set of challenges. Using point solutions from multiple vendors can create interoperability issues, and problems that do occur can be difficult to troubleshoot. From a security standpoint, it is also much more difficult to audit traffic passing through multiple devices. Providing a comprehensive set of integrated application delivery services on a single, high-performance device simplifies management of the device and the servers it sits in front of and reduces overall capital and operating costs. In virtual and cloud environments where flexibility is a priority, software-only ADCs provide the same services and many of the benefits associated with hardware-based ADCs.

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

F5’s Strategy

Our goal is to lead the industry in providing application and network services that ensure the safe, fast and reliable delivery of applications to any user, anywhere, anytime. Those services include availability, security, performance, mobility, and identity. They also include managing and orchestrating resources, as well as coordinating services across multiple data centers and networks. Our products are designed to be strategic points of control in the IT infrastructure that allow business policies to be implemented where information is exchanged. This enables organizations to respond quickly to changing business needs, improve costly and time consuming business processes and develop new sources of revenue through highly differentiated offerings. Key components of our strategy include:

Offering a complete, integrated application delivery product suite.

Since the introduction of TMOS, we have developed TMOS-based versions of our own legacy products, such as Local Traffic Manager (LTM), Global Traffic Manager (GTM) and Link Controller; new products, such as Advanced Firewall Manager (AFM), Carrier Grade Network Address Translation (CGNAT) and Policy Enforcement Manager (PEM), that leverage the unique performance characteristics of our hardware and software architecture; and products that incorporate acquired technology, including Application Security Manager (ASM), Application Acceleration Manager (AAM), Access Policy Manager (APM) and two of our newest security offerings, WebSafe and MobileSafe. All of these products are currently available as integrated software modules on our BIG-IP and VIPRION hardware and as Virtual Editions that run on any standard server or hypervisor. We believe this approach sharply differentiates our products from our competitors’ offerings and provides customers with an expanding array of integrated application delivery solutions that can be customized to meet their specific needs.

Investing in technology to meet evolving customer needs.

We continue to invest in research and development to provide our customers with comprehensive, integrated application delivery services. Our product development efforts leverage the unique attributes of our TMOS platform to deliver new features and functions that address the complex, changing needs of our customers. Although the bulk of

our investment is software development, concurrent development of tightly integrated, high-performance hardware is a key part of our investment strategy. We also look for opportunities to acquire technologies that will enable us to broaden the scope of our offerings and expand into adjacent markets.

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Expanding our addressable market.

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

Continuing to build and expand relationships with strategic technology partners.

To enhance our competitiveness in large accounts, we have developed strategic technology partnerships with enterprise software vendors, such as Microsoft, Oracle, VMware and others, who have an established presence in those accounts. By taking advantage of iControl, our open application programming interface, and iCall, a scripting framework that provides the ability to define data plane events such as threshold breaches and adjust the behavior of our products accordingly, these vendors can equip their applications to control our products in the network, enhancing overall application performance. In return, they provide us significant leverage in the selling process by recommending our products to their customers. We have also worked closely with several of these vendors to develop configurations of our products, called iApps, that are specifically designed to simplify deployment and optimize the performance of their applications. These solutions are available as templates which allow quick and easy configuration of our products for specific applications.

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

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

Customization of our TMOS-based products using iRules and our LineRate technology with node.js enhances their “stickiness” by allowing customers to solve problems in both their applications and their networks that would be difficult if not impossible to solve by other means. To promote the use of iRules and node.js, we host an online community, DevCentral, where network architects and developers can discuss and share the ways in which they use iRules and node.js to solve problems and enhance the security, performance and availability of applications. A corollary benefit is that many of the iRules solutions posted by DevCentral participants have become standard features in new releases of TMOS. DevCentral also provides a valuable window into our customers’ constantly evolving needs.

F5 Solutions

Our integrated family of TMOS-based network and application services is comprised of software products that run on purpose-built hardware and are also available as virtual (software-only) editions or VEs. These products function as strategic points of control in IP networks, inspecting, modifying and directing traffic to optimize the security, availability and delivery of applications and data to any user, anywhere, anytime. Our LineRate technology supports

similar functionality in software-only solutions designed to meet the specialized needs of software-defined data centers. Our Traffix Diameter signaling and routing devices address the complex needs of service providers by enabling fast, reliable communications among the elements of their legacy infrastructures and their evolving packet-based 4G/LTE networks and data centers. We believe our products offer the most intelligent services and advanced functionality in the marketplace along with performance and flexibility that enable organizations to simplify management of their IP networks and data center operations by integrating disparate resources to reduce operating costs, enhance productivity and improve service to employees, customers and partners.

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Application Delivery

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

Software

The core of our application delivery technology is TMOS, our Traffic Management Operating System, introduced in September 2004. The full-proxy characteristics of the TMOS architecture enable our products to intercept, inspect and act on the contents of traffic from virtually every type of IP-enabled application. In addition, the modularity of the TMOS architecture allows us to deliver tightly integrated solutions that secure, optimize and ensure the availability of applications and the networks they run on.

