



FORM 10-K

Riverbed Technology, Inc. - RVBD

Filed: February 23, 2009 (period: December 31, 2008)

Annual report which provides a comprehensive overview of the company for the past year

Table of Contents

[10-K - FORM 10-K](#)

[PART I.](#)

[Item 1.](#) [3](#)

[Part I](#)

[Item 1.](#) [Business](#)
[Item 1A.](#) [Risk Factors](#)
[Item 1B.](#) [Unresolved Staff Comments](#)
[Item 2.](#) [Properties](#)
[Item 3.](#) [Legal Proceedings](#)
[Item 4.](#) [Submission of Matters to a Vote of Security Holders](#)

[Part II](#)

[Item 5.](#) [Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities](#)
[Item 6.](#) [Selected Financial Data](#)
[Item 7.](#) [Management's Discussion and Analysis of Financial Condition and Results of Operations](#)
[Item 7A.](#) [Quantitative and Qualitative Disclosures about Market Risk](#)
[Item 8.](#) [Financial Statements and Supplementary Data](#)
[Item 9.](#) [Changes In and Disagreements with Accountants on Accounting and Financial Disclosure](#)
[Item 9A.](#) [Controls and Procedures](#)
[Item 9B.](#) [Other Information](#)

[Part III](#)

[Item 10.](#) [Directors, Executive Officers and Corporate Governance](#)
[Item 11.](#) [Executive Compensation](#)
[Item 12.](#) [Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters](#)
[Item 13.](#) [Certain Relationships and Related Transactions, and Director Independence](#)
[Item 14.](#) [Principal Accountant Fees and Services](#)

[Part IV](#)

[Item 15.](#) [Exhibits and Financial Statement Schedules](#)

SIGNATURES

EX-10.11 (AMENDMENT NO. 1 TO 2006 DIRECTOR OPTION PLAN)

EX-10.13 (2006 EMPLOYEE STOCK PURCHASE PLAN)

EX-10.15 (MANAGEMENT BONUS PLAN)

EX-10.16 (AMENDED AND RESTATED CHANGE IN CONTROL SEVERANCE AGREEMENT)

EX-10.17 (AMENDED AND RESTATED CHANGE IN CONTROL SEVERANCE AGREEMENT)

EX-14.1 (CODE OF BUSINESS CONDUCT)

EX-14.2 (CODE OF ETHICS FOR CEO AND SENIOR FINANCIAL OFFICERS)

EX-21.1 (LIST OF SUBSIDIARIES)

EX-23.1 (CONSENT OF ERNST YOUNG LLP)

EX-31.1 (CERTIFICATION OF THE CEO PURSUANT TO SECTION 302)

EX-31.2 (CERTIFICATION OF THE CFO PURSUANT TO SECTION 302)

EX-32.1 (CERTIFICATION OF THE CEO AND CFO PURSUANT TO SECTION 906)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-33023

Riverbed Technology, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

03-0448754
(I.R.S. employer
identification no.)

199 Fremont Street
San Francisco, CA 94105
(Address of principal executive offices, including zip code)
(415) 247-8800
(Registrant's telephone number, including area code)

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

Title of Each Class to be so Registered	Name of Each Exchange on Which Each Class is to be Registered
Common Stock, \$0.0001 par value (Title of Class)	The NASDAQ Stock Market LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of June 30, 2008, the last business day of our most recently completed second fiscal quarter, the aggregate market value of the voting stock held by non-affiliates was \$664,900,067 based on the number of shares held by non-affiliates of the registrant as of June 30, 2008, and based on the reported last sale price of common stock on June 30, 2008. This calculation does not reflect a determination that persons are affiliates for any other purposes.

Number of shares of common stock outstanding as of February 3, 2009: 69,146,553.

Documents Incorporated by Reference: Portions of the registrant's proxy statement relating to its 2009 annual meeting of stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

RIVERBED TECHNOLOGY, INC.
YEAR ENDED DECEMBER 31, 2008
ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

	<u>Page No.</u>
PART I.	
Item 1. Business	3
Item 1A. Risk Factors	14
Item 1B. Unresolved Staff Comments	30
Item 2. Properties	30
Item 3. Legal Proceedings	31
Item 4. Submission of Matters to a Vote of Security Holders	31
PART II.	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	32
Item 6. Selected Financial Data	34
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	36
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	54
Item 8. Financial Statements and Supplementary Data	55
Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure	86
Item 9A. Controls and Procedures	86
Item 9B. Other Information	87
PART III.	
Item 10. Directors, Executive Officers and Corporate Governance	88
Item 11. Executive Compensation	88
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	88
Item 13. Certain Relationships and Related Transactions, and Director Independence	88
Item 14. Principal Accountant Fees and Services	88
PART IV.	
Item 15. Exhibits and Financial Statement Schedules	89
Signatures	92

Item 1. Business**Overview**

Riverbed® has developed an innovative and comprehensive solution to the fundamental problems of wide-area distributed computing. Historically, computing within an organization across wide area networks (WANs) has been plagued by poor performance, IT complexity and high cost. Our Steelhead® products enable our customers to improve the performance of their applications and access to their data across WANs, typically increasing transmission speeds by 5 to 50 times and in some cases by up to 100 times. Our products also offer the ability to simplify IT infrastructure and realize significant capital and operational cost savings. Our goal is to establish our solution as the preeminent performance and efficiency standard for organizations relying on wide-area distributed computing. We believe our products and services can provide significant benefits in millions of locations worldwide.

A common misconception is that increasing or optimizing bandwidth alone can adequately reduce the inefficiencies and performance problems inherent in wide-area distributed computing. Increasing or optimizing bandwidth may allow an organization to increase the amount of data that can traverse a WAN at a given point in time. However, application performance problems resulting from the distance between locations across a WAN and resulting from network and application protocol inefficiencies are not addressed by increasing or optimizing bandwidth alone. Inadequate bandwidth is only one of three inter-related causes of these performance problems. We believe that these problems can best be solved by simultaneously addressing all three inter-related root causes: software application protocol inefficiencies, transport network protocol inefficiencies and insufficient or unavailable bandwidth.

Unlike alternative approaches, our Steelhead products simultaneously address these root causes across a broad range of applications. Our products utilize our proprietary software to improve the performance of applications and access to data over distance by reducing:

- application protocol inefficiencies through our proprietary Application Streamlining techniques;
- network protocol inefficiencies through our proprietary Transport Streamlining techniques; and
- bandwidth requirements through our proprietary Data Streamlining techniques and data compression.

Our Steelhead products are used at both ends of a WAN connection and are designed to be more easily and transparently integrated into existing networks than alternative products. Our products address a broad range of widely used software applications, are scalable across networks of all sizes and address the wide-area distributed computing needs of every major industry.

We were founded in May 2002. Prior to the first commercial shipments of our products in May 2004, our activities were primarily focused on research and development of a comprehensive WAN optimization solution for organizations relying on wide-area distributed computing, development of a customer and partner support program to support our product offerings and the hiring of the personnel needed to sell, market and support our products and services. Since that time, our products have been sold to more than 5,500 customers worldwide, from large global organizations with hundreds or thousands of locations to smaller organizations. We sell our products and support directly through our sales force and indirectly through distribution partners, including value-added distributors, value-added resellers (VARs), Systems Integrators and Service Providers. We operate internationally primarily through a number of wholly owned subsidiaries that are designed primarily to support our sales, marketing and support activities outside the U.S.

[Table of Contents](#)

We have achieved broad industry recognition for our innovative technology. For five consecutive years, *InfoWorld* has named Riverbed Steelhead appliances as a Product of the Year. For the last two years (2006-2007) and since the inception of the report, Gartner has positioned Riverbed in the Leaders' Quadrant in the "WAN Optimization Controller (WOC) Magic Quadrant," which positions vendors in one of four quadrants based on the companies' vision and ability to execute on that vision. In December 2008, Riverbed Steelhead appliances were ranked #2 in the 10 most influential Biztech products of 2008 by ZDNet. Riverbed's WAN optimization solutions have received industry recognition from Forrester Research, IDC, *NetworkWorld*, *The Wall Street Journal*, *eWeek*, *Storage Magazine*, *Network Computing* and *Byte & Switch*, among others.

