F5 NETWORKS INC
Form DEF 14A
January 25, 2008

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
SCHEDULE 14A
PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE
SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material under § 240.14a-12

F5 NETWORKS, INC.
(Name of Registrant as Specified in Its Charter)
N/A
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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TABLE OF CONTENTS

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
PROXY STATEMENT FISCAL YEAR END 2007 ANNUAL MEETING OF SHAREHOLDERS
BOARD OF DIRECTORS
CORPORATE GOVERNANCE
Compensation Committee Report
EXECUTIVE COMPENSATION
DIRECTOR COMPENSATION FOR FISCAL 2007
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT
PROPOSAL 1: ELECTION OF TWO CLASS III DIRECTORS
THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE TWO NOMINEES.
PROPOSAL 2. RATIFICATION OF INDEPENDENT AUDITOR
THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF THIS PROPOSAL
OTHER BUSINESS
SHAREHOLDER PROPOSALS FOR THE ANNUAL MEETING FOR FISCAL YEAR END 2008
HOUSEHOLDING OF PROXY MATERIALS
VOTE BY INTERNET www.proxyvote.com
VOTE BY PHONE 1-800-690-6903
VOTE BY MAIL

Table of Contents

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held on March 11, 2008

TO SHAREHOLDERS OF F5 NETWORKS, INC.:

The annual meeting of shareholders of F5 Networks, Inc. (the Company) for fiscal year end 2007 will be held on March 11, 2008 at 11:00 a.m. Pacific time at F5 Networks, Inc., 401 Elliott Avenue West, Seattle, Washington 98119 for the following purposes, as more fully described in the accompanying Proxy Statement:

1. to elect two Class III directors to hold office until the annual meeting of shareholders for fiscal year end 2010 and until their successors are elected and qualified;

2. to ratify the selection of PricewaterhouseCoopers LLP as the Company s independent auditor for fiscal year 2008; and

3. to transact such other business as may properly come before the meeting and any adjournments or postponements thereof.

The Company s Proxy Statement and 2007 Annual Report to Shareholders on Form 10-K are available at www.proxyvote.com and www.f5.com/about/investor-relations/corporate-governance.

Only shareholders of record at the close of business on January 7, 2008 are entitled to notice of, and to vote at, the annual meeting.

By Order of the Board of Directors,

Jeffrey A. Christianson
Secretary

Seattle, Washington
January 25, 2008

YOUR VOTE IS IMPORTANT!

Whether or not you attend the annual meeting, it is important that your shares be represented and voted at the meeting. Therefore, please promptly vote and submit your proxy by phone, over the Internet, or by signing, dating, and returning the accompanying proxy card in the enclosed, prepaid, return envelope. If you decide to attend the annual meeting, you will be able to vote in person, even if you have previously submitted your proxy. Voting via the Internet is a valid proxy voting method under the laws of the State of Washington (our state of incorporation).

The F5 Networks, Inc. Proxy Statement and 2007 Annual Report to Shareholders is available online at

www.proxyvote.com and www.f5.com/about/investor-relations/corporate-governance.

Table of Contents

Please do not return the enclosed paper ballot if you are voting over the Internet or by telephone.

VOTE BY INTERNET

www.proxyvote.com

24 hours a day/7 days a week

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern time on March 10, 2008. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY TELEPHONE

1-800-690-6903 via touch tone

24 hours a day/7 days a week

Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern time on March 10, 2008. Have your proxy card in hand when you call and then follow the instructions.

Your cooperation is appreciated, since a majority of the shares of common stock must be represented, either in person or by proxy, to constitute a quorum for the conduct of business.

Table of Contents

F5 NETWORKS, INC.
401 Elliott Avenue West
Seattle, Washington 98119

PROXY STATEMENT
FISCAL YEAR END 2007 ANNUAL MEETING OF SHAREHOLDERS

F5 Networks, Inc. (the Company) is furnishing this Proxy Statement and the enclosed proxy in connection with the solicitation of proxies by the Board of Directors of the Company for use at the annual meeting of shareholders to be held on March 11, 2008, at 11:00 a.m., Pacific time at F5 Networks, Inc., 401 Elliott Avenue West, Seattle, Washington 98119, and at any adjournments thereof (the Annual Meeting). These materials are being mailed to shareholders on or about January 25, 2008. The Company s principal executive offices are located at 401 Elliott Avenue West, Seattle, Washington 98119. The Company s telephone number at that location is 206-272-5555.

Only holders of the Company s common stock, no par value (the Common Stock), as of the close of business on January 7, 2008 (the Record Date) are entitled to vote at the Annual Meeting. As of the Record Date, there were 85,068,950 shares of Common Stock outstanding.

A majority of the outstanding shares of Common Stock entitled to vote at the Annual Meeting must be present in person or by proxy in order for there to be a quorum at the meeting. Shareholders of record who are present at the meeting in person or by proxy and who abstain from voting, including brokers holding customers shares of record who cause abstentions to be recorded at the meeting, will be included in the number of shareholders present at the meeting for purposes of determining whether a quorum is present.