Traffic Management Operating System (TMOS)

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

- iApps is a set of portable, customizable, reusable templates that enable the rapid and predictable deployment of our products in front of dozens of applications from vendors including Microsoft, Oracle, VMware, Citrix, BEA, and SAP. iApps also allows customers and partners to create templates that simplify the deployment and provisioning of their own applications.
- iCall is a control plane scripting framework that provides the ability to define data plane events such as threshold breaches and adjust the behavior of our products accordingly. iCall enables administrators to react to specified data plane events by executing services on the management plane. It can also be used periodically to manage backups or repopulate DNS, or to provide regularly scheduled services such as configuration audits.
- Scale^{N} is a set of three unique capabilities that enhance the flexibility of our products:

Clustered Multiprocessing (CMP) allows customers to cluster and aggregate processors (cores) within BIG-IP appliances or VIPRION chassis products.

Virtual Clustered Multiprocessing (vCMP) enables the creation of separate virtual ADCs within an appliance or chassis, each running a separate instance of TMOS with a different configuration and assigned to a different application.

Device Service Clustering (DSC) gives customers the ability to group devices and services across an array of ADCs (BIG-IP appliances, VIPRION chassis, or Virtual Editions). Devices can be added to or removed from a DSC without disrupting application services, and application services can be independently managed within the cluster.

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

Product Modules

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

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

Virtual ADCs

All of our product modules are also available as software-only Virtual Editions (VEs), designed to run on all major hypervisors. Production VEs are deployed in public and private clouds and supplement our hardware products in

hybrid environments. Trial versions give our customers a cost-effective way to test and configure our products and help determine which systems and modules will best meet their specific needs in production environments.

NFV and NSV Products

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

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

Software as a Service

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

Hardware

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

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

BIG-IP Appliances

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

VIPRION Chassis-Based Systems

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

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

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

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Specialty Appliances

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

Management and Orchestration

- BIG-IQ is an intelligent management framework that simplifies the process of deploying and optimizing our application delivery services. Analogous to TMOS, BIG-IQ is a software platform designed to support multiple management modules. Currently we offer three BIG-IQ modules:

BIG-IQ Device lets customers manage all their F5 systems and VEs across their entire infrastructure. BIG-IQ Device provides device inventory, status, backups, updates, upgrades and license management from a single management console.

BIG-IQ Cloud automates and orchestrates the deployment of application delivery services on F5 products across traditional data centers or public, private, and hybrid cloud infrastructures, enabling customers to deploy and manage application delivery services in a fast, consistent, and repeatable manner, regardless of the underlying infrastructure.

BIG-IQ Security consolidates firewall policy management across multiple Advanced Firewall Manager (AFM) devices, reducing IT overhead and increasing operational scalability by letting customers create new firewall policies, modify existing policies, push policy changes to selected firewall devices and monitor the effectiveness of each device from a single point of control.

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

Product Development

We believe our future success depends on our ability to maintain technology leadership by continuing to improve our products and by developing new products to meet the changing needs of our customers. Our product development organization employs a standard process for the development, documentation and quality control of software and systems that is designed to meet these goals. This process includes working with our business development and marketing teams, product managers, customers and partners to identify new or improved solutions that meet the evolving needs of our addressable markets.

Our principal software engineering team is located at our headquarters in Seattle, Washington. Product development for APM, PEM and AAM is located in San Jose, California. ASM, Traffix SDC and Versafe product development is located in Tel Aviv, Israel. Our hardware engineering team is located in Spokane, Washington. In addition, we maintain a dedicated facility for product testing and quality control in Tomsk, Russia. Members of all our product development teams collaborate closely with one another to ensure the interoperability and performance of our hardware and software systems.

During the fiscal years ended September 30, 2014, 2013 and 2012, we had research and product development expenses of $263.8 million, $209.6 million, and $177.4 million, respectively.

Customers

Our customers include a wide variety of enterprises and service providers among Fortune 1000 and Business Week Global 1000 companies, including those in technology, telecommunications, financial services, transportation,

education, manufacturing and healthcare, along with government customers. In fiscal year 2014, sales outside of the Americas represented

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

Sales and Marketing

Sales

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

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

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

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

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

F5 sales teams. Our inside sales team generates and qualifies leads for regional sales managers and helps manage accounts by serving as a liaison between the field and internal corporate resources. Our field sales personnel are located in major cities in four sales regions: the Americas (primarily the United States); Europe, the Middle East, and Africa (EMEA); Japan; and the Asia Pacific region (APAC). Field sales personnel work closely with our channel partners to assist them, as necessary, in the sale of our products and services to their customers. We also sell our products and services directly to customers, primarily large enterprises, whose accounts are managed by our major account services team. Field systems engineers support our regional sales managers and channel partners by participating in joint sales calls and providing pre-sale technical resources as needed.