In February 2009, we acquired Mazu Networks, Inc. ("Mazu"), for approximately \$25.0 million in cash, with an additional possible payment of up to \$22.0 million in cash to be made based on achievement of certain bookings targets in a defined twelve-month period following the closing. Mazu helps organizations manage, secure and optimize the availability and performance of global applications. The acquisition allows us to meet enterprise and service provider customer demands by extending our suite of WAN optimization products to include global application performance, reporting and analytics.

Industry Background

We believe there are over four million remote offices of U.S. based companies alone. We also believe millions of remote computing locations exist for companies based outside the U.S. Many of these locations represent potential sites for our products.

The WAN optimization market provides global access to data and applications across WANs with local area network (LAN)-like performance. The WAN optimization market is large and growing. The key drivers of demand in this market are the increasingly geographically distributed nature of organizations and employees, the increasing desirability of consolidation of IT resources to achieve compelling cost, management and data protection benefits, and the growing business dependence on application performance and real-time access to data.

Increasingly Distributed Organizations and Workforces

Organizations are becoming more geographically distributed, placing operations closer to customers and partners to improve efficiency and responsiveness. Businesses are becoming more global by expanding into new markets, migrating manufacturing facilities to lower-cost locations and outsourcing certain business processes. In addition, mergers, acquisitions, partnerships and joint ventures continue to expand the geographic scope of existing enterprises.

Organizations are Increasingly Dependent on Timely Access to Critical Data and Applications

Application performance and effective access to data are critical to executing, maintaining and expanding business operations. Employees are increasingly dependent on a wide array of software applications to perform their jobs effectively, such as e-mail, document management, enterprise resource planning and customer relationship management.

[Table of Contents](#)

Benefits of IT Infrastructure Consolidation

As organizations have become more geographically distributed, installing and managing IT infrastructure has become increasingly costly and complex. Accordingly, IT managers often seek to consolidate IT infrastructure resources into headquarters or centralized datacenter locations, which can provide a number of benefits, including:

- reduction in capital costs as IT infrastructure resources (file servers, e-mail servers, web servers, application servers, back-up systems and databases) are consolidated and shared within an organization;
- reduction in IT support costs as fewer personnel are required to manage more centralized data and applications;
- more efficient and reliable data back-up and recovery and application and database administration by managing these processes from a central point of control;
- improved data protection as consolidated IT infrastructure resources are less vulnerable to theft, loss and misuse; and
- enhanced ability to implement internal controls and comply with other regulatory requirements as centralized data and applications are easier to monitor, store and access.

Despite these benefits, many organizations have foregone or delayed consolidation projects because of performance problems.

Wide-Area Distributed Computing Challenges

Technological advances in computing, networking, semiconductor and storage technologies have improved users' ability to access data and use applications rapidly across their LANs and store enormous amounts of information economically. However, these same applications and storage technologies, which were often designed to operate optimally on LANs, perform slowly across WANs and frequently exhibit the following performance challenges:

- delays in accessing, saving and transferring files;
- slow execution of critical software application functions;
- incomplete or inconsistent back-up and recovery of sensitive data; and
- loss of worker productivity and increased end-user frustration.

Although many companies have attempted to solve these problems solely by adding bandwidth, we believe these performance problems can best be solved by addressing not only bandwidth challenges but also, and usually more importantly, the effects of latency and protocol chattiness:

- *Latency and protocol chattiness* — “Latency” is the amount of time it takes data to travel distances across a WAN. “Chattiness” refers to the numerous interactions between clients and servers that are often required by applications or network transport protocols to complete an operation or transfer data. When combined in geographically distributed computing environments, latency and chattiness can result in dramatically slower performance. For example, a simple request to open a file may require hundreds if not thousands of sequential round-trip interactions that, when aggregated, can result in substantial delays. This problem arises from two distinct sources:
 - *Application protocol chattiness* — Many business applications were designed for optimal use within LAN environments and employ unique communications procedures that cause high chattiness, resulting in slow performance for the end-user when transmitted over a WAN; and

[Table of Contents](#)

- *Network protocol chattiness* — Transmission Control Protocol (TCP), the underlying transport protocol for most WAN traffic, divides data into relatively small packets that are sent sequentially across the WAN, and require return acknowledgement from the recipient. These numerous round trips across the WAN can result in slow performance for the end-user.
- *Bandwidth limitations* — Bandwidth is defined as the amount of data that can traverse a network in a given amount of time and is typically measured in megabits per second (Mbps). While most organizations' LANs typically operate at 100 or 1,000 Mbps, their remote office WAN connections typically operate at 2 Mbps or less. This often results in WAN congestion and poor application and data services performance. In addition, WAN outages limit the effectiveness of workers who are dependent on remote access to data and applications.

Limitations of Alternative Approaches

Historically, organizations have implemented partial solutions in attempting to improve the performance of wide-area distributed computing, including:

Additional Investment in Bandwidth and IT Infrastructure Resources

- *Bandwidth* — Organizations often attempt to improve application performance by making costly investments in more bandwidth. While additional bandwidth may reduce network congestion, no amount of bandwidth can address performance issues caused by high latency and application and network protocol chattiness; and
- *IT infrastructure resources* — Deploying additional IT infrastructure resources at remote locations can increase selected application and data services performance. However, this approach is expensive, complex to manage and increases the risks of data inconsistency and compromised security.

Deployment of Point Products

Our competitors have designed products that fail to address all of the root causes of wide-area distributed computing problems for a broad range of applications. Such products, which we refer to as point products, include most WAN optimization products, which typically offer some combination of compression, TCP optimization and quality-of-service functions, and can result in a reduction of network congestion and more efficient utilization of bandwidth. However, such WAN optimization products typically do not address application chattiness as comprehensively as we do and many do not provide for continued access to remote files during WAN failures.

In addition to their limited application, these point products often involve deployment and operational complexities that cause network disruption, inefficiency, and difficulties scaling to large numbers of locations. They may often require server or client re-configuration, or complex pre-installation configuration that demands significant amounts of time from IT personnel.

Over time, point product vendors have attempted to incorporate additional functionality to solve for their limitations. These amalgamations of legacy approaches with additional layers of features often suffer from the same underlying issues as their legacy underpinnings: insufficient performance improvement over a broad spectrum of data networking traffic, scaling difficulties, and deployment and operational complexity.

Need for a Comprehensive Solution

Alternative approaches have failed to comprehensively address all of the root causes of wide-area distributed computing problems for a broad range of applications, and offer only limited performance enhancement. Some vendors have attempted to combine capabilities of otherwise more

[Table of Contents](#)

limited approaches through partnerships and acquisitions, but the resulting products have been poorly integrated and have failed to improve the performance of a sufficiently wide array of applications. We believe significant demand exists for an integrated, flexible and comprehensive WAN optimization solution that adequately addresses the root causes of the fundamental performance problems of wide-area distributed computing.

The Riverbed Solution

We have developed an innovative and comprehensive solution that broadly addresses the inter-related root causes of poor performance of wide-area distributed computing: latency and protocol chattiness, and bandwidth limitations. By simultaneously addressing these causes, we are able to improve significantly the performance of applications and access to data across WANs and enable the consolidation of costly IT infrastructure. Our WAN optimization solution consists of the Riverbed Optimization System (RiOS[®]), our proprietary software that is embedded on a general purpose hardware computing platform to form our Steelhead appliances. We also embed RiOS in our Steelhead Mobile software designed for use on mobile worker laptop computers or desktop computers in locations with very few employees.

Through the application of our proprietary technology, our WAN optimization solution simultaneously addresses each of these root causes of poor WAN performance:

- *Application protocol chattiness* — Our Application Streamlining technology significantly reduces unnecessary protocol chattiness for a broad range of applications and protocols such as CIFS (Windows file sharing), NFS (UNIX file sharing), MAPI (Microsoft Exchange), Oracle Forms, Lotus Notes, MS-SQL HTTP, SSL and others;
- *Network protocol chattiness* — Our Transport Streamlining technology employs a variety of techniques to significantly improve TCP performance. Our technology allows more data to be transmitted in each trip, which reduces the number of trips required; and
- *Bandwidth limitations* — Our Data Streamlining technology employs sophisticated data mapping and pattern recognition techniques to minimize the amount of redundant data traversing WAN connections. Our products detect requests for redundant information and send very little more than the data that has actually been modified over the WAN.