Each shareholder of record is entitled to one vote at the Annual Meeting for each share of Common Stock they hold on the Record Date. Shareholders may vote their shares by using the enclosed proxy card, over the Internet or by phone. If a proxy is received that does not specify a vote or an abstention, the shares represented by that proxy will be voted (i) FOR the nominees to the Board of Directors listed in this Proxy Statement; (ii) FOR the ratification of the selection of PricewaterhouseCoopers LLP as the Company s independent auditor for the fiscal year ending September 30, 2008; and (iii) in accordance with the discretion of the named proxies on any other matters properly brought before the Annual Meeting. The Company is not aware, as of the date hereof, of any matters to be voted upon at the Annual Meeting other than those stated in this Proxy Statement and the accompanying Notice of Annual Meeting of Shareholders. If any other matters are properly brought before the Annual Meeting, the enclosed proxy card and proxies submitted by telephone or over the Internet give discretionary authority to the person named as proxy to vote the shares represented by the proxy in his discretion.

Under Washington law and the Company s Second Amended and Restated Articles of Incorporation and Bylaws (the Bylaws), if a quorum exists at the meeting, the nominees for director who receive the greatest number of votes cast will be elected to the Board of Directors. In addition, if a quorum exists at the meeting, approval of all other matters that properly come before the Annual Meeting requires that the votes cast in favor of such actions exceed the votes cast against such actions. Abstentions and broker non-votes (shares held by a broker or nominee that does not have the authority, either express or discretionary, to vote on a particular matter) will have no impact on the election of directors or the other proposals at the meeting since they have not been cast in favor of or against any nominee or a proposal.

A shareholder may revoke a proxy at any time before it is voted at the Annual Meeting by (a) delivering a proxy revocation or another proxy bearing a later date to the Corporate Secretary of the Company at 401 Elliott Avenue West, Seattle, Washington 98119 before or at the Annual Meeting or (b) attending the Annual Meeting and voting in person. Attendance at the Annual Meeting will not revoke a proxy unless the shareholder actually votes in person at the meeting.

Table of Contents

The Board of Directors of the Company is soliciting the proxies accompanying this Proxy Statement. The Company will pay all of the costs of this proxy solicitation. However, you will need to obtain your own Internet access if you choose to access the proxy materials and/or vote over the Internet. In addition to mail solicitation, officers, directors, and employees of the Company may solicit proxies personally or by telephone, without receiving additional compensation. The Company has retained Advantage Proxy to assist in connection with the solicitation of proxies in connection with the Annual Meeting. The Company will pay Advantage Proxy customary fees, which are expected to be $5,750 plus expenses. The Company, if requested, will pay brokers, banks, and other fiduciaries that hold shares of Common Stock for beneficial owners for their reasonable out-of-pocket expenses of forwarding these materials to shareholders.

BOARD OF DIRECTORS

The Board of Directors of the Company currently consists of eight directors divided into three classes. Currently, the Class I directors are Karl D. Guelich and Keith D. Grinstein; the Class II directors are Deborah L. Bevier, Alan J. Higginson and John McAdam; and the Class III directors are Rich Malone, A. Gary Ames and Scott Thompson. Mr. Malone s term on the Board of Directors expires on the date of the Annual Meeting. Mr. Malone will not stand for re-election at the Annual Meeting. At the Annual Meeting, the shareholders will vote on the election of two Class III directors to serve for three-year terms until the annual meeting of shareholders for fiscal year end 2010 and until their successors are elected and qualified. The Class I directors will hold office until the Company s annual meeting for fiscal year end 2008 and the Class II directors will hold office until the Company s annual meeting for fiscal year end 2009. All directors will hold office until the annual meeting of shareholders at which their terms expire and the election and qualification of their successors. Promptly following the annual meeting, the Board of Directors will take such actions that are necessary to reduce the number of directors on the Board of Directors to seven members. Such actions will reduce the number of Class III directors from three to two.

The Board of Directors has nominated A. Gary Ames for re-election and Scott Thompson for election to the Board of Directors as Class III directors at the Annual Meeting. The nominees have consented to serve as directors of the Company if elected. If any of the nominees declines to serve or becomes unavailable for any reason, or if a vacancy occurs before the election (although we know of no reason to anticipate that this will occur), the proxies may be voted for such substitute nominees as the Company may designate.

Director Independence

The Board of Directors annually determines the independence of directors and nominees under Nasdaq Marketplace Rules 4200(a)(15) and 4350(c). Under these rules, an independent director means a person other than an executive officer or employee of the company or any other individual having a relationship which, in the opinion of the issuer s board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. A director is not independent under this standard if the director is, or at any time during the past three years was, employed by the company. Under these rules, as of January 25, 2008, the following directors and nominees are considered independent; Karl D. Guelich, Alan J. Higginson, Keith D. Grinstein, A. Gary Ames, Deborah L. Bevier, Rich Malone, and Scott Thompson. Under these rules, John McAdam is not considered independent because he is the Company s President and Chief Executive Officer.