Distributors and VARs. As a key component of our sales strategy, we have established relationships with a number of large national and international distributors, local and specialized distributors and VARs. We derive a majority of our product sales from VARs and rely on our large distributors primarily for fulfillment.

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

For fiscal year 2014, sales to three of our worldwide distributors, Avnet Technology Solutions, Ingram Micro, Inc. and Westcon Group, Inc. represented 14.0%, 17.4% and 14.5% of our total revenues, respectively. Our agreements with these distributors are standard, non-exclusive distribution agreements that renew automatically on an annual basis and generally can be terminated by either party with 30 days written notice prior to the start of any renewal term. The agreements grant Avnet Technology Solutions, Ingram Micro, Inc. and Westcon Group, Inc. the right to distribute our products to resellers in North America and certain other territories internationally, with no minimum purchase requirements.

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

that incorporate our products for high availability and enhanced performance.

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

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

Marketing

Our marketing strategy is driven by the belief that our continued success depends on our ability to understand and anticipate the dynamic needs of our addressable markets and to develop valuable solutions that meet those needs. In line with this belief, our marketing organization works directly with customers, partners and our product development teams to identify and create innovative solutions to further enhance our leadership position.

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

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

Backlog

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

Customer Service and Technical Support

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

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

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

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

feedback about configuration issues or code defects, a description of the issue, recommendations for resolution, and a link to further information in the AskF5™ Knowledge Base.

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

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

Manufacturing

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

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

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

Competition

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

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

In related ADC markets we compete with the following:

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

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

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

Intellectual Property

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We have obtained 216 patents in the United States, 15 foreign patents and have applications pending for various aspects of our technology. Our future success depends in part on our ability to protect our proprietary rights to the technologies used in our principal products. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use trade secrets or other information that we regard as proprietary. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the United States. Any issued patent may not preserve our proprietary position, and competitors or others may develop technologies similar to or superior to our technology. Our failure to enforce and protect our intellectual property rights could harm our business, operating results and financial condition. In addition to our own proprietary software, we incorporate software licensed from several third-party sources into our products. These are generally term licenses which may renew annually and that generally provide for certain rights and licenses to support our customers post termination. While we may not be able to renew certain of these licenses in the future, we believe that alternative technologies for these licenses are available both domestically and internationally.

Employees

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

Executive Officers of the Registrant

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

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

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

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

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

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

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

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

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

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

Item 1A. Risk Factors

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

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

Our quarterly and annual operating results have varied significantly in the past and could vary significantly in the future, which makes it difficult for us to predict our future operating results. Our operating results may fluctuate due to a variety of factors, many of which are outside of our control, including the changing and recently volatile U.S. and

global economic environment, which may cause our stock price to fluctuate. In particular, we anticipate that the size of customer orders may increase as we continue to focus on larger business accounts. A delay in the recognition of revenue, even from just one account, may have a significant negative impact on our results of operations for a given period. In the past, a majority of our sales have been realized near the end of a quarter. Accordingly, a delay in an anticipated sale past the end of a particular quarter may negatively impact our results of operations for that quarter, or in some cases, that fiscal year. Additionally, we have exposure to the credit risks of some of our customers and sub-tenants. Although we have programs in place that are designed to monitor and

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

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

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

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

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

Cloud based computing trends present competitive and execution risks

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

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

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

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

A substantial portion of our business depends on the demand for information technology by large enterprise customers and service providers. In addition to the challenges presented by new cloud computing models, we are dependent upon the overall economic health of our current and prospective customers and the continued growth and evolution of the Internet. International, national, regional and local economic conditions, such as recessionary economic cycles, protracted economic slowdown or further deterioration of the economy could adversely impact demand for our products. Demand for our products and services depends substantially upon the general demand for application delivery products and associated services, which fluctuates based on numerous factors, including capital spending

levels and growth of our current and prospective customers, as well as general economic conditions. Moreover, the purchase of our products is often discretionary and may involve a significant commitment of capital and other resources. Future economic projections for the information technology sector are uncertain as companies continue to reassess their spending for technology projects and embrace new models for delivery of IT

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

Industry consolidation may result in increased competition

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

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

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

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

The markets for our products and services are characterized by:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We incorporate open source software into our products. Although we monitor our use of open source closely, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses

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

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

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

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

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

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

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

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

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

- expenditures of significant financial and product development resources in efforts to analyze, correct, eliminate, or work-around errors and defects or to address and eliminate vulnerabilities;
- loss of existing or potential customers or channel partners;
- delayed or lost revenue;

- delay or failure to attain market acceptance;
- an increase in warranty claims compared with our historical experience, or an increased cost of servicing warranty claims, either of which would adversely affect our gross margins; and

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

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

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

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

Our operating results are exposed to risks associated with international commerce

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

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

We must hire and train experienced personnel to staff and manage our foreign operations. To the extent that we experience difficulties in recruiting, training, managing, and retaining an international staff, and specifically staff