When combined, these key technologies allow us to deliver significant benefits to our customers, including the ability to:

- *Accelerate performance of applications and access to data over the WAN* — Our solution enables our customers to recognize dramatic increases in performance of applications and access to data across a WAN, typically increasing transmission speeds by 5 to 50 times and in some cases by up to 100 times. Benefits include increased employee productivity, more efficient collaboration of globally distributed workgroups and more consistent rollout and adoption of enterprise applications;
- *Consolidate geographically distributed IT resources* — Our solution enables the consolidation of remote office infrastructure, including servers, storage back-up systems, databases and IT support personnel, while achieving more LAN-like performance. Also, consolidation enhances data security by centralizing IT resources in more secure datacenters;
- *Reduce the need for WAN bandwidth* — Our solution nearly eliminates redundant traffic traversing the WAN and enables more efficient use of existing bandwidth, reducing the pressure to add bandwidth, which is often expensive or unavailable, as network traffic increases;

[Table of Contents](#)

- *Shorten storage back-up and replication time over the WAN* — Our solution enables back-up and replication of data over the WAN in a fraction of the time previously allocated to the task. Additional benefits to our solution include reduced IT support needed to execute daily back-up procedures, as well as reduced security concerns related to storing and transporting backed-up data on physical tape media at every remote computing location; and
- *Improve productivity and reduce frustration for IT managers and end-users* — Our solution allows users in sites linked by a WAN to collaborate and share files and other data without the delays normally caused by WANs. Additional benefits include faster development cycles, better data synchronization, lower error rates and more flexibility with respect to staffing and personnel coordination.

Our products are designed to be easily and transparently deployed into our customers' networks. Our products are also designed to be easily managed, scalable across networks of all sizes and to address the wide-area distributed computing needs of every major industry.

The Riverbed Strategy

Our goal is to establish our solution as the preeminent performance and efficiency standard for organizations relying on wide-area distributed computing. Key elements of our strategy include:

- *Maintain and extend our technological advantages* — We believe that we offer the broadest ability to enable rapid, reliable access to applications and data for our customers. We intend to enhance our position as a leader and innovator in the WAN optimization market. We also intend to continue to sell new capabilities into our installed base;
- *Enhance and extend our product line* — We plan to introduce new models of our current products as well as enhancements to their capabilities in order to address our customers' size and application requirements. We also plan to introduce new products to extend our market and utilize our technology platform to extend our capabilities;
- *Increase market awareness* — To generate increased demand for our products, we will continue promoting our brand and the effectiveness of our comprehensive WAN optimization solution;
- *Scale our distribution channels* — We intend to leverage and expand our indirect channels to extend our geographic reach and market penetration; and
- *Enhance and extend our support and services capabilities* — We plan to enhance and extend our support and services capabilities to continue to support our growing global customer base.

Products

Our Steelhead appliances consist of our RiOS proprietary software that is embedded on a general purpose hardware computing platform. Our line of Steelhead appliances addresses the needs of customers ranging from small office deployments to large headquarters and datacenter locations. The U.S. list prices for our current 13 Steelhead appliance models range from \$3,495 to \$129,995.

In addition to the functionality described for RiOS, all Steelhead appliances now support the Riverbed Services Platform (RSP), a virtualized environment within Steelhead appliances upon which 3rd party applications can be installed. RSP benefits customers by further enabling branch office IT consolidation; applications or services that require local deployment (for example, print services that must remain functional in the event of a WAN outage) can be deployed on the already installed Steelhead appliance, which enables the decommissioning of a dedicated print server in the branch.

[Table of Contents](#)

In September 2008 we introduced the latest implementation of RSP in conjunction with version 5.5 of RiOS. RSP runs within the Steelhead appliances, and now supports up to five third party applications or services, including Microsoft Windows Server, print server, DNS/DHCP, security, video and selected other packages. Over time we expect additional products and services to become available for installation on RSP. The RSP software license costs \$995, and requires a memory upgrade which costs \$795.

Our Central Management Console (CMC) is an optional product designed to centrally manage many Steelhead appliances distributed across a WAN, simplifying the tasks of deploying, configuring, monitoring, reporting and upgrading large numbers of Steelhead appliances (one CMC can manage up to 500 Steelhead appliances). The U.S. list prices of our CMC appliances currently range from \$4,995 to \$49,995.

Our Interceptor[®] is a complementary product designed to enable flexible and scalable deployment of a cluster of Steelhead appliances in complex, high traffic data center environments without requiring complex network reconfiguration, making the deployment of a Riverbed-based solution simpler, faster and more scalable than alternatives. The U.S. list price of our Interceptor appliance is currently \$34,995.

Steelhead Mobile is a software-only version of RiOS designed to run on Windows[®] laptop or desktop machines. Steelhead Mobile has the same architecture as Steelhead appliances, with Data, Transport and Application Streamlining. Steelhead Mobile is sold in two components: The Steelhead Mobile Controller (SMC) has a base list price of \$12,995 and includes a license for up to thirty (30) concurrent licenses for Steelhead Mobile software. The SMC is required, as is at least one Steelhead appliance which is typically deployed in the data center. The SMC handles licensing and the distribution of the Steelhead Mobile software packages. Each SMC has the capacity to manage up to 2,000 concurrent Steelhead Mobile users. Customers may purchase additional concurrent licenses as needed above the default 30 that come with the SMC.

In addition to accelerating the performance of applications across the WAN, Steelhead and CMC products utilize our Management Streamlining technology to simplify deployment, configuration, management, and ongoing maintenance, thereby lowering the total cost of ownership of our products. Management Streamlining offers the following benefits:

- *Ease of deployment* — Our products are designed to be more easily and seamlessly integrated into networks than alternative approaches with full support for most existing routing and networking configurations. Steelhead products can automatically detect each other within an organization's WAN and can be automatically configured across WAN links to begin optimizing data without the need to manually set up complicated appliance-to-appliance network tunnels; and
- *Simplified management* — Our products simplify remote-site appliance management by enabling remote configuration, management and updating of Steelhead products. In addition, our products also provide performance reporting capabilities necessary to deliver relevant performance information to centralized IT resources.

Technology

The Riverbed Optimization System (RiOS) is our proprietary software platform that provides the core intelligence for our Steelhead products. To achieve performance improvements across a broad range of applications, RiOS integrates four key sets of technologies: Data Streamlining, Transport Streamlining, Application Streamlining and Management Streamlining.

[Table of Contents](#)

Data Streamlining

Our Data Streamlining technologies address bandwidth limitations in existing networks. Our patented approach can be applied to all data and applications that run over TCP to reduce bandwidth consumption by dramatically reducing the need to send the same data multiple times over the WAN. Data Streamlining also supports the classification of individual data packets for quality-of-service and route control.

In a non-optimized WAN setting, each time data is requested by a remote user, all of the data must be sent across the WAN, regardless of whether identical data (or an insignificantly modified version of the data) has previously been sent. In wide-area distributed computing environments where Steelhead products have been deployed, all of the requested data must be sent across the WAN only the first time data is requested by a user, at which time that data is stored by the Steelhead products on both sides of the network. In subsequent requests, redundant data segments will not be sent regardless of what application is requesting the data or which user is making the request. The detection of repetitive data patterns is very granular, with a typical segment of data being as small as approximately 100 bytes. This fine level of granularity enables Steelhead products to detect tiny changes in files, e-mails, web pages and other application data, sending only those changes across the WAN.

Each end-user request for data is sent directly to the intended authoritative application server as opposed to a cache that typically utilizes a copy of the data. Our Steelhead product intercepts the server response, identifies redundant data patterns and then sends only the new segments across the WAN to the end-user. All of the existing segments are represented by references which point to those already existing segments stored on the end-user side of the WAN connection. In this way, significantly less traffic needs to be sent to deliver large amounts of data to the end-user. In addition, this approach eliminates data consistency issues inherent in cache-based approaches.

Transport Streamlining

Transport Streamlining enhances the performance of the TCP protocol by increasing the amount of data carried per TCP round trip, thereby reducing the number of round trips required to move a given amount of data over the WAN. We accomplish this by both increasing the default TCP payload and by filling the window with references to data rather than actual data.

We also enhance TCP performance by reducing the time associated with creating new TCP connections (especially for small, short-lived transfers), adapting transfer parameters based on real-time network characteristics and assigning priority for necessary packet resends due to packet loss. A component of Transport Streamlining, High Speed TCP, also addresses the TCP chattiness and latency that is particularly pronounced in high speed connections (for example OC-12 (622 Mbps)). Another component of transport streamlining, MXTCP, is designed to address private networks with packet loss.

Application Streamlining

Application Streamlining provides a further mechanism to enhance the performance of specific applications. Many applications were designed for use over a LAN and require hundreds to thousands of interactions between client and server to execute even simple requests, such as opening a file. By understanding the semantics of particular application protocols, Steelhead products reduce chattiness, collapsing hundreds of client-server interactions into a few round trips over the WAN.

While most important business applications that run over TCP immediately benefit from Data Streamlining and Transport Streamlining, Application Streamlining enables us to add additional acceleration for specific applications. We have built specific Application Streamlining modules that

[Table of Contents](#)

support file, e-mail, web, ERP, and database application protocols (CIFS, MAPI, HTTP, Oracle Forms, SSL, Lotus Notes, NFS and MS-SQL and others). For example we have also built special modules to address protocol inefficiencies for common storage back-up and replication applications. We believe these applications are especially inefficient in wide-area distributed computing. We have designed our architecture to enable additional Application Streamlining modules to be incorporated easily over time.

Management Streamlining

Management Streamlining allows for simplified implementation and administration of our Steelhead products. Unlike alternative approaches which usually require changes to clients, servers, routers and switches or the addition of an overlay network of tunnels, Steelhead products are designed to be transparently installed in existing IT infrastructure with minimal administration. The auto-discovery capabilities of RiOS allow our Steelhead products to identify automatically all Steelhead products on the WAN, typically without a need to reconfigure any network infrastructure. Our products automatically intercept WAN traffic without any further configuration requirements to applications, clients, or other network infrastructure, while allowing non-optimized traffic to simply pass through.

Our RiOS software provides IT administrators with simplified management of Steelhead products through Command Line Interface (CLI), Graphical User Interface (GUI) and an optional Central Management Console.

Other key elements of Management Streamlining include touchless configuration options, over-the-wire software upgrades for Steelhead products, singular and grouped appliance management and customizable reporting analytics.

Customers

Our products have been sold to over 5,500 customers worldwide in every major industry, including manufacturing, finance, technology, government, architecture, engineering and construction, professional services, utilities, healthcare and pharmaceuticals, media and retail. Our products are deployed in a wide range of organizations, from large global organizations with hundreds or thousands of locations to smaller organizations with few locations. During the years ended December 31, 2008, 2007 and 2006, no single customer accounted for 10% or more of our consolidated revenue.

Sales and Marketing

We sell our products and support through indirect distribution partners and our field sales force:

- *Indirect distribution partners* — We have over 700 channel partners worldwide, primarily VARs, Service Providers and System Integrators. These partners help market and sell our products to a broad array of organizations and allow us to leverage our field sales force; and
- *Field sales force* — We have a field sales force that is responsible for managing all direct and indirect sales within each of our geographic territories.

Our marketing activities include lead generation, advertising, website operations, direct marketing, public relations, technology conferences and trade shows.

Many companies in our industry experience adverse seasonal fluctuations in customer spending patterns, particularly in the first and third quarters. We have experienced these seasonal fluctuations in the past and expect that this trend will continue in the future.

[Table of Contents](#)

Support and Services

We offer tiered customer support programs depending upon the service needs of our customers' deployments. Support contracts provide customers the rights to receive unspecified software product upgrades and maintenance releases issued when and if available during the support period. Product support includes internet access to technical content, as well as telephone access to technical support personnel. Support contracts typically have a one-year term. We have support centers in New York, San Francisco Bay Area, Amsterdam area, London area, Singapore, Sydney and Tokyo, which enable us to respond at all times. As we expand internationally, we plan to continue to hire additional technical support personnel to service our growing international customer base.

Primary product support for customers of our indirect distribution partners is often provided by the partners themselves and we provide back-up support.

Our product sales include a warranty on hardware and software. Hardware is typically warranted against material defects for 12 months. Software is typically warranted to meet published specifications for a period of 90 days.

Research and Development

Continued investment in research and development is critical to our business. To this end, we have assembled a team of engineers with expertise in various fields, including networking, applications, storage and systems management. We have invested significant time and financial resources into the development of our products. We plan to expand our product offerings and solutions capabilities in the future and plan to dedicate significant resources to these continued research and development efforts. Further, as we expand internationally and into different sectors, we may incur additional costs to conform our products to comply with local laws or local product specifications.

Research and development expenses were \$58.7 million, \$39.7 million, and \$19.2 million in 2008, 2007, and 2006, respectively.

Manufacturing

We outsource manufacturing of all hardware products. Our manufacturers provide us with limited warranties to cover general product failures, and our larger manufacturing partners provide specific quality control processes and replacement cycle time commitments. In addition, the lead times associated with certain components are lengthy and make rapid changes in quantity requirements and delivery schedules difficult. Although we outsource manufacturing operations for cost-effective scale and flexibility, we perform rigorous quality control testing intended to ensure the reliability of Steelhead appliances once deployed. We provide long-term forecasts to our manufacturing partners and we maintain oversight of their supply chain activities.

Shortages in components that we use in our products are possible and our ability to predict the availability of such components may be limited. Some of these components are available only from single or limited sources of supply. Our ability to timely deliver products to our customers would be materially adversely impacted if we needed to qualify replacements for any of a number of the components used in our products.

We outsource our logistics functions to third parties. These third parties ship our products on our behalf and perform certain other shipping and product integration capabilities.

[Table of Contents](#)

Competition

The WAN optimization market is highly competitive and continually evolving. We believe we compete primarily on the basis of offering a comprehensive WAN optimization solution that broadly addresses the root causes of poor performance of wide-area distributed computing. We believe other principal competitive factors in our market include product performance, ability to deploy easily into existing networks and ability to remotely manage products. We believe that our solution performs better than competitive products as measured by a broad range of metrics encompassing application performance, compression ratios and data transfer times. Our ability to sustain such a competitive advantage depends on our ability to achieve continuous technological innovation and adapt to the evolving needs of our customers.

We believe we are currently the only provider of a comprehensive WAN optimization solution. However, a large number of vendors have made acquisitions to enter the WAN optimization market and continue to invest in this area.

Our primary competitors include Cisco Systems, Juniper Networks, Blue Coat Systems, F5 Networks and Citrix Systems. We also face competition from a large number of smaller private companies and new market entrants.

We believe that we compete favorably in each of the sub-segments of WAN optimization in addition to being the only provider of a comprehensive WAN optimization solution. As we have a purpose-built architecture, compared to many vendors attempts to combine separate technology elements, we believe we have a significant advantage in performance, ease-of-use, and ability to scale to large numbers of locations and employees.

Intellectual Property

Our success as a company depends upon our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including patents, trade secrets, copyrights and trademarks, as well as customary contractual protections.

Our worldwide patent portfolio includes twelve patents, including nine U.S. patents, two Republic of India patents, and one People's Republic of China patent. Patents generally have a term of twenty years from their priority date, which is generally either the date they were initially filed or the filing date of the earliest patent from which priority is claimed. U.S. patent filings are intended to provide the holder with a right to exclude others from making, using, selling or importing in the U.S. the inventions covered by the claims of granted patents. We have U.S. provisional and non-provisional patent applications pending, as well as counterparts pending in other jurisdictions around the world. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. Our granted patents, and to the extent any future patents are issued, any such future patents may be contested, circumvented or invalidated over the course of our business, and we may not be able to prevent third parties from infringing these patents. Therefore, the exact effect of having a patent cannot be predicted with certainty.

Our registered trademarks in the U.S. are Riverbed, Steelhead, Riverbed (stylized), RiOS and Interceptor. Our registered trademarks in Japan are Riverbed, Steelhead, Riverbed (stylized) and Think Fast. Our registered trademarks in the European Community are Riverbed, Steelhead and Riverbed (stylized). We also have a number of trademark applications pending, in the U.S. as well as in other jurisdictions.

[Table of Contents](#)

In addition to the foregoing protections, we generally control access to and use of our proprietary software and other confidential information through the use of internal and external controls, including contractual protections with employees, contractors, customers and partners, and our software is protected by U.S. and international copyright laws.

We also incorporate third-party software programs into our products pursuant to license agreements. These software programs enable us, for example, to configure a storage adapter for specific redundant disk setups, initialize and diagnose hardware on certain models, and help manage statistics and reporting. Any disruption in our access to these software programs could result in significant delays in our product releases and could require substantial effort to locate or develop a replacement program.

Employees

As of December 31, 2008, we had 857 employees in offices in all major geographies. Of these, 404 were engaged in sales and marketing, 240 in research and development, 110 in support and services, 98 in finance and administration and 5 in manufacturing. None of our U.S. employees are represented by labor unions; however, in certain international subsidiaries workers councils represent our employees. We consider current employee relations to be good.

Available Information

Our Internet address is www.riverbed.com. There we make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). Our SEC reports can be accessed through the investor relations section of our website. The information found on our website is not part of this or any other report we file with or furnish to the SEC.

Item 1A. Risk Factors

Set forth below and elsewhere in this Annual Report on Form 10-K, and in other documents we file with the SEC, are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this Annual Report on Form 10-K. Because of the following factors, as well as other variables affecting our operating results, past financial performance should not be considered as a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods.

Risks Related to Our Business and Industry

Our operating results may fluctuate significantly, which makes our future results difficult to predict and could cause our operating results to fall below expectations or our guidance.

Our quarterly and annual operating results have varied significantly in the past and could vary significantly in the future, which makes it difficult for us to predict our future operating results. Our operating results may fluctuate due to a variety of factors, many of which are outside of our control, including the changing and recently volatile U.S. and global economic environment, any of which may cause our stock price to fluctuate. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance. In addition, revenues in any quarter are largely dependent on customer contracts entered into during that quarter. Moreover, a significant portion of our quarterly sales typically occurs during the last month of the quarter, which we believe reflects customer buying patterns of products similar to

Table of Contents

ours and other products in the technology industry generally. As a result, our quarterly operating results are difficult to predict even in the near term and a delay in an anticipated sale past the end of a particular quarter may negatively impact our results of operations for that quarter, or in some cases, that year. A delay in the recognition of revenue, even from just one account, may have a significant negative impact on our results of operations for a given period. If our revenue or operating results fall below the expectations of investors or securities analysts or below any guidance we may provide to the market, as occurred in the quarter ended March 31, 2008, the price of our common stock could decline substantially. Such a stock price decline could occur, and has occurred in the past, even when we have met our publicly stated revenue and/or earnings guidance.

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

- fluctuations in demand, including due to seasonality, for our products and services. For example, many companies in our industry experience adverse seasonal fluctuations in customer spending patterns, particularly in the first and third quarters; we have experienced these seasonal fluctuations in the past and expect that this trend will continue in the future;
- fluctuations in sales cycles and prices for our products and services;
- reductions in customers' budgets for information technology purchases and delays in their purchasing cycles;
- general economic conditions in our domestic and international markets;
- limited visibility into customer spending plans;
- changing market conditions, including current and potential customer consolidation;
- customer concentration;
- the timing of recognizing revenue in any given quarter as a result of software revenue recognition rules, including the extent to which sales transactions in a given period are unrecognizable until a future period or, conversely, the satisfaction of revenue recognition rules in a given period resulting in the recognition of revenue from transactions initiated in prior periods;
- the sale of our products in the timeframes we anticipate, including the number and size of orders, and the product mix within any such orders, in each quarter;
- our ability to develop, introduce and ship in a timely manner new products and product enhancements that meet customer requirements;
- the timing and execution of product transitions or new product introductions, including any related or resulting inventory costs;
- the timing of product releases or upgrades by us or by our competitors;
- any significant changes in the competitive dynamics of our markets, including new entrants or substantial discounting of products;
- our ability to control costs, including our operating expenses and the costs of the components we purchase;
- any decision to increase or decrease operating expenses in response to changes in the marketplace or perceived marketplace opportunities;
- our ability to derive benefits from our investments in sales, marketing, engineering or other activities;

Table of Contents

- our ability to successfully work with partners on combined solutions. For example, where our product features the Riverbed Services Platform (RSP), we are required to work closely with our partners in product validation, marketing, selling and support;
- volatility in our stock price, which may lead to higher stock compensation expenses pursuant to Statement of Financial Accounting Standards No. 123(R); and
- unpredictable fluctuations in our effective tax rate due to disqualifying dispositions of stock from the employee stock purchase plan and stock options, changes in the valuation of our deferred tax assets or liabilities, changes in actual results versus our estimates, or changes in tax laws, regulations, accounting principles, or interpretations thereof.

We face intense competition that could reduce our revenue and adversely affect our financial results.

The market for our products is highly competitive and we expect competition to intensify in the future. Other companies may introduce new products in the same markets we serve or intend to enter.

This competition could result, and has resulted in the past, in increased pricing pressure, reduced profit margins, increased sales and marketing expenses and failure to increase, or the loss of, market share, any of which would likely seriously harm our business, operating results or financial condition.

Competitive products may in the future have better performance, more and/or better features, lower prices and broader acceptance than our products. Many of our current or potential competitors have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical, sales, marketing and other resources than we do. Potential customers may prefer to purchase from their existing suppliers rather than a new supplier regardless of product performance or features. Currently, we face competition from a number of established companies, including Cisco Systems, Juniper Networks, Blue Coat Systems, F5 Networks and Citrix Systems. We also face competition from a large number of smaller private companies and new market entrants.

We expect increased competition from our current competitors as well as other established and emerging companies if our market continues to develop and expand. For example, third parties currently selling our products could market products and services that compete with our products and services. In addition, some of our competitors have made acquisitions or entered into partnerships or other strategic relationships with one another to offer a more comprehensive solution than they individually had offered. We expect this trend to continue as companies attempt to strengthen or maintain their market positions in an evolving industry and as companies enter into partnerships or are acquired. Many of the companies driving this consolidation trend have significantly greater financial, technical and other resources than we do and are better positioned to acquire and offer complementary products and technologies. The companies resulting from these possible consolidations may create more compelling product offerings and be able to offer greater pricing flexibility, making it more difficult for us to compete effectively, including on the basis of price, sales and marketing programs, technology or product functionality. Continued industry consolidation may adversely impact customers' perceptions of the viability of smaller and even medium-sized technology companies and consequently customers' willingness to purchase from such companies. These pressures could materially adversely affect our business, operating results and financial condition.

We also face competitive pressures from other sources. For example, Microsoft has announced its intention to improve the performance of its software for remote office users. Our products are designed to improve the performance of many applications, including applications that are based on Microsoft protocols. Accordingly, improvements to Microsoft application protocols may reduce the need for our products, adversely affecting our business, operating results and financial condition. Improvement in other application protocols or in the Transmission Control Protocol (TCP), the

[Table of Contents](#)

underlying transport protocol for most WAN traffic, could have a similar effect. In addition, we market our products, in significant part, on the anticipated cost savings to be realized by organizations if they are able to avoid the purchase of costly IT infrastructure at remote sites by purchasing our products. To the extent other companies are able to reduce the costs associated with purchasing and maintaining servers, storage or applications to be operated at remote sites, our business, operating results and financial condition could be adversely affected.

Continued adverse economic conditions or reduced information technology spending may harm our business. In addition, the recent turmoil in credit markets increases our exposure to our customers' and partners' credit risk, which could result in reduced revenue or additional write-offs of accounts receivable.

Our business depends on the overall demand for information technology, and in particular for WAN optimization, and on the economic health and general willingness of our current and prospective customers to make capital commitments. If the conditions in the U.S. and global economic environment remain uncertain or continue to be volatile, or if they deteriorate further, our business, operating results, and financial condition may be materially adversely affected. In addition, the market we serve is emerging and the purchase of our products involves material changes to established purchasing patterns and policies. The purchase of our products is often discretionary and may involve a significant commitment of capital and other resources. In addition, our operating expenses are largely based on anticipated revenue trends and a high percentage of our expenses are, and will continue to be, fixed in the short-term. Uncertainty about future economic conditions makes it difficult to forecast operating results and to make decisions about future investments. Weak or volatile economic conditions would likely harm our business and operating results in a number of ways, including information technology spending reductions among customers and prospects, longer sales cycles, lower prices for our products and services and reduced unit sales. A reduction in information technology spending could occur or persist even if economic conditions improve. In addition, the increase in worldwide commodity prices in 2008 has resulted, and any future increase may result, in higher component prices and increased shipping costs, both of which may negatively impact our financial results.

Many of our customers and channel partners use third parties to finance their purchases of our products. Any freeze, or reduced liquidity, in the credit markets, such as we have recently experienced, may result in customers or channel partners either delaying or entirely foregoing planned purchases of our products as they are unable to obtain the required financing. This would result in reduced revenues, and our business, operating results and financial condition would be harmed. In addition, these customers' and partners' ability to pay for products already purchased may be adversely affected by the credit market turmoil or an associated downturn in their own business, which in turn could harm our business, operating results and financial condition.

We rely heavily on indirect distribution partners to sell our products. Disruptions to, or our failure to effectively develop and manage, our distribution channels and the processes and procedures that support them could harm our business.

Our future success is highly dependent upon establishing and maintaining successful relationships with a variety of indirect distribution partners, including value-added resellers and service providers. A substantial majority of our revenue is derived through indirect channel sales and we expect indirect channel sales to continue to account for a substantial majority of our total revenue. Accordingly, our revenue depends in large part on the effective performance of these channel partners, and the loss of or reduction in sales to our channel partners could materially reduce our revenues. By relying on indirect channels, we may have little or no contact with the ultimate users of our products, thereby making it more difficult for us to establish brand awareness, ensure proper delivery and installation of our products, service ongoing customer requirements and respond to evolving customer

[Table of Contents](#)

needs. In addition, we recognize a large portion of our revenue based on a sell-through model using information regarding the end user customers that is provided by our channel partners. If those channel partners provide us with inaccurate or untimely information, the amount or timing of our revenues could be adversely impacted.

Recruiting and retaining qualified channel partners and training them in our technology and product offerings requires significant time and resources. In order to develop and expand our distribution channel, we must continue to scale and improve our processes and procedures that support our distribution channel, including investment in systems and training, and those processes and procedures may become increasingly complex and difficult to manage. We have no minimum purchase commitments with any of our value-added resellers or other indirect distributors, and our contracts with these channel partners do not prohibit them from offering products or services that compete with ours. Our competitors may be effective in providing incentives to existing and potential channel partners to favor their products, to choose not to partner with us, or to prevent or reduce sales of our products. Our channel partners may choose not to offer our products exclusively or at all. If we fail to maintain successful relationships with our channel partners, fail to develop new relationships with channel partners in new markets or expand the number of channel partners in existing markets, fail to manage, train or motivate existing channel partners effectively or if these channel partners are not successful in their sales efforts, sales of our products may decrease and our business, operating results and financial condition would be materially adversely affected.

We expect our gross margins to vary over time and our recent level of product gross margin may not be sustainable. In addition, our product gross margins may continue to be adversely affected by our recent and future introductions of new products.

Our product gross margins vary from quarter to quarter and the recent level of gross margins may not be sustainable and may be adversely affected in the future by numerous factors, including but not limited to product or sales channel mix shifts, increased price competition, increases in material or labor costs, excess product component or obsolescence charges from our contract manufacturers, write-downs for obsolete or excess inventory, increased costs due to changes in component pricing or charges incurred due to component holding periods if our forecasts do not accurately anticipate product demand, warranty related issues, or our introduction of new products or new product platforms or entry into new markets with different pricing and cost structures.

We recently introduced our 50 series of Steelhead appliances. The introduction of, and planned transition to, a new product line requires us to forecast customer demand for both legacy and new product lines for a period of time, and to maintain adequate inventory levels to support the sales forecasts for both product lines. If new product line sales exceed our sales forecast, we could possibly experience stock shortages, which would negatively affect our revenues. If legacy product line sales fall short of our sales forecast, we could have excess inventory. In 2008, we recognized approximately \$6.0 million in excess and obsolete inventory charges related to the new product line introduction. Our inventory level increased in our third fiscal quarter as we balanced the forecast demand for both product lines. If future sales between our legacy and any new product lines differ from our forecasts, and this results in an excess of legacy products, then additional inventory charges may be required. In addition, if future overall sales are less than forecasted, then additional inventory charges may be required. Any inventory charges would negatively impact our product gross margins.

We rely on third parties to perform shipping and other logistics functions on our behalf. A failure or disruption at a logistics partner would harm our business.

Currently, we use third-party logistics partners to perform storage, packaging, shipment and handling for us, including a logistics service provider that began shipping European orders in the second quarter. Although the logistics services required by us may be readily available from a number

[Table of Contents](#)

of providers, it is time consuming and costly to qualify and implement these relationships. If one or more of our logistics partners suffers an interruption in its business, or experiences delays, disruptions or quality control problems in its operations, or we choose to change or add additional logistics partners, our ability to ship products to our customers would be delayed and our business, operating results and financial condition would be adversely affected.

We are susceptible to shortages or price fluctuations in our supply chain. Any shortages or price fluctuations in components used in our products could delay shipment of our products or increase our costs and harm our operating results.

Our increase in the use of Riverbed-designed content in our hardware platforms has increased our susceptibility to scarcity or delivery delays for custom components within our systems. Shortages in components that we use in our products are possible and our and our suppliers' ability to predict the availability of such components may be limited. Some of these components are available only from limited sources of supply. The unavailability of any of these components would prevent us from shipping products because each of these components is necessary to the proper functioning of our appliances. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in quantity requirements and delivery schedules.

Any growth in our business or the economy is likely to create greater pressures on us and our suppliers to project overall component demand accurately and to establish optimal component inventory levels. In addition, increased demand by third parties for the components we use in our products may lead to decreased availability and higher prices for those components. We carry limited inventory of our product components, and we rely on suppliers to deliver components in a timely manner based on forecasts we provide. We rely on both purchase orders and long-term contracts with our suppliers, but we may not be able to secure sufficient components at reasonable prices or of acceptable quality, which would seriously impact our ability to deliver products to our customers and, as a result, adversely impact our revenue.

If we fail to accurately predict our manufacturing requirements, we could incur additional costs or experience manufacturing delays, which would harm our business. We are dependent on contract manufacturers, and changes to those relationships, expected or unexpected, may result in delays or disruptions that could harm our business.

We depend on independent contract manufacturers to manufacture and assemble our products. We rely on purchase orders or long-term contracts with our contract manufacturers. Some of our contract manufacturers are not obligated to supply products to us for any specific period, in any specific quantity or at any specific price. Our orders may represent a relatively small percentage of the overall orders received by our contract manufacturers from their customers. As a result, fulfilling our orders may not be considered a priority by one or more of our contract manufacturers in the event the contract manufacturer is constrained in its ability to fulfill all of its customer obligations in a timely manner. We provide demand forecasts to our contract manufacturers. If we overestimate our requirements, the contract manufacturers may assess charges or we may have liabilities for excess inventory, each of which could negatively affect our gross margins. Conversely, because lead times for required materials and components vary significantly and depend on factors such as the specific supplier, contract terms and the demand for each component at a given time, if we underestimate our requirements, the contract manufacturers may have inadequate materials and components required to produce our products, which could interrupt manufacturing of our products and result in delays in shipments and deferral or loss of revenue.

Although the contract manufacturing services required to manufacture and assemble our products may be readily available from a number of established manufacturers, it is time consuming and costly to qualify and implement contract manufacturer relationships. Therefore, if one or more of

[Table of Contents](#)

our contract manufacturers suffers an interruption in its business, or experiences delays, disruptions or quality control problems in its manufacturing operations, or we choose to change or add additional contract manufacturers, our ability to ship products to our customers would be delayed and our business, operating results and financial condition would be adversely affected.

If we are unable to protect our intellectual property rights, our competitive position could be harmed or we could be required to incur significant expenses to enforce our rights.

We depend on our ability to protect our proprietary technology. We rely on trade secret, patent, copyright and trademark laws and confidentiality agreements with employees and third parties, all of which offer only limited protection. Despite our efforts, the steps we have taken to protect our proprietary rights may not be adequate to preclude misappropriation of our proprietary information or infringement of our intellectual property rights, and our ability to police such misappropriation or infringement is uncertain, particularly in countries outside of the U.S. Further, with respect to patent rights, we do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims, and even if patents are issued, they may be contested, circumvented or invalidated over the course of our business. The invalidation of any of our key patents could benefit our competitors by allowing them to more easily design products similar to ours. Moreover, the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages, and competitors may in any event be able to develop similar or superior technologies to our own now or in the future. Protecting against the unauthorized use of our products, trademarks and other proprietary rights is expensive, difficult and, in some cases, impossible. Litigation has been necessary in the past and may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. For example, we recently settled a patent infringement lawsuit with Quantum Corporation where both we and Quantum asserted that the other party infringed a patent or patents. Intellectual property litigation has resulted, and may in the future result, in substantial costs and diversion of management resources, and may in the future harm our business, operating results and financial condition. Furthermore, many of our current and potential competitors have the ability to dedicate substantially greater resources to enforce their intellectual property rights than we do. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property.

Claims by others that we infringe their proprietary technology could harm our business.

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. In the ordinary course of our business, we are involved in disputes and licensing discussions with others regarding their claimed proprietary rights and we cannot assure you that we will always successfully defend ourselves against such claims. Third parties have claimed and may in the future claim that our products or technology infringe their proprietary rights. For example, we recently settled a patent infringement lawsuit with Quantum Corporation. We expect that infringement claims may increase as the number of products and competitors in our market increases and overlaps occur. In addition, as we have gained greater visibility and market exposure as a public company, we face a higher risk of being the subject of intellectual property infringement claims. Any claim of infringement by a third party, even those without merit, could cause us to incur substantial legal costs defending against the claim, and could distract our management from our business. Furthermore, we could be subject to a judgment or voluntarily enter into a settlement, either of which could require us to pay substantial damages. A judgment or settlement could also include an injunction or other court order that could prevent us from offering our products. In addition, we might elect or be required to seek a license for the use of third-party intellectual property, which may not be available on commercially reasonable terms or at all, or if available, the payments under such license may harm our operating results and financial condition.

[Table of Contents](#)

Alternatively, we may be required to develop non-infringing technology, which could require significant effort and expense and may ultimately not be successful. Any of these events could seriously harm our business, operating results and financial condition. Third parties may also assert infringement claims against our customers and channel partners. Any of these claims would require us to initiate or defend potentially protracted and costly litigation on their behalf, regardless of the merits of these claims, because we generally indemnify our customers and channel partners from claims of infringement of proprietary rights of third parties. If any of these claims succeed, or if we voluntarily enter into a settlement, we may be forced to pay damages on behalf of our customers or channel partners, which could have a material adverse effect on our business, operating results and financial condition.

Our sales cycles can be long and unpredictable, and our sales efforts require considerable time and expense. As a result, our revenue is difficult to predict and may vary substantially from quarter to quarter.

The timing of our revenue is difficult to predict. Our sales efforts involve educating our customers about the use and benefit of our products, including their technical capabilities and potential cost savings to an organization. Customers typically undertake a significant evaluation process that has in the past resulted in a lengthy sales cycle, in some cases over twelve months. Also, as our channel model distribution strategy evolves, utilizing value-added resellers, distributors, systems integrators and service providers, the level of variability in the length of sales cycle across transactions may increase and make it more difficult to predict the timing of many of our sales transactions. We spend substantial time, effort and money in our sales efforts without any assurance that our efforts will produce any sales. In addition, product purchases are frequently and increasingly subject to budget constraints, multiple approvals, and unplanned administrative, processing and other delays. Beginning in early 2008, product purchases have been delayed by the volatile U.S. and global economic environment, which has introduced additional risk into our ability to accurately forecast sales in a particular quarter. If sales expected from a specific customer for a particular quarter are not realized in that quarter or at all, revenue will be harmed and we may miss our stated guidance for that period.

Our international sales and operations subject us to additional risks that may harm our operating results.

In the year ended December 31, 2008, we derived approximately 42% of our revenue from customers outside the U.S. We have personnel in numerous countries worldwide. We expect to continue to add personnel in additional countries. Our international sales and operations subject us to a variety of risks, including:

- the difficulty and cost of managing and staffing international offices and the increased travel, infrastructure, legal and other compliance costs associated with multiple international locations;
- difficulties in enforcing contracts and collecting accounts receivable, and longer payment cycles, especially in emerging markets;
- tariffs and trade barriers and other regulatory or contractual limitations on our ability to sell or develop our products in certain foreign markets;
- increased exposure to foreign currency exchange rate risk; and
- reduced protection for intellectual property rights in some countries.

Recently, certain foreign currencies have experienced rapid fluctuations in value against the U.S. dollar. Any foreign currency devaluation against the U.S. dollar increases the real cost of our products to our customers and partners in foreign markets where we sell in U.S. dollars, which has resulted in the past and may result in the future in delayed or cancelled purchases of our products and, as a result, lower revenues. In addition, this increase in cost increases the risk to us that we will be unable

[Table of Contents](#)

to collect amounts owed to us by such customers or partners, which in turn would impact our revenues and could materially adversely impact our business and financial results. Any devaluation may also lead us to more aggressively discount our prices in foreign markets in order to maintain competitive pricing, which would negatively impact our revenues and gross margins.

International customers may also require that we localize our products. The product development costs for localizing the user interface of our products, both graphical and textual, could be a material expense to us if the software requires extensive modifications. To date, such changes have not been extensive, and the costs have not been material.

As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international sales and operations. Our failure to manage any of these risks successfully could harm our international operations, reduce our international sales and harm our business, operating results and financial condition.

We are investing in engineering, sales, marketing, services and infrastructure, and these investments may achieve delayed or lower than expected benefits, which could harm our operating results.

We intend to continue to add personnel and other resources to our engineering, sales, marketing, services and infrastructure functions as we focus on developing new technologies, growing our market segment, capitalizing on existing or new market opportunities, increasing our market share, and enabling our business operations to meet anticipated demand. We are likely to recognize the costs associated with these investments earlier than some of the anticipated benefits, and the return on these investments may be lower, or may develop more slowly, than we expect. If we do not achieve the benefits anticipated from these investments, or if the achievement of these benefits is delayed, our operating results may be adversely affected.

If we lose key personnel or are unable to attract and retain personnel on a cost-effective basis, our business would be harmed.

Our success is substantially dependent upon the performance of our senior management and key technical and sales personnel. Our management and employees can terminate their employment at any time, and the loss of the services of one or more of our executive officers or other key employees could harm our business. Our success also is substantially dependent upon our ability to attract additional personnel for all areas of our organization, particularly in our sales, research and development and customer service departments. Competition for qualified personnel is intense, and we may not be successful in attracting and retaining such personnel on a timely basis, on competitive terms, or at all. Additionally, fluctuations or a sustained decrease in the price of our stock could affect our ability to attract and retain key personnel. When our stock price declines, our equity incentive awards may lose retention value, which may negatively affect our ability to attract and retain such key personnel. If we are unable to attract and retain the necessary technical, sales and other personnel on a cost-effective basis, our business, operating results and financial condition would be adversely affected.

We may not generate positive returns on our research and development investments.

Developing our products is expensive, and the investment in product development may involve a long payback cycle or may not generate additional revenue at all. In the year ended December 31, 2008, our research and development expenses were \$58.7 million, or approximately 18% of our total revenue. Our future plans include significant investments in research and development and related

[Table of Contents](#)

product opportunities. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. These investments may take several years to generate positive returns, if ever.

Our ability to sell our products is highly dependent on the quality of our support and services offerings, and our failure to offer high quality support and services would harm our operating results and reputation.

Once our products are deployed within our customers' networks, our customers depend on our support organization to resolve any issues relating to our products. A high level of support is critical for the successful marketing and sale of our products. If we or our channel partners do not effectively assist our customers in deploying our products, succeed in helping our customers quickly resolve post-deployment issues, and provide effective ongoing support, it would adversely affect our ability to sell our products to existing customers and would harm our reputation with potential customers. In addition, as we expand our operations internationally, our support organization will face additional challenges, including those associated with delivering support, training and documentation in languages other than English. As a result, our failure to maintain high quality support and services would harm our operating results and reputation.

If we fail to manage future growth effectively, our business would be harmed.

We have expanded our operations significantly since inception and anticipate that further significant expansion will be required. This future growth, if it occurs, will place significant demands on our management, infrastructure and other resources. To manage any future growth, we will need to hire, integrate and retain highly skilled and motivated employees. We will also need to continue to improve our financial and management controls, reporting systems and procedures. We have an enterprise resource planning software system that supports our finance, sales and inventory management processes. If we were to encounter delays or difficulties as a result of this system, including loss of data and decreases in productivity, our ability to properly run our business could be adversely impacted. If we do not effectively manage our growth, our business would be harmed.

If we do not successfully anticipate market needs and develop products and product enhancements that meet those needs, or if those products do not gain market acceptance, our business and operating results will be harmed.

We may not be able to anticipate future market needs or be able to develop new products or product enhancements to meet such needs, either on a timely basis or at all. For example, our failure to address additional application-specific protocols, particularly if our competitors are able to provide such functionality, could harm our business. In addition, our inability to diversify beyond our current product offerings could adversely affect our business. Any new products or product enhancements that we introduce may not achieve any significant degree of market acceptance or be accepted into our sales channel by our channel partners, which would adversely affect our business and operating results.

Organizations are increasingly concerned with the security of their data, and to the extent they elect to encrypt data being transmitted from the point of the end user in a format that we're not able to decrypt, rather than only across the WAN, our products will become less effective.

Our products are designed to remove the redundancy associated with repeated data requests over a WAN, either through a private network or a virtual private network (VPN). The ability of our products to reduce such redundancy depends on our products' ability to recognize the data being requested. Our products currently detect and decrypt some forms of encrypted data. Since most

[Table of Contents](#)

organizations currently encrypt most of their data transmissions only between sites and not on the LAN, the data is not encrypted when it passes through our products. For those organizations that elect to encrypt their data transmissions from the end-user to the server in a format that we're not able to decrypt, our products will offer limited performance improvement unless we are successful in incorporating additional functionality into our products that address those encrypted transmissions. Our failure to provide such additional functionality could limit the growth of our business and harm our operating results.

If our products do not interoperate with our customers' infrastructure, installations could be delayed or cancelled, which would harm our business.

Our products must interoperate with our customers' existing infrastructure, which often have different specifications, utilize multiple protocol standards, deploy products from multiple vendors, and contain multiple generations of products that have been added over time. If we find errors in the existing software or defects in the hardware used in our customers' infrastructure or problematic network configurations or settings, as we have in the past, we may have to modify our software or hardware so that our products will interoperate with our customers' infrastructure. Our products may be unable to provide significant performance improvements for applications deployed in our customers' infrastructure. These issues could cause longer installation times for our products and could cause order cancellations, either of which would adversely affect our business, operating results and financial condition. In addition, government and other customers may require our products to comply with certain security or other certifications and standards. If our products are late in achieving or fail to achieve compliance with these certifications and standards, or our competitors achieve compliance with these certifications and standards, we may be disqualified from selling our products to such customers, or at a competitive disadvantage, which would harm our business, operating results and financial condition.

If functionality similar to that offered by our products is incorporated into existing network infrastructure products, organizations may decide against adding our products to their network, which would harm our business.

Other providers of network infrastructure products, including our partners, are offering or announcing functionality aimed at addressing the problems addressed by our products. For example, Cisco Systems incorporates WAN optimization functionality into certain of its router blades. The inclusion of, or the announcement of intent to include, functionality perceived to be similar to that offered by our products in products that are already generally accepted as necessary components of network architecture or in products that are sold by more established vendors may have an adverse effect on our ability to market and sell our products. Furthermore, even if the functionality offered by other network infrastructure providers is more limited than our products, a significant number of customers may elect to accept such limited functionality in lieu of adding appliances from an additional vendor. Many organizations have invested substantial personnel and financial resources to design and operate their networks and have established deep relationships with other providers of network infrastructure products, which may make them reluctant to add new components to their networks, particularly from new vendors. In addition, an organization's existing vendors or new vendors with a broad product offering may be able to offer concessions that we are not able to match because we currently offer a focused line of products and have fewer resources than many of our competitors. If organizations are reluctant to add network infrastructure products from new vendors or otherwise decide to work with their existing vendors, our business, operating results and financial condition will be adversely affected.

[Table of Contents](#)

Our products are highly technical and may contain undetected software or hardware errors, which could cause harm to our reputation and our business.

Our products, including software product upgrades and releases, are highly technical and complex and, when deployed, are critical to the operation of many networks. Our products have contained and may contain undetected errors, defects or security vulnerabilities. In particular, new products and product platforms may be subject to increased risk of hardware issues. Some errors in our products may only be discovered after a product has been installed and used by customers. Some of these errors may be attributable to third-party technologies incorporated into our products, which makes us dependent upon the cooperation and expertise of such third parties for the diagnosis and correction of such errors. The diagnosis and correction of third-party technology errors is particularly difficult where our product features the Riverbed Services Platform (RSP), because it is not always immediately clear whether a particular error is attributable to a technology incorporated into our product or to the third-party RSP software deployed on our product. In addition, our RSP solutions, because they involve a third party, are more complex, and the solutions may lead to new technical errors that may prove difficult to diagnose and support. Any delay or mistake in the initial diagnosis of an error will result in a delay in the formulation of an effective action plan to correct such error. Any errors, defects or security vulnerabilities discovered in our products after commercial release could result in loss of revenue or delay in revenue recognition, loss of customers and increased service and warranty cost, any of which could harm our reputation, business, operating results and financial condition. Any such errors, defects or security vulnerabilities could also adversely affect the market's perception of our products and business. In addition, we could face claims for product liability, tort or breach of warranty, including claims relating to changes to our products made by our channel partners. Our contracts with customers contain provisions relating to warranty disclaimers and liability limitations, which may not be upheld. Defending a lawsuit, regardless of its merit, is costly and may divert management's attention and harm the market's perception of us and our products. In addition, if our business liability insurance coverage proves inadequate or future coverage is unavailable on acceptable terms or at all, our business, operating results and financial condition could be adversely impacted.

We may engage in future acquisitions that could disrupt our business and cause dilution to our stockholders.

In February 2009, we acquired Mazu Networks, Inc. In the future we may acquire other businesses, products or technologies. Our ability as an organization to integrate acquisitions is unproven. Any acquisitions that we complete may not ultimately strengthen our competitive position or achieve our goals, or the acquisition may be viewed negatively by customers, financial markets or investors. In addition, we may encounter difficulties in integrating personnel and operations from the acquired businesses and in retaining and motivating key personnel from these businesses. Acquisitions may disrupt our ongoing operations, divert management from day-to-day responsibilities and increase our expenses. Acquisitions may reduce our cash available for operations and other uses and could result in an increase in amortization expense related to identifiable assets acquired, potentially dilutive issuances of equity securities or the incurrence of debt.

We compete in rapidly evolving markets and have a limited operating history, which make it difficult to predict our future operating results.

We were incorporated in May 2002 and shipped our first Steelhead appliance in May 2004. We have a limited operating history and offer a focused line of products in an industry characterized by rapid technological change. It is very difficult to forecast our future operating results. You should consider and evaluate our prospects in light of the risks and uncertainty frequently encountered by companies in rapidly evolving markets characterized by rapid technological change, changing customer needs, increasing competition, evolving industry standards and frequent introductions of new

[Table of Contents](#)

products and services. As we encounter rapidly changing customer requirements and increasing competitive pressures, we likely will be required to reposition our product and service offerings and introduce new products and services. We may not be successful in doing so in a timely and appropriately responsive manner, or at all. Furthermore, many of our target customers have not purchased products similar to ours and might not have a specific budget for the purchase of our products and services. All of these factors make it difficult to predict our future operating results.

Our use of open source and third-party software could impose limitations on our ability to commercialize our products.

We incorporate open source software into our products. Although we monitor our use of open source closely, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. In such event, we could be required to seek licenses from third parties in order to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely basis, any of which could adversely affect our business, operating results and financial condition.

We also incorporate certain third-party technologies, including software programs, into our products and may need to utilize additional third-party technologies in the future. However, licenses to relevant third-party technology may not continue to be available to us on commercially reasonable terms, or at all. Therefore, we could face delays in product releases until equivalent technology can be identified, licