F5 NETWORKS INC
Form DEF 14A
January 21, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

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

F5 Networks, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required

¨ 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:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held on March 13, 2014

TO SHAREHOLDERS OF F5 NETWORKS, INC.:

The annual meeting of shareholders of F5 Networks, Inc. (the Company) for fiscal year 2013 will be held on March 13, 2014 at 11:00 a.m. Pacific Time at F5 Networks, Inc., 351 Elliott Avenue West, Seattle, Washington 98119 for the following purposes, as more fully described in the accompanying Proxy Statement:

1. to elect two directors to hold office until the annual meeting of shareholders for fiscal year 2014;

2. to approve the F5 Networks, Inc. 2014 Incentive Plan;

3. to ratify the selection of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for fiscal year 2014;

4. to conduct an advisory vote to approve the compensation of our named executive officers; and

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

Only shareholders of record at the close of business on January 6, 2014 are entitled to notice of, and to vote at, the annual meeting.

By Order of the Board of Directors,

SCOT F. ROGERS
Assistant Secretary

Seattle, Washington

January 21, 2014

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 and are a registered shareholder, or have obtained a Legal Proxy from your broker, 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).

Important Notice Regarding the Availability of Proxy Materials for

the Company s Annual Meeting of Shareholders on March 13, 2014.

The F5 Networks, Inc. Proxy Statement and 2013 Annual Report to Shareholders are available online at

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

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 12, 2014. 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 12, 2014. 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 entitled to vote must be represented, either in person or by proxy, to constitute a quorum for the conduct of business.

Please note that brokers may not vote your shares on the election of directors or on the advisory vote on compensation or the proposal to approve the 2014 Incentive Plan in the absence of your specific instructions as to how to vote. Please vote your proxy so your vote can be counted.

F5 NETWORKS, INC.

401 Elliott Avenue West

Seattle, Washington 98119

PROXY STATEMENT

FISCAL YEAR 2013 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 (the Board of Directors or the Board) for use at the annual meeting of shareholders to be held on March 13, 2014, at 11:00 a.m., Pacific Time, and at any adjournments thereof (the Annual Meeting). As used herein, we, us, our, F5 or the Company refers to F5 Networks, Inc., a Washington corporation. These materials are being mailed to shareholders on or about January 21, 2014. 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.

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND THESE PROXY MATERIALS

Why am I receiving these materials?

You are receiving these materials because you are a shareholder of the Company as of the close of business on January 6, 2014 (the Record Date) and are entitled to receive notice of the Annual Meeting and to vote on matters that will be presented at the meeting. This Proxy Statement contains important information regarding our Annual Meeting, the proposals on which you are being asked to vote, information you may find useful in determining how to vote, and information about voting procedures.

Where and when is the Annual Meeting being held?

The Annual Meeting is being held on March 13, 2014, at 11:00 a.m., Pacific Time, at the offices of F5 Networks, Inc., 351 Elliott Avenue West, Seattle, Washington 98119.

What matters will be voted on at the Annual Meeting?

The following matters will be voted on at the Annual Meeting:

Proposal 1. To elect two directors to hold office until the annual meeting of shareholders for fiscal year 2014;

Proposal 2. To approve the F5 Networks, Inc. 2014 Incentive Plan;

Proposal 3. To ratify the selection of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for fiscal year 2014;

Proposal 4. To conduct an advisory vote to approve the compensation of our named executive officers; and

Such other business as may properly come before the meeting and any adjournments or postponements thereof.

How does the Board of Directors recommend that I vote?

The Board of Directors recommends that you vote:

FOR the election of A. Gary Ames and Stephen Smith as directors to hold office until the annual meeting of shareholders for fiscal year 2014;

FOR the approval of the F5 Networks, Inc. 2014 Incentive Plan;

FOR the ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for fiscal year 2014; and

FOR the approval, on an advisory basis, of the compensation of our named executive officers.

Will there be any other items of business on the agenda?

The Company is not aware, as of the date of this Proxy Statement, 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 items of business or other matters are properly brought before the Annual Meeting, your proxy gives discretionary authority to the persons named on the proxy card with respect to those items of business or other matters. The persons named on the proxy card intend to vote the proxy in accordance with their best judgment.

Who is entitled to vote at the Annual Meeting?

Only holders of our common stock, no par value (the Common Stock), at the close of business on the Record Date may vote at the Annual Meeting. We refer to the holders of Common Stock as shareholders throughout this proxy statement. Each shareholder is entitled to one vote for each share of Common Stock held as of the Record Date.

What constitutes a quorum, and why is a quorum required?

We need a quorum of shares of Common Stock eligible to vote to conduct business at our Annual Meeting. A quorum exists when at least a majority of the outstanding shares entitled to vote at the close of business on the Record Date are represented at the Annual Meeting either in person or by proxy. As of the close of business on the Record Date, we had 76,040,204 shares of Common Stock outstanding and entitled to vote at the Annual Meeting, meaning that 38,020,103 shares of Common Stock must be represented in person or by proxy to have a quorum. Abstentions and broker non-votes (as described below) will also count towards the quorum requirement. Your shares will be counted toward the number needed for a quorum if you: (i) submit a valid proxy card or voting instruction form, (ii) give proper instructions over the telephone or on the Internet or, (iii) in the case of a shareholder of record, attend the Annual Meeting in person.