Nominees and Continuing Directors

The following individuals have been nominated for election to the Board of Directors or will continue to serve on the Board of Directors after the Annual Meeting:

John McAdam, age 56, has served as our President, Chief Executive Officer and a director since July 2000. Prior to joining us, Mr. McAdam served as General Manager of the Web server sales business at International Business Machines Corporation from September 1999 to July 2000. From January 1995 until August 1999, Mr. McAdam served as the President and Chief Operating Officer of Sequent Computer Systems, Inc., a manufacturer of high-end open systems, which was sold to International Business Machines

Table of Contents

Corporation in September 1999. Mr. McAdam holds a B.S. in Computer Science from the University of Glasgow, Scotland.

Karl D. Guelich, age 65, has served as one of our directors since June 1999 and as board chair from January 2003 through April 2004. Mr. Guelich has been in private practice as a certified public accountant since his retirement from Ernst & Young LLP in 1993, where he served as the Area Managing Partner for the Pacific Northwest offices headquartered in Seattle from October 1986 to November 1992. Mr. Guelich holds a B.S. in Accounting from Arizona State University.

Alan J. Higginson, age 60, has served as board chair since April 2004, and as one of our directors since May 1996. Mr. Higginson is Chairman of Hubspan, Inc., an e-business infrastructure provider. He served as President and Chief Executive Officer of Hubspan from August 2001 to September 2007. From November 1995 to November 1998, Mr. Higginson served as President of Atrieva Corporation, a provider of advanced data backup and retrieval technology. Mr. Higginson holds a B.S. in Commerce and an M.B.A. from the University of Santa Clara.

Keith D. Grinstein, age 47, has served as one of our directors since December 1999. He also serves as board chair for Coinstar, Inc., a coin counting machine company, and as lead outside director for Nextera, Inc. an economics-consulting firm. Mr. Grinstein is a partner of Second Avenue Partners, LLC, a venture capital fund. Mr. Grinstein s past experience includes serving as President, Chief Executive Officer and Vice Chair of Nextel International Inc., and as President and Chief Executive Officer of the Aviation Communications Division of AT&T Wireless Services Inc. Mr. Grinstein holds a B.A. from Yale University and a J.D. from Georgetown University.

A. Gary Ames, age 63, has served as one of our directors since July 2004. Mr. Ames served as President and Chief Executive Officer of MediaOne International, a provider of broadband and wireless communications from July 1995 until his retirement in June of 2000. From January 1990 to July 1995, he served as President and Chief Executive Officer of U S West Communications, a regional provider of residential and business telephone services, and operator and carrier services. Mr. Ames also serves as director of SuperValu Inc. and iPass, Inc.

Deborah L. Bevier, age 56, has served as one of our directors since July 2006. Ms. Bevier has been the principal of D.L. Bevier Consulting LLC, an organizational and management consulting firm, since 2004. Prior to that time, from 1996 until 2003, Ms. Bevier served as a director, President and Chief Executive Officer of Laird Norton Financial Group and its predecessor companies, an independent financial advisory services firm. From 1973 to 1996, Ms. Bevier held numerous leadership positions with KeyCorp, including chairman and Chief Executive Officer of Key Bank of Washington. Ms. Bevier currently serves on the board of directors of Fisher Communications, Inc., a media and communications company, Coinstar, Inc., and Puget Sound Bank. Ms. Bevier holds a B.S. in Economics from SUNY New Paltz and a graduate degree from Stonier Graduate School of Banking at Rutgers University.

Scott Thompson, age 50, was appointed as one of our directors in January 2008. Mr. Thompson is President of PayPal, an eBay Company. From February 2005 to January 2008, he served as Senior Vice President and Chief Technology Officer, Payments, Risk and Technology at PayPal. From April 2000 to February 2005, he served as Executive Vice President and Global Chief Information Officer for Inovant/VISA International. From August 1997 to April 2000, he served as Chief Technology Officer and Executive Vice President, Systems Group at VISA USA. Mr. Thompson holds a B.S. in Accounting from Stonehill College.

There are no family relationships among any of the Company s directors or executive officers. None of the corporations or other organizations referred to in the biographical information set forth above is a parent, subsidiary or other affiliate of the Company.

CORPORATE GOVERNANCE

Committees of the Board

The Board of Directors has standing Audit, Compensation and Nominating and Corporate Governance Committees (collectively, the Standing Committees). Each of the Standing Committees has a charter, copies of which are available on our website at www.f5.com under the About F5 Investor Relations Corporate Governance section.

Audit Committee. The Board of Directors has adopted a charter governing the duties and responsibilities of the Audit Committee. As described more fully in the charter, the functions of the Audit Committee are to select, evaluate and, if necessary, replace the Company s independent registered public accounting firm, to review and approve the planned scope, proposed fee arrangements and results of the annual audit, approve any proposed non-audit services to be provided by the independent registered public accounting firm, oversee the adequacy of accounting and financial controls, review the independence of the auditors, and oversee the Company s financial reporting process on behalf of the Board of Directors. The Audit Committee members are Messrs. Guelich (chairman), Grinstein and Malone, and Ms. Bevier. The Board of Directors has determined that Mr. Guelich is an audit committee financial expert as defined in Item 407 of Regulation S-K. Each current member of the Audit Committee is, and each member of the Audit Committee during fiscal year 2007 was, an independent director as defined by the Nasdaq Marketplace Rules (as independence is currently defined in Rules 4200(a)(15) and 4350(c) therein).

Compensation Committee. The Compensation Committee conducts an annual review to determine whether the Company s executive compensation program is meeting the goals and objectives set by the Board of Directors. The Committee recommends for approval by the Board of Directors the compensation for the Chief Executive Officer and directors, including salaries, bonus levels and stock awards, and reviews and approves compensation proposals made by the Chief Executive Officer for the other executive officers. The Compensation Committee members are Messrs. Ames, Grinstein (chairman) and Higginson, and Ms. Bevier. Each current member of the Compensation Committee is, and each member of the Compensation Committee during fiscal 2007 was, an independent director as defined by the Nasdaq Marketplace Rules. For additional information about the Compensation Committee and the outside independent compensation consultant, Towers Perrin, retained by the Compensation Committee, see the description of the Compensation Committee s activities in the Executive Compensation Compensation Discussion and Analysis section.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee s function is to identify new board members, recommend board nominees, evaluate the board s performance, and provide oversight of corporate governance and ethical conduct. The Nominating and Governance Committee members are Messrs. Ames (chairman), Guelich, Higginson and Malone. Each current member of the Nominating and Governance Committee is, and each member of this committee during fiscal year end 2007 was, an independent director as defined by the Nasdaq Marketplace Rules.

Special Committee. In addition, on May 22, 2006, the Board of Directors formed a special committee of outside directors with broad authority to conduct a review of our stock option practices, including a review of our underlying stock option documentation and procedures (the Special Committee). The Special Committee was originally composed of Messrs. Guelich, Malone and Ames. Since July 2006, the Special Committee members have been Mr. Ames and Ms. Bevier.

Compensation Committee Interlocks and Insider Participation

None of the Company s executive officers served as a member of the Board of Directors or Compensation Committee of any entity that has had one or more executive officers which served as a member of the Company s Board of Directors or Compensation Committee.

Table of Contents

Related Person Transactions Policy and Procedures

As set forth in the charter of the Audit Committee of the Board of Directors, any related person transaction involving a Company director or executive officer must be reviewed and approved by the Audit Committee. Any member of the Audit Committee who is a related person with respect to a transaction under review may not participate in the deliberations or vote on the approval or ratification of the transaction. Related persons include any director or executive officer, certain shareholders and any of their immediate family members (as defined by SEC regulations). To identify any related person transaction, the Company requires each director and executive officer to complete a questionnaire each year requiring disclosure of any prior or proposed transaction in which the director, executive officer or any immediate family member might have an interest. Each director and executive officer is directed to notify the Company s Senior Vice President and General Counsel of any such transaction that arises during the year. The Company s chief accounting officer reports to the Audit Committee on a quarterly basis regarding any potential related person transaction. In addition, the Board of Directors determines on an annual basis which directors meet the definition of independent director under the Nasdaq Marketplace Rules and reviews any director relationship that would potentially interfere with his or her exercise of independent judgment in carrying out the responsibilities of a director. A copy of the Company s Policy and Procedure for Approving Related-Person Transactions is available on our website at www.f5.com under the About F5 - Investor Relations Corporate Governance section.

Certain Relationships and Related Person Transactions

The Company s Second Amended and Restated Articles of Incorporation (the Articles) limit the liability of the Company s directors for monetary damages arising from their conduct as directors, except to the extent otherwise required by the Articles and the Washington Business Corporation Act. The Articles also provide that the Company may indemnify its directors and officers to the fullest extent permitted by Washington law, including in circumstances in which indemnification is otherwise discretionary under Washington law. The Company has entered into indemnification agreements with the Company s directors and certain officers for the indemnification of and advancement of expenses to these persons to the fullest extent permitted by law. The Company also intends to enter into these agreements with the Company s future directors and certain future officers.

Pursuant to these indemnification agreements, the Company has advanced or indemnified certain current and former directors and officers for fees and expenses incurred by them in connection with the Special Committee s review of the Company s stock option practices, including a review of our underlying stock option documentation and procedures, and the previously disclosed restatement of the Company s financial statement, legal proceedings and other matters related to the Company s stock option practices, all as described in the Company s Annual Report to Shareholders on Form 10-K for the fiscal year ended September 30, 2007, which is being mailed to shareholders of the Company with this proxy statement.

Meetings of the Board and Standing Committees

The Company s Board of Directors met or acted by unanimous written consent 11 times during fiscal 2007. The Audit Committee met 13 times and the Compensation Committee met or acted by unanimous written consent 15 times. During fiscal 2007, the Nominating and Corporate Governance Committee met 4 times. The outside directors met 3 times during fiscal 2007, with no members of management present. Each member of the Board of Directors attended 75% or more of the Board meetings during fiscal 2007. Each member of the Board of Directors who served on the Standing Committees attended at least 75% of the committee meetings.

Director Nomination

Criteria for Nomination to the Board. The Nominating and Corporate Governance Committee (the Nominating Committee) considers the appropriate balance of experience, skills and characteristics required of the Board of Directors, and seeks to ensure that at least a majority of the directors are independent under the Nasdaq Marketplace Rules, that members of the Company s Audit Committee meet the financial literacy requirements under the Nasdaq Marketplace Rules and that at least one of them qualifies as an audit committee financial expert under the rules of the Securities and Exchange Commission. Nominees for director are selected on the basis of their depth and breadth of experience, integrity, the ability to work effectively as part of a team, understanding of the Company s business environment, and willingness to devote adequate time to Board duties.

Shareholders Proposals for Nominees. The Nominating Committee will consider written proposals from shareholders for nominees for director. Any such nominations should be submitted to the Nominating Committee c/o the Secretary of the Company and should include the following information: (a) all information relating to such nominee that is required to be disclosed pursuant to Regulation 14A under the Securities Exchange Act of 1934 (including such person s written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) the name(s) and address(es) of the shareholders(s) making the nomination and the number of shares of Common Stock which are owned beneficially and of record by such shareholders(s); and (c) appropriate biographical information and a statement as to the qualification of the nominee, and should be submitted in the time frame described in the Bylaws of the Company and under the caption Shareholder Proposals for the Annual Meeting for Fiscal Year End 2008 below.

Process for Identifying and Evaluating Nominees. The process for identifying and evaluating nominees to fill vacancies on the Board of Directors is initiated by conducting an assessment of critical Company and Board needs, based on the present and future strategic objectives of the Company and the specific skills required for the Board as a whole and for each Board Committee. A third-party search firm may be used by the Nominating Committee to identify qualified candidates. These candidates are evaluated by the Nominating Committee by reviewing the candidates biographical information and qualification and checking the candidates references. Serious candidates meet with all members of the Board, and as many of the Company s executive officers as practical. Using the input from such interviews and the information obtained by the Nominating Committee, the full Board determines whether to appoint a candidate to the Board.

The Nominating Committee will evaluate the skills and experience of existing Board members against the Company s critical needs in making recommendations for nomination by the full Board of candidates for election by the shareholders. The Nominating Committee charter is available on the About F5 Investor Relations Corporate Governance section of the Company s website, www.f5.com. Each current member of the Nominating Committee is an independent director as defined by the Nasdaq Marketplace Rules. The nominees to the Board of Directors described in this Proxy Statement were approved by at least a majority of Company s independent directors, including each member of the Nominating Committee. Mr. Thompson, who joined the Board of Directors in January 2008, was recommended by a third-party search firm the Nominating Committee retained, at the expense of the Company, in fiscal year 2007. The third-party search firm was provided guidance as to the particular skills, experience and other characteristics the Nominating Committee was seeking in potential candidates. The third-party search firm identified a number of potential candidates, including Mr. Thompson, and prepared background materials on these candidates which were provided to the members of the Nominating Committee for their review. The third-party search firm interviewed those candidates the Nominating Committee determined merited further consideration, and assisted in arranging interviews of selected candidates with members of the Nominating Committee, other members of the Board of Directors, and certain of the Company s executive officers. The third-party search firm also completed reference checks on the candidates.

The Nominating Committee expects that a similar process will be used to evaluate nominees recommended by shareholders. However, to date, the Company has not received any shareholder s proposal to nominate a director.

Communications with Directors; Attendance at Annual Meetings

Shareholders who wish to communicate with our Directors to report complaints or concerns related to accounting, internal accounting controls or auditing may do so by contacting them c/o Corporate Secretary, F5 Networks, Inc., 401 Elliott Avenue West, Seattle, Washington 98119. As set forth in the Company s Corporate Governance Guidelines, a copy of which may be found under the About F5 Investor Relations Corporate Governance section of our website, www.f5.com, these communications will be forwarded by the

Corporate Secretary to a Board member, Board Committee or the full Board as appropriate. Directors are expected to be present at the Company s annual meetings of shareholders. Six (6) Directors attended the Company s fiscal year 2006 annual meeting.

Code of Ethics for Senior Financial Officers

We have adopted a Code of Ethics that applies to all of our senior financial officers, including our CEO, chief finance officer and chief accounting officer. The Code of Ethics is posted on the Company s website. The Internet address for our website is www.f5.com and the Code of Ethics may be found under the About F5 Investor Relations Corporate Governance section of our website. A copy of the Code of Ethics may be obtained without charge by written request to the Company s Secretary. We also have a separate Code of Ethics that applies to all of the Company s employees, which may be also found under the About F5 Investor Relations Corporate Governance section of our website.

Legal Proceedings

Beginning on or about May 24, 2006, several derivative actions were filed against certain current and former directors and officers of the Company. These derivative lawsuits were filed in: (1) the Superior Court of King County, Washington, as In re F5 Networks, Inc. State Court Derivative Litigation (Case No. 06-2-17195-1 SEA), which consolidates Adams v. Amdahl, et al. (Case No. 06-2-17195-1 SEA), Wright v. Amdahl, et al. (Case No. 06-2-19159-5 SEA), and Sommer v. McAdam, et al. (Case No. 06-2-26248-4 SEA) (the State Court Derivative Litigation); and (2) in the U.S. District Court for the Western District of Washington, as In re F5 Networks, Inc. Derivative Litigation, Master File No. C06-0794RSL, which consolidates Hutton v. McAdam, et al. (Case No. 06-794RSL), Locals 302 and 612 of the International Union of Operating Engineers-Employers Construction Industry Retirement Trust v. McAdam et al. (Case No. C06-1057RSL), and Easton v. McAdam et al. (Case No. C06-1145RSL). On August 2, 2007, another derivative lawsuit, Barone v. McAdam et al. (Case No. C07-1200P), was filed in the U.S. District Court for the Western District of Washington. We expect that this lawsuit will be consolidated with the other lawsuits pending in the U.S. District Court for the Western District of Washington. The complaints generally allege that certain of the Company s current and former directors and officers, including, in general, each of the Company s current outside directors (other than Deborah L. Bevier and Scott Thompson who joined the Company s Board of Directors in July 2006 and January 2008, respectively) breached their fiduciary duties to the Company by engaging in alleged wrongful conduct concerning the manipulation of certain stock option grant dates. The Company is named solely as a nominal defendant against whom the plaintiffs seek no recovery. Our combined motion to consolidate and stay the State Court Derivative Litigation was granted in a court order dated April 3, 2007. Our motion to dismiss the consolidated federal derivative actions based on plaintiffs failure to make demand on the Company s Board of Directors prior to filing suit was granted in a court order dated August 6, 2007 with leave to amend the allegations in plaintiffs complaint. Plaintiffs filed an amended consolidated federal derivative action complaint on September 14, 2007. We intend to vigorously pursue dismissal of the amended complaint and have filed a motion to dismiss based on plaintiffs failure to make demand on the Company s Board of Directors prior to filing suit. Due to the inherent uncertainties of litigation, we are unable to predict the outcome of these matters at this time.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Company s Compensation Discussion and Analysis. Based on this review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and the Company s Annual Report to Shareholders on Form 10-K for the fiscal year ended September 30, 2007.

Members of the Compensation Committee:

Keith D. Grinstein, Chair
A. Gary Ames
Deborah L. Bevier
Alan J. Higginson

Table of Contents

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Compensation Philosophy

The Company s philosophy concerning compensation for executive officers is to directly link their compensation to continuous improvements in the Company s financial performance and the creation of shareholder value. The key elements of this philosophy are as follows:

- provide a competitive total compensation package that enables the Company to attract, motivate, reward and retain executive officers who contribute to the Company s success;
- provide incentive compensation that is directly linked to the performance of the Company and aligns the interests of executive officers with the long-term interests of shareholders; and
- establish incentives that relate to the Company s annual and long-term business strategies and objectives.

The Committee believes that the Company s executive compensation should also reflect each executive officer s qualifications, experience, role and personal performance and the Company s performance achievements.

Objectives of Our Executive Compensation Program

The objectives of our executive compensation program are to correlate executive compensation with the Company s business objectives and performance and the creation of shareholder value, and to enable the Company to attract, retain and reward key executive officers who contribute to its long-term success.

What Our Executive Compensation Program is Designed to Reward

The executive compensation program is designed to reward executive officers for continuous improvements in the Company s financial performance and the creation of shareholder value.

Elements of Our Compensation Program

The three primary components of our executive compensation program are; (i) base salary, (ii) incentive compensation in the form of cash bonuses, and (iii) equity compensation.

Base Salary.

Base salary is the guaranteed element of employees annual cash compensation. Executive officers base salaries are set at levels which reflect their specific job responsibilities, experience, qualifications, job performance, potential contributions, market data from a salary survey covering technology companies in comparable areas (Survey Companies), and compensation paid to comparable executives as set forth in proxy statements for a peer group of 30 companies (Peer Group Companies) developed by an outside independent compensation consultant (See Factors Considered Benchmarking). Base salaries are reviewed and adjusted annually, and may also be adjusted from time to time in recognition of individual performance, promotions and marketplace competitiveness. The base salaries of the executive officers, including Mr. McAdam, are generally set at or near the 50th percentile range of base compensation for comparable executive officers in the peer group companies.

Incentive Compensation.

The Committee believes that incentives based on attaining or exceeding established financial targets, properly align the interests of the executive officers with the interests of the shareholders. All of our executive officers participate in the Incentive Compensation Plan for Executive Officers (Incentive Plan). The Incentive Plan is a cash incentive bonus plan, with each executive officer assigned a target bonus amount expressed as a

Table of Contents

percentage of such executive officer s base salary, ranging from 30% to 80%. The Committee determines each of these target bonus percentages based on its assessment of the impact each position had on the Company s financial performance and compensation data from the Survey Companies and Peer Group Companies provided by the outside consultant. The total direct cash compensation (base salary plus the target bonus) of the executive officers, including Mr. McAdam, are generally set at or near the 50^{th} percentile range of total cash compensation for comparable executive officers at the Survey Companies and the Peer Group Companies.

If earned, the cash incentive bonus is paid quarterly. 50% of the cash incentive bonus is based on the Company achieving target revenue for the quarter and 50% is based on the Company achieving target adjusted EBITDA (earnings before interest, taxes, depreciation and amortization, excluding certain manufacturing and warranty-related depreciation and amortization expense) for the quarter. Each such target is determined by the Board of Directors and is set forth in the Board-approved annual budget for each such fiscal year. See footnote (3) of the Grants of Plan-Based Awards Table for Fiscal 2007 for information regarding the targets for fiscal year 2007. No cash incentive bonus will be paid for results less than 80% of an applicable target. The cash incentive bonus is paid linearly above 80% of the targeted goals. Results for both targets must equal or exceed 100% for the total cash incentive bonus to be paid at 100% or more.