What is the difference between holding shares as a shareholder of record and as a beneficial owner?

Shareholder of Record. You are a shareholder of record if at the close of business on the Record Date your shares were registered directly in your name with American Stock Transfer, our transfer agent.

Beneficial Owner. You are a beneficial owner if at the close of business on the Record Date your shares were held by a brokerage firm or other nominee and not in your name. Being a beneficial owner means that, like many of our shareholders, your shares are held in street name. As the beneficial owner, you have the right to direct your broker or nominee how to vote your shares by following the voting instructions your broker or other nominee provides. If you wish to vote the shares you own beneficially at the meeting, you must first request and obtain a legal proxy from your broker or other nominee. If you do not provide your broker or nominee with instructions on how to vote your shares or a legal proxy, your broker or nominee will be able to vote your shares with respect to some of the proposals, but not all. Please see *What if I do submit my proxy but do not specify how my shares are to be voted?* for additional information.

How do I vote?

Shareholders of Record. If you are a shareholder of record, there are several ways for you to vote your shares:

Voting by Mail. You may submit your vote by completing, signing and dating each proxy card received and returning it in the prepaid envelope. Sign your name exactly as it appears on the proxy card. Proxy cards submitted by mail must be received no later than March 12, 2014 to be voted at the Annual Meeting. *If you vote by telephone or on the Internet, please do not return your proxy card unless you wish to change your vote.*

Voting by Telephone. You may vote by telephone by using the toll-free number listed on your proxy card.

Voting on the Internet. You may vote on the Internet by using the voting portal found at www.proxyvote.com. As with telephone voting, you can confirm that your instructions have been properly recorded.

Voting in person at the Annual Meeting. You may vote your shares in person at the Annual Meeting. Even if you plan to attend the Annual Meeting in person, we recommend that you also submit your proxy card or voting instructions or vote by telephone or via the Internet by the applicable deadline so that your vote will be counted if you later decide not to attend the meeting.

Beneficial Owners. You may vote by the method explained on the proxy card or the information you receive from the broker, nominee or other record holder.

Can I revoke or change my vote after I submit my proxy?

Yes. You may revoke or change your vote after submitting your proxy by one of the following procedures:

Delivering a proxy revocation or another proxy bearing a later date to the Secretary of the Company at 401 Elliott Avenue West, Seattle, Washington 98119 before or at the Annual Meeting;

If you have voted by internet or telephone and still have your control number, you may change your vote via internet or telephone up until 11:59 p.m. Eastern Time the day before the Annual Meeting;

Shareholders of Record by attending the Annual Meeting and voting in person;

Beneficial Owners by obtaining a legal proxy from your broker or other nominee, attending the Annual Meeting and voting in person.

Please note that attendance alone at the Annual Meeting will not revoke a proxy; you must actually vote in person at the meeting.

What will happen if I do not vote my shares?

Shareholders of Record. If you are the shareholder of record of your shares and you do not vote by mail, by telephone, via the Internet or in person at the Annual Meeting, your shares will not be voted at the Annual Meeting.

Beneficial Owners. If you are the beneficial owner of your shares, your broker or nominee may vote your shares only on those proposals on which it has discretion to vote. Under applicable stock exchange rules, your broker or nominee does not have discretion to vote your shares on non-routine matters, which include Proposals 1, 2 and 4. However, your broker or nominee does have discretion to vote your shares on routine matters such as Proposal 3.

What if I do submit my proxy but do not specify how my shares are to be voted?

If you are a shareholder of record and you submit a proxy, but you do not provide voting instructions, your shares will be voted:

FOR the election of A. Gary Ames and Stephen Smith as directors to hold office until the annual meeting of shareholders for fiscal year 2014;

FOR the approval of the F5 Networks, Inc. 2014 Incentive Plan;

FOR the ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for fiscal year 2014;

FOR the approval, on an advisory basis, of the compensation of our named executive officers; and

In the discretion of the named proxies regarding any other matters properly presented for a vote at the Annual Meeting.

What is the effect of an abstention or a broker non-vote ?

Brokers or other nominees who hold shares of Common Stock for a beneficial owner have the discretion to vote on routine proposals when they have not received voting instructions from the beneficial owner at least ten days prior to the Annual Meeting. A broker non-vote occurs when a broker or other nominee does not receive voting instructions from the beneficial owner and does not have the discretion to direct the voting of the shares. If you abstain from voting on a proposal, or if a broker or nominee indicates it does not have discretionary authority to vote on a proposal, the shares will be counted for the purpose of determining if a quorum is present, but will not be included in the vote totals with respect to the proposal. Furthermore, any abstention or broker non-vote will have no effect on the proposals to be considered at the Annual Meeting since these actions do not represent votes cast by shareholders.

What is the vote required for each proposal?

Proposal	**Vote Required***	**Broker Discretionary Voting Allowed**
Proposal 1 Election of two directors to hold office until the annual meeting of shareholders for fiscal year 2014 and until his successor is elected and qualified	Majority of Votes Cast	No
Proposal 2 To approve the F5 Networks, Inc. 2014 Incentive Plan	Majority of Votes Cast	No
Proposal 3 Advisory vote to ratify the selection of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for fiscal year 2014	Majority of Votes Cast	Yes
Proposal 4 Advisory vote to approve executive compensation	Majority of Votes Cast	No

* Under Washington law and the Company s Third Amended and Restated Articles of Incorporation (the Articles) and Third Amended and Restated Bylaws (the Bylaws), if a quorum exists at the meeting, a nominee for director in an uncontested election will be elected by the vote of the majority of votes cast. A majority of votes cast means that the number of shares cast FOR a director s election exceeds the number of votes cast AGAINST that director. If a director nominee who is an incumbent does not receive the requisite votes, that director s term will end on the earliest of (i) the date on which the Board appoints an individual to fill the office held by that director; (ii) 90 days after the date on which an inspector determines the voting results as to that director; or (iii) the date of the director s resignation. With respect to Proposals 2, 3 and 4, a majority of votes cast means that the number of votes cast FOR the matter exceeds the number of votes cast AGAINST the respective matter.

With respect to Proposal 1, you may vote FOR the nominee, AGAINST the nominee, or you may vote ABSTAIN as to the nominee. The nominee will be elected if he receives more FOR votes than AGAINST votes. Proxies may not be voted for more than two directors and shareholders may not cumulate votes in the election of directors.

With respect to Proposals 2, 3 and 4, you may vote FOR, AGAINST or ABSTAIN as to each proposal.

What happens if the Annual Meeting is adjourned or postponed?

Your proxy will still be effective and will be voted at the rescheduled Annual Meeting. You will still be able to change or revoke your proxy until it is voted.

Who is making this proxy solicitation and paying for the costs of this proxy solicitation?

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 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.

How can I find the results of the Annual Meeting?

We intend to announce preliminary voting results at the Annual Meeting and publish final results on a Form 8-K within four business days of the Annual Meeting. The Form 8-K will be available on our website at www.f5.com under the About F5 Investor Relations Corporate Governance Governance Documents View All SEC Filings section.

BOARD OF DIRECTORS

The Board of Directors of the Company currently consists of eight directors. In fiscal year 2013, a proposal to declassify the Board of Directors was approved by a majority of votes cast. As a result, beginning at the annual meeting of shareholders for fiscal year 2015, all members of the Board of Directors will stand for reelection annually. Previously, the Board of Directors was divided into three classes. The Class I directors were Jonathan Chadwick, Michael Dreyer and Sandra Bergeron; the Class II directors were Deborah L. Bevier, Alan J. Higginson and John McAdam; and the Class III directors were A. Gary Ames and Stephen Smith. At the Annual Meeting, the shareholders will vote on the election of two directors, A. Gary Ames and Stephen Smith to serve until the annual meeting of shareholders for fiscal year 2014. Pursuant to the proposal to declassify the Board of Directors, the three Class I directors will serve until the Company s annual meeting for fiscal year 2014, after which, these directors or their respective successors will stand for election on an annual basis. The three Class II directors will serve until the Company s annual meeting for fiscal year 2015, after which, these directors or their respective successors will stand for election on an annual basis.

The Board of Directors has nominated A. Gary Ames and Stephen Smith for election to the Board of Directors at the Annual Meeting. The nominees have consented to serve as directors of the Company if elected. If a nominee 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 a substitute nominee as the Company may designate.

Director Independence

The Nasdaq Listing Rules require that a majority of the Company s directors be independent, as defined by Nasdaq Listing Rule 5605(a)(2) and determined by the Board of Directors. The Board of Directors consults with the Company s legal counsel to ensure that the Board of Directors determinations are consistent with all relevant securities and other laws and regulations regarding the definition of independent. After a review of any relevant transactions or relationships between each director, or any of his or her family members, and the Company, its senior management and its independent registered public accounting firm, the Board of Directors has determined that the following directors and nominees are independent: A. Gary Ames, Sandra Bergeron, Deborah L. Bevier, Jonathan Chadwick, Michael Dreyer, Alan J. Higginson and Stephen Smith. John McAdam is not considered independent because he is the Company s President and Chief Executive Officer.

Stock Ownership Guidelines for Directors

In October 2010, the Board of Directors adopted stock ownership guidelines for the Company s directors and executive officers. Directors are required to own shares of Common Stock equal in value to five times the directors annual cash retainer. Directors are required to achieve this ownership level within three years of joining the Board or, in the case of directors serving at the time the guidelines were adopted, within three years of the date of adoption of these guidelines. Shares of Common Stock that count toward satisfaction of the guidelines include shares purchased on the open market, shares obtained through stock option exercises, shares obtained through grants of Restricted Stock Units, and shares beneficially owned in a trust, by a spouse and/or minor children. Shares owned by directors are valued at the greater of (i) the price at the time of acquisition/purchase or (ii) the current market value.

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 62, has served as our President, Chief Executive Officer and a director since July 2000. Prior to joining us, Mr. McAdam served as General Manager of the Web server sales business at International Business Machines Corporation from September 1999 to July 2000. From January 1995 until August 1999, Mr. McAdam served as the President and Chief Operating Officer of Sequent Computer Systems, Inc., a manufacturer of high-end open systems, which was sold to International Business Machines Corporation in September 1999. Mr. McAdam serves as a director of Tableau Software, a publicly-held company that provides business intelligence software, and Apptio, a privately-held company that provides technology business management. Mr. McAdam holds a B.S. in Computer Science from the University of Glasgow, Scotland.

Mr. McAdam has led the Company for over thirteen years. Since his appointment as President and Chief Executive Officer, the Company s annual revenues have grown from $108.6 million in fiscal year 2000 to $1.48 billion in fiscal year 2013. He has been the driving force behind the strategies and execution which have resulted in the Company s history of strong operating results and significant growth in shareholder value. Mr. McAdam brings to the Board of Directors a comprehensive knowledge of and valuable insight into the Company s technology, strategy, competitive opportunities, operations, financial position, and relationships within the industry analyst and investment communities. He is the sole member of management on the Board of Directors and serves a critical role in the communication between the Board of Directors and the Company s senior management team.

Alan J. Higginson, age 66, has served as Board of Directors chair since April 2004, and as one of our directors since May 1996. Mr. Higginson served as Chairman of Hubspan, Inc., an e-business infrastructure provider, from September 2009 to March 2012. 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 also serves as a director of Pivot3, Inc., a privately-held company that develops and markets shared storage and virtual server appliances, and Clarity Health Services, a privately-held company that provides web-based health care coordination services. Mr. Higginson also served as a director of adeptCloud Inc., a privately-held company that provides cloud-based collaboration services. Mr. Higginson holds a B.S. in Commerce and an M.B.A. from Santa Clara University.

Mr. Higginson has over 30 years of experience as a senior executive in a wide range of both public and private software and other technology companies. His experience includes leading worldwide sales organizations and the management of international joint ventures and distribution channels. He has also been active in a number of software and technology industry associations, and as an advisor to early-stage technology companies. Mr. Higginson joined our Board of Directors shortly after the Company was founded. His deep understanding of the Company s historical and current business strategies, objectives and technologies provides an important and insightful perspective for our Board of Directors.

A. Gary Ames, age 69, 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 US West Communications, a regional provider of residential and business telephone services, and operator and carrier services. Mr. Ames also serves as a director of MMGL Corporation (formally known as Schnitzer Investment Corp.), a privately-held investment firm with interests in commercial, industrial and multi-family properties, real estate development projects, ocean shipping, and other industries. Mr. Ames served as a director of Tektronix, Inc., a publicly-traded supplier of test, measurement, and monitoring products, from 1993 to 2008; SuperValu, Inc., a publicly-traded food and drug retailer, from 2006 to 2010 and iPass, Inc., a publicly-traded enterprise mobility company, from 2002 to 2010. Mr. Ames holds a B.A. in Finance from Portland State University.

Mr. Ames has extensive experience as a senior executive and chief executive officer in the telecommunications industry in the United States, South America, Europe and Asia. He provides to the Board of Directors valuable insight into large telecommunications enterprises, which are an important customer base for the Company. For over twenty years, Mr. Ames has served on a number of other boards, as chairman of compensation and governance committees, and as a member of public company audit committees. Mr. Ames

brings to the Board of Directors expertise and insight as a former chief executive officer, broad experience as director at a wide range of companies and international business experience. His experience as a chief executive officer and member of public company audit committees qualifies him as an audit committee financial expert as defined in Item 407 of Regulation S-K.

Deborah L. Bevier, age 62, 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 Outerwall, Inc. (formerly Coinstar, Inc.), a publicly-traded multi-national provider of services to retailers. She served on the board of directors of Fisher Communications, Inc., a publicly-traded media and communications company, from 2003 to 2010, and Puget Sound Bank, a commercial bank, from 2006 to 2008. 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.

Ms. Bevier has over 36 years of experience with both public and private companies in a wide range of areas including finance, banking, management, and organizational operations. Ms. Bevier s experience as a director of public companies in the consumer services, communications, and media industries enables her to bring a valuable perspective to our Board of Directors. In addition to Ms. Bevier s broad background, her extensive strategic, corporate governance, and compensation expertise makes her well qualified to serve on our Board of Directors.

Jonathan Chadwick, age 47, has served as one of our directors since August 2011. Mr. Chadwick is currently Executive Vice President and Chief Financial Officer at VMware. Prior to joining VMware, Mr. Chadwick served as the chief financial officer of Skype and as a corporate vice president of Microsoft Corporation after its acquisition of Skype in October 2011. Mr. Chadwick joined Skype from McAfee where he was executive vice president and chief financial officer from June 2010 until February 2011. From 1997 to 2010, he held various finance roles at Cisco Systems, including senior vice president, CFO global customer markets, senior vice president, corporate controller and principal accounting officer, and vice president, corporate finance & planning. He also worked for Coopers & Lybrand in various roles in the US and UK. Mr. Chadwick is a Chartered Accountant in England and holds an honors degree in electrical and electronic engineering from the University of Bath, UK.

Mr. Chadwick has extensive experience as a finance executive in the computer networking and security software industries. In addition, his background in high growth enterprises and significant corporate transactions brings an important and valuable perspective to our Board of Directors. As a chief financial officer of a major multi-national enterprise, his expertise in accounting and financial controls qualifies him as an audit committee financial expert as defined in Item 407 of Regulation S-K.