The Committee retains some discretion in the administration of the Incentive Plan. In calculating the percentage of target EBITDA achieved for the fourth quarter on fiscal year 2007, the Committee determined it was appropriate to exclude from this calculation a one-time charge of $14 million for in-process research and development related to our acquisition of Acopia in September 2007, as this one-time charge was related to an acquisition and did not arise from or otherwise reflect the Company s operating results in fiscal year 2007. In fiscal year 2007, the Company achieved 105% of the annual revenue target and 107% of the annual adjusted EBITDA target. As a result, the executive officers earned 106% of their target cash incentive bonus in fiscal year 2007. The Committee believes that the cash incentive bonuses paid to the executive officers for performance in 2007 were merited based on the Company s outstanding operating results as compared to the targets, increases in market capitalization, total revenue and net income over fiscal year 2006 of 43%, 33% and 17% respectively, and continued growth in market share.

Equity Compensation.

The Committee believes that equity ownership aligns the interests of executive officers with those of the shareholders and provides significant motivation to executive officers to maximize value for the Company s shareholders. In accordance with this belief, the Committee periodically approves grants of equity compensation under the Company s equity incentive plans. The amounts of these grants are based on the relative position and responsibilities of each executive officer, previous and expected contributions of each officer to the Company s success, peer and survey group equity compensation data provided by the outside consultant, previous grants to such officer, and recruitment and retention considerations. The types of awards include stock options and restricted stock units (RSUs). The value of equity compensation grants to each of the executive officers, including Mr. McAdam, is generally set between the 50^{th} and 75^{th} percentile range of the value of the most recent long-term incentive compensation grants to comparable executive officers in the Survey Companies and Peer Group Companies.

In December 2006, our Board and the Committee approved a performance-based equity compensation program for fiscal year 2007 (the 2007 Performance Grant Program) in conjunction with approving equity grants under the Company s 2005 Equity Incentive Plan to each of the Named Executive Officers. Under the 2007 Performance Grant Program, the vesting of fifty percent (50%) of each such grant is subject to the Company achieving specified percentage increases in total revenue relative to a prior fiscal year. The Committee selected a total revenue increase target of 20% for vesting of 50% of these grants as the Company s continued revenue growth will contribute significantly to increased shareholder value. See footnote (4) of the Grants of Plan-Based Awards Table for Fiscal 2007 for additional information regarding the performance-based equity compensation program for fiscal year 2007.

In accordance with the 2005 Equity Incentive Plan, a Named Executive Officer must be employed by the Company or its affiliates on each vesting date in order to receive the shares of common stock issuable upon such vesting date.

Table of Contents

In January 2007, the Board approved and adopted a Policy Regarding the Granting of Equity-Based Compensation Awards, a copy of which may be found under the About F5 Investor Relations Corporate Governance section of the Company s website, www.f5.com. This Policy provides that the Committee or the Board of Directors, as applicable, shall approve equity awards to existing employees and service providers (other than newly-promoted individuals and non-employee directors) on an annual basis on August 1 (or, if such day is not a business day, on the following business day). Equity awards to newly-hired employees and service providers (other than non-employee directors) and to newly-promoted individuals shall be approved on a quarterly basis on February 1, May 1, August 1 and November 1 (or, if such day is not a business day, on the following business day). The Committee or the Board of Directors, as applicable, may approve equity awards outside of the new hire grant date to select individuals in the event of extraordinary circumstances. Prior to each annual meeting of shareholders, the Committee shall review and recommend to the Board of Directors for approval the amount and terms of any equity awards to be granted to non-employee directors. The Board of Directors approves all equity awards to be granted to non-employee directors on the date of the annual meeting of shareholders.

Pursuant to the Company s Insider Trading Policy, a copy of which may be found under the Investor Relations Corporate Governance section of our website, www.f5.com, the Company considers it improper and inappropriate for any employee, officer or director of the Company to engage in short-term or speculative transactions in the Company s securities. The Policy specifically prohibits directors, officers and other employees, and their family members, from engaging in short sales of the Company s securities; transactions in puts, calls or other derivative securities, on an exchange or in any other organized market, and certain hedging transactions related to the Company s securities. In addition, directors, officers and other employees are prohibited, except under certain limited exceptions, from holding Company securities in a margin account or pledging Company securities as collateral for a loan.

Other Benefits and Perquisites.

The Company s executive officers participate in broad-based benefit plans that are available to other employees. With the exception of an internet service stipend, the Company does not currently provide additional material perquisites for its executive officers.

How Each Element Fits Into our Overall Compensation Objectives and Affects Other Elements of Compensation

Consistent with our philosophy that a significant amount of the executive officers compensation should be directly linked to the performance of the Company and align the interests of executive officers with the long-term interests of shareholders, a majority of the executives compensation is based on the Company achieving certain performance and financial targets. We do not have an exact formula for allocating between cash and equity compensation, but target total direct cash compensation (base salary plus the target bonus) of the executive officers at or near the 50th percentile range of total cash compensation for comparable executive officers in the Peer Group Companies, and total direct compensation (cash and equity compensation) between the 50th and 75th percentiles.

Impact of Accounting and Tax Treatments of a Particular Form of Compensation

The accounting and tax treatment of the elements of our compensation program is considered in the design of the compensation program. But it is not the sole consideration. Under Section 162(m) of the Internal Revenue Code, the federal income tax deduction for certain types of compensation paid to the chief executive officer and the three other most highly compensated executive officers of publicly held companies (other than the chief executive officer and chief financial officer) is limited to $1 million per officer per fiscal year unless such compensation meets certain requirements. The Committee is aware of this limitation and has decided that it is not appropriate at this time to limit the Company s discretion to design the compensation packages payable to the Company s executive officers to comply with these deductibility guidelines.

10

Factors Considered Benchmarking

The Committee conducts an annual review of the executive compensation program and utilizes peer and survey group data to help set proper compensation levels. For fiscal year 2007, the Committee retained an outside independent compensation consultant, Towers Perrin, to assist it in this review and to conduct a competitive review of the total direct compensation (cash and equity compensation) for the Company s executive officers. The Committee instructed Towers Perrin to collect base salary, total cash, long-term incentive, and total direct compensation data and to analyze and compare on a pay rank and position basis our executive officers compensation with the compensation paid to comparable executives as set forth in proxy statements for the Peer Group Companies developed by Towers Perrin and approved by the Committee. The following is a list of these Peer Group Companies:

ADC Telecommunications Inc.	Finisar Corp.	Progress Software Corp.
Avocent Corp.	Foundry Networks Inc.	Quest Software Inc.
BEA Systems Inc.	Hyperion Solutions Corp.	Red Hat Inc.
Blue Coat Systems Inc.	Internet Security Systems Inc.	SafeNet Inc.
BMC Software Inc.	Juniper Networks Inc.	Siebel Systems Inc.
CIENA Corp.	Level 3 Communications Inc.	SonicWALL Inc.
Citrix Systems Inc.	McAfee Inc.	Symantec Corp.
Comverse Technology Inc.	Micromuse Inc.	Sybase
Emulex Corp.	NetIQ Corp.	VeriSign Inc.
FileNet Corp	Network Appliance Inc.	Websense Inc.

Towers Perrin also analyzed and compared our executive officers compensation with the compensation paid to comparable executives based on compensation data published in the Radford Executive Survey for companies in the Software/Network sector with revenues from $200 million to $1 billion. The following 60 companies participated in this Survey:

3COM	Epicor Software	Mercury	SAVVIS Communications
Activant Solutions	Filenet	Metavante	Serena Software
Activision	GEAC Enterprise Solutions	Misys Healthcare Systems	Skillsoft
Ariba	Hyperion Solutions	National Instruments	SPSS
Aspect Communications	I2 Technologies	NCS Pearson	SSA Global Technologies
Avid Technology	Informatica	Open Text	Sybase
Borland Software	Internet Security Systems	Openwave	The Mathworks
Brocade Communications Systems	Juniper Networks	Panduit	THQ
Business Objects	Kronos	Pinnacle Systems	Tibco Software
Citrix Systems	Lawson Software	Progress Software	Trend Micro
Cognex	Macromedia	QAD	Ubisoft
Cognos	Marconi North America	Quest Software	Vivendi Universal Games
Dendrite International	McAfee	Reynolds & Reynolds	VMWARE
Dictaphone	McData	S1	Webmethods
Doubleclick	Mentor Graphics	Salesforce.com	Wind River Systems

Role of Executive Officers in Determining Executive Compensation

The Committee annually assesses the performance of, and recommends to the full Board of Directors base salary and incentive compensation for the Company s President and CEO. The Company s President and CEO recommends to the Committee annual base salary and incentive compensation adjustments for the other executive officers.

Table of Contents

Employment Contracts and Change-in-Control Arrangements

There are currently no written employment contracts with any of the Named Executive Officers. Each such officer is an at-will employee, and his employment may be terminated anytime with or without cause. The RSU and option grant agreements issued to our Named Executive Officers provide that upon certain changes in control of the Company, the vesting of outstanding and unvested RSUs and options will accelerate and such RSUs and options will become fully vested. We believe that such change-in-control provisions provide an additional tool for attracting and retaining key executive officers.

Summary Compensation Table

The following tables sets forth information concerning compensation for services rendered to us by (a) our Chief Executive Officer (the CEO), (b) our Chief Finance Officer (the CFO) and (c) our three other most highly compensated executive officers who were serving as our executive officers at the end of fiscal year 2007. These executive officers, together with the CEO and CFO, are collectively referred to as the Named Executive Officers.

Summary Compensation Table for Fiscal 2007

ame and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)(3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)(5)	Total ($)
ohn McAdam, resident and Chief Executive fficer	2007	$ 495,508	N/A	$ 4,822,443	$ 0	$ 420,283	N/A	$ 600	$ 5,738,834