Michael Dreyer, age 50, has served as one of our directors since October 2012. Mr. Dreyer is currently the Chief Information Officer at Visa Inc. and is responsible for the company s systems and technology platforms. Before joining Visa Inc., he was chief information officer of Inovant, where he oversaw the development and management of Visa s global systems technology. Previously, Mr. Dreyer held executive positions at VISA USA as senior vice president of processing and emerging products, and senior vice president of commercial solutions. He has also held senior positions at American Express, Prime Financial, Inc., Federal Deposit Insurance Corporation, Downey Savings, Bank of America, and the Fairmont Hotel Management Company. Mr. Dreyer received an M.B.A. and a B.A. in psychology from Washington State University.

Mr. Dreyer has extensive experience as an information technology executive. He brings to our Board of Directors valuable insights regarding data center operations and the role of our technology in the data center, as

well as an understanding of data traffic management technologies, data security, and other networking technology trends. Mr. Dreyer s information technology and data management expertise combined with his background as a senior executive in the financial industry make him well qualified to serve on our Board of Directors.

Stephen Smith, age 57, has served as one of our directors since January 2013. Mr. Smith is currently Chief Executive Officer and President, and a member of the board of directors of Equinix, Inc., a provider of global data center services. Prior to joining Equinix in April 2007, Mr. Smith served as Senior Vice President at HP Services, a business segment of Hewlett-Packard Co., from January 2005 to October 2006. Prior to joining Hewlett-Packard Co., Mr. Smith served as Vice President of Global Professional and Managed Services at Lucent Technologies Inc., a communications solutions provider. Mr. Smith also held various management and sales positions during his 17 years with Electronic Data Systems Corporation (EDS), a business and technology solutions company, including Chief Sales Officer, President of EDS Asia-Pacific, and President of EDS Western Region. Mr. Smith served on the board of directors of Volterra Semiconductor Corporation, a publicly-traded company from January 2012 to October 2013. He previously served as a director of the public company 3PAR Inc. and as a director of the privately-held company Actian during the past five years. Mr. Smith graduated from the U.S. Military Academy at West Point and holds a B.S. in Engineering.

The combination of Mr. Smith s experience as chief executive officer and director of a public company, and his executive leadership and management experience at technology services and critical infrastructure companies make him well-qualified to serve on our Board of Directors. He brings to our Board of Directors a deep understanding of competitive technologies and of the role and value of our technology in data centers.

Sandra Bergeron, age 55, has served as one of our directors since January 2013. From 2004 until 2012, Ms. Bergeron was a venture partner at Trident Capital, Inc., a venture capital firm. Ms. Bergeron currently serves on the board of directors of Qualys, Inc., a publicly-traded provider of cloud security and compliance solutions; Sophos, Inc., a privately-held provider of IT security and data protection products; and TraceSecurity, a privately-held provider of cloud-based security solutions and IT governance, risk and compliance management solutions where she also serves as chairman. Ms. Bergeron previously served on the board of directors of TriCipher, a privately-held secure access management company acquired by VMware in August 2010 and ArcSight, Inc., a publicly-traded security and compliance management company acquired by Hewlett-Packard Company in September 2010. Ms. Bergeron holds a B.A. in Business Administration from Georgia State University and a M.B.A. from Xavier University.

Ms. Bergeron has extensive experience in network and data security and related public policy issues. She has a national reputation as an expert on computer security matters. In addition, she has extensive experience as a director of public and private technology companies, and as an executive managing product development and sales teams in the computer and internet security industries.

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 of Directors

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. As described more fully in the Audit Committee charter, the functions of the Audit Committee include selecting, evaluating and, if necessary, replacing the Company s independent registered public accounting firm; reviewing and approving the planned scope, proposed fee arrangements and results of the annual audit; approving any proposed non-audit services to be provided by the independent registered public accounting firm; overseeing the adequacy of accounting and financial controls; reviewing the independence of the independent registered public accounting firm; and overseeing the Company s financial reporting process on behalf of the Board of Directors. The Audit Committee members are Messrs. Ames, Chadwick (chairman) and Dreyer, and Mss. Bergeron and Bevier. The Board of Directors has determined that each of Messrs. Ames and Chadwick 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 2013 was, an independent director as defined by the Nasdaq Listing Rules (as independence is currently defined in Rule 5605(a)(2)).

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 Compensation Committee recommends for approval by the Board of Directors the compensation for the Chief Executive Officer and directors, including salaries, incentive compensation levels and stock awards, and reviews and approves compensation proposals made by the Chief Executive Officer for the other executive officers. The Compensation Committee may form and delegate authority to subcommittees and may delegate authority to one or more designated members of the Compensation Committee or of the Board of Directors or to Company officers to perform certain of its duties on its behalf. The Compensation Committee members are Ms. Bevier (chairman) and Messrs. Ames, Dreyer, Higginson and Smith. Each current member of the Compensation Committee is, and each member of the Compensation Committee during fiscal year 2013 was, an independent director as defined by the Nasdaq Listing Rules. In fiscal year 2013, the Compensation Committee retained an outside independent compensation consultant, Towers Watson, to advise the Compensation Committee on executive compensation issues. Towers Watson provides the Compensation Committee peer and survey group cash and equity compensation data, including 50th and 75th percentile base salary, total cash, long-term incentive and total direct compensation data. For additional information about the Compensation Committee and the information provided by Towers Watson to the Compensation Committee, see the description of the Compensation Committee s activities in the Executive Compensation Compensation Discussion and Analysis section. The Compensation Committee has determined that the work of Towers Watson has not raised any conflict of interest as defined in Item 407 of Regulation S-K.

Nominating and Corporate Governance Committee. The functions of the Nominating and Corporate Governance Committee (the Nominating Committee) are to identify new potential Board members, recommend Board nominees, evaluate the Board s performance, and provide oversight of corporate governance and ethical conduct. The Nominating Committee members are Messrs. Ames (chairman), Higginson and Smith, and Ms. Bergeron. Each current member of the Nominating Committee is, and each member of this committee during fiscal year 2013 was, an independent director as defined by the Nasdaq Listing Rules.

Board Leadership

The Company currently separates the roles of Chief Executive Officer and Chairman of the Board. Mr. McAdam, the President and Chief Executive Officer, is responsible for setting the strategic direction of the Company and for the day-to-day leadership and performance of the Company. Mr. Higginson, the Chairman of the Board, sets the agenda for and presides at Board meetings, and coordinates the Board s communications with Mr. McAdam and the Company s senior management team. The Board believes this current structure balances the needs for the President and Chief Executive Officer to run the Company on a day-to-day basis with the benefit provided to the Company by Mr. Higginson s perspective as an independent member of the Board.

Risk Oversight

Assessing and managing risk is the responsibility of the Company s senior management team. The Board of Directors oversees certain aspects of the Company s risk management efforts, and reviews and consults with the Company s senior management team, Corporate Compliance Officer and Director of Compliance on strategic and operational opportunities, challenges and risks faced by the Company at each of the regular quarterly Board meetings. In fiscal year 2010, the Company implemented an enterprise risk management program. The Company retained Ernst & Young to assist the Company in performing an enterprise risk assessment to identify key strategic, operating, legal and compliance, and financial risks, evaluate the significance of those risks, formulate a risk profile which identified relevant risk levels and management control efforts, and develop action plans to address these key risks. The Company s senior management team regularly reviews and evaluates these key risks and the effectiveness of the Company s risk management programs, and reported back to the Audit Committee and the full Board of Directors on a regular basis during fiscal year 2013. In addition, the Audit Committee oversees the Company s financial risk exposures, financial reporting, and internal controls. The Compensation Committee oversees the Company s executive compensation programs, monitors the administration of the Company s various equity compensation plans, and conducts compensation-related risk assessments. The Nominating Committee oversees risk related to the Company s overall corporate governance profile and ratings; board and committee composition and structure; and director independence. Each Committee presents regular reports to the full Board of Directors. The Board s role in risk oversight has not had any effect on the Board s leadership structure.

Compensation Committee Interlocks and Insider Participation

The following directors served as members of the Compensation Committee during some or all of fiscal year 2013: Ms. Bevier (chairman), Messrs. Ames, Dreyer, Higginson, and Smith. None of these persons has at any time been an officer or employee of the Company. During fiscal year 2013, 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 that served as a member of the Company s Board of Directors or Compensation Committee.

Related Person Transactions Policy and Procedures

As set forth in the written 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 with the Company 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 Executive Vice President and General Counsel of any such transaction that arises during the year, and the Company s Chief Financial 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 Listing 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 Procedures 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 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 of Incorporation 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.

Meetings of the Board of Directors and Standing Committees; Attendance at Annual Meeting

The Company s Board of Directors met or acted by unanimous written consent 11 times during fiscal year 2013. The Audit Committee met 8 times and the Compensation Committee met or acted by unanimous written consent 11 times. During fiscal year 2013, the Nominating and Corporate Governance Committee met 4 times. The outside directors met 2 times during fiscal 2013, with no members of management present. Each member of the Board of Directors attended 75% or more of the Board of Directors meetings during fiscal year 2013. Each member of the Board of Directors who served on one or more of the Standing Committees attended at least 75% of the total number of meetings of the Standing Committees on which they served during fiscal year 2013. All directors are also expected to be present at the Company s annual meetings of shareholders. All directors attended the Company s annual meeting of shareholders for fiscal year 2012 except Messrs. Chadwick and Smith.

Director Nomination

Criteria for Nomination to the Board of Directors. 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 Listing Rules, that members of the Company s Audit Committee meet the financial literacy requirements under the Nasdaq Listing 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, 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.

In evaluating director candidates, regardless of the source of the nomination, the Nominating Committee will consider, in accordance with its Charter, the composition of the Board as a whole, the requisite characteristics (including independence, diversity, skills and experience) of each candidate, and the performance and continued tenure of incumbent Board members. With respect to diversity, we broadly construe diversity to mean not only diversity of race, gender and ethnicity, but also diversity of opinions, perspectives, and professional and personal experiences. Nominees are not discriminated against on the basis of race, religion, national origin, sexual orientation, disability or any other basis proscribed by law. The board believes that the backgrounds and qualifications of the directors, considered as a group, should provide a significant composite mix of experience, knowledge and abilities that will allow the Board to fulfill its responsibilities. The Board therefore considers diversity in identifying nominees for director, but does not have a separate policy directed toward diversity.

Shareholder 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 Corporate Secretary 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, as amended (the Exchange Act) (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

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shareholders(s) making the nomination and the number of shares of Common Stock that 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. Such nominations 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 2014 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 qualifications 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 nominees to the Board of Directors described in this Proxy Statement were approved unanimously by the Company s directors. Mr. Dreyer, who joined the Board of Directors in October 2012, and Ms. Bergeron and Mr. Smith, who joined the Board in January 2013 were recommended by third-party search firms the Nominating Committee retained at the expense of the Company in fiscal year 2012. The third-party search firms were provided guidance as to the particular skills, experience and other characteristics the Nominating Committee was seeking in potential candidates. The third-party search firms identified a number of potential candidates, including Ms. Bergeron and Messrs. Dreyer and Smith, and prepared background materials on these candidates, which were provided to the members of the Nominating Committee for their review. The third-party search firms 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 firms 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

Shareholders who wish to communicate with our directors 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 of Directors as appropriate.

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 Chief Executive Officer and Chief Financial Officer. The Code of Ethics is posted under the About F5 Investor Relations Corporate Governance section of the Company s website, www.f5.com. A copy of the Code of Ethics may be obtained without charge by written request to the Company s Corporate Secretary. We also have a separate Code of Ethics that applies to all of the Company s employees, which may also be found under the About F5 Investor Relations Corporate Governance section of our website.

Compensation Risk Assessment

The Compensation Committee and Company management have reviewed the Company s compensation plans and programs and have concluded that none of these plans or programs is reasonably likely to have a material adverse effect on the Company. In making this evaluation, the Compensation Committee reviewed the key elements of each of the Company s compensation programs and the means by which any potential risks are mitigated, including through various elements in the Company s enterprise risk management program. The Company s compensation programs include a mix of base salary, cash incentive compensation, and long-term equity compensation. The incentive compensation and performance-based annual equity awards programs for the executive officers include both revenue and EBITDA targets intended to ensure that the executive officers appropriately manage operating risks, avoid excessive risk-taking, and maintain the Company s gross margin and operating margin targets while growing its revenue base.

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, 2013.

Members of the Compensation Committee:

A. Gary Ames

Deborah L. Bevier, Chair

Michael L. Dreyer

Alan J. Higginson

Stephen Smith

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Introduction

This Compensation Discussion and Analysis provides information about the fiscal year 2013 compensation program for our fiscal year 2013 named executive officers:

John McAdam, President and Chief Executive Officer (and our principal executive officer)

Andrew Reinland, Executive Vice President and Chief Financial Officer (and our principal financial officer)

John Rodriguez, Former Senior Vice President and Corporate Compliance Officer (and our principal financial officer for a portion of fiscal year 2013)(Mr. Rodriguez resigned from the Company on August 2, 2013)

Karl Triebes, Executive Vice President of Product Development and Chief Technical Officer

Edward J. Eames, Executive Vice President of Business Operations

Dan Matte, Former Executive Vice President of Marketing and Business Development (Mr. Matte resigned from the Company on May 18, 2013)

Jeffrey A. Christianson, Former Executive Vice President and General Counsel (Mr. Christianson resigned from the Company on September 30, 2013)

Updates to our Executive Compensation Program in Fiscal Year 2013

For fiscal year 2013, the Compensation Committee and Board of Directors extended to four years the vesting period for annual equity awards issued to our executive officers and changed the target performance based bonus percentages for each of the executive officers to further align the interests of the executive officers with the shareholders. These changes were made in October 2012. At that time, the Company had achieved record operating results in fiscal year 2012 and our share price growth rates of 47%, 164% and 181% over the past one, three and five year time periods as of September 30, 2012, respectively, were in each time period stronger than the comparable growth rates for the Nasdaq Composite Index, Nasdaq Computer Index, the S&P 500 Index, and the Peer Group Companies.

The Compensation Committee also directed Towers Watson to review the peer group of companies used in fiscal year 2012 by the Compensation Committee. Towers Watson received input from the Compensation Committee, other members of the Company s Board of Directors and management and recommended that the Compensation Committee retain the list of Peer Group Companies previously used by the Compensation Committee in fiscal year 2012 (See Factors Considered Benchmarking). The term Peer Group Companies used in this Compensation Discussion and Analysis shall mean this list.

Executive Summary and Executive Compensation Program Objectives

The objectives of our executive compensation program are to correlate executive compensation with the Company s business objectives, 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. We believe the total direct compensation our named executive officers received in fiscal year 2013 as set forth in the Summary Compensation Table on page 29 is consistent with and reflects these objectives.

Fiscal Year 2013 Corporate Performance

The Company s total annual revenue in fiscal year 2013, $1.48 billion, was the highest ever and an increase of 8% over fiscal year 2012. Cash flow from operating activities was $500 million and net income was $277 million, both the highest in the Company s history. We maintained very strong GAAP gross margins and operating margins throughout fiscal year 2013. GAAP gross margin and GAAP operating margin were 82.9% and 29.1% respectively for fiscal year 2013. GAAP operating margin improved from the second through the fourth quarter of fiscal year 2013. The Company continued to maintain a very strong balance sheet, ending the fiscal year with cash and investments totaling approximately $1.3 billion.

In fiscal year 2013, the Company further strengthened its position as a technology leader:

We continued to launch a wide-range of initiatives and new products focused on key industry and customer priorities, including virtualization, cloud computing, software defined networking, and network security.

We expanded our selection of virtual (software only) editions (VE) of our products and are now offering an industry-leading selection of VE products which are compatible with all major hypervisor platforms.

We introduced two major upgrades to our Traffic Management Operating System and five new BIG-IP appliance platforms with significantly improved performance levels.

We introduced a new VIPRION solution, the 4800 chassis, specifically designed to meet the needs of the largest service providers, enterprises and web-based businesses, and new VIPRION blades with double the performance level.

We continued to expand our security solutions business with the introduction of the BIG-IP Advanced Firewall Manager module, a full-proxy network firewall.

We continued to maintain our application delivery controller (ADC) market leadership position throughout fiscal year 2013.

In fiscal year 2013, the Company continued to achieve strong operating results while enhancing its technology and market leadership positions. The Company continued to deliver long-term shareholder value. During the Company s five most recent fiscal years, shareholder value increased at a compounded annual growth rate of 30%, while comparable rates for the Nasdaq Composite Index, Nasdaq Computer Index and the S&P 500 index were 14%, 16% and 10% respectively, and 12% for the Peer Group Companies. However, due to strong comparison years, our share price growth rates did decline over the past one and three year periods, while the five year share price growth continued to be very significant. Our share price growth rates were -18%, -17% and 267% as of September 30 over the past one, three and five year time periods. Comparable growth rates for the Nasdaq Composite Index were 23%, 65% and 91% respectively; 9%, 55% and 107% respectively for the Nasdaq Computer Index; 19%, 57% and 61% respectively for the S&P 500 Index, and 10%, 12%, and 74% respectively for the Peer Group Companies.

In evaluating the Company s executive compensation program for fiscal year 2013, the Compensation Committee considered the shareholder annual advisory vote on executive compensation for fiscal year 2012 which was approved by over 96% of the votes cast. The Compensation Committee carefully considers feedback from shareholders regarding the Company s executive compensation, including the results of the shareholders annual advisory vote on executive compensation. The Company also meets regularly with shareholders and analysts. As reflected by the result of the annual advisory vote on executive compensation, no concerns have been expressed during these meetings regarding the Company s executive compensation program. Shareholders are invited to express their views to the Committee, including as described above under the heading Communications with Directors.

Compensation Philosophy

We design the compensation programs for our executive officers to link compensation to improvements in the Company s financial performance and the creation of shareholder value. We achieve this objective through a compensation program that:

- provides a competitive total compensation package that enables the Company to attract, motivate, reward and retain executive officers who contribute to the Company s success;

links incentive compensation to the performance of the Company and aligns the interests of executive officers with the long-term interests of shareholders; and

establishes incentives that relate to the Company s quarterly, annual and long-term business strategies and objectives.

The Compensation 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. Regarding the Company s incentive compensation and performance-based equity awards programs, the Compensation Committee continues to believe that revenue and EBITDA are the most appropriate measurements for these programs as the Company s ability to deliver consistent and strong financial performance is of crucial importance in maintaining and growing shareholder value, and furthers the shared interests of the Company s executive officers and shareholders. The focus on revenue growth balanced by the EBITDA targets ensures that the Company appropriately manages operating risks, avoids excessive risk-taking, and maintains its gross margin and operating margin targets. Based on feedback from shareholders, the Company believes these targets appropriately reflect and address the long-term interests of our shareholders and promote the Company s business strategies and objectives. The targets approved each fiscal year are set at a level which the Compensation Committee believes will require solid execution by the executive team, and, if achieved, will contribute to growing shareholder value. The Compensation Committee also believes that in light of market volatility and difficult macro-economic conditions, performance targets based on share price may promote a short-term focus inconsistent with the long-term interests of shareholders and the Company s business strategies and objectives.

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 that reflect their specific job responsibilities, experience, qualifications, job performance and potential contributions; market data from two salary surveys covering technology companies in comparable areas (Survey Companies); and compensation paid to comparable executives as set forth in proxy statements for the Peer Group Companies developed by an outside independent compensation consultant (See Factors Considered Benchmarking). Base salaries are reviewed and generally 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 Survey Companies and Peer Group Companies.

Incentive Compensation

The Compensation 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 percentage of such executive officer s base salary, ranging in fiscal year 2013 from 35% to 120% and from 30% to 80% in fiscal year 2012.

The Compensation Committee, in consultation with our President and CEO, 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, is generally set at or near the 50th percentile range of total direct cash compensation for comparable executive officers at the Peer Group Companies. If earned, the cash incentive bonus is paid quarterly. For fiscal year 2013, 50% of the cash incentive bonus was based on the Company achieving target revenue for the quarter, and 50% was based on the Company achieving target EBITDA (earnings before interest, taxes, depreciation and amortization) for the quarter. Each such target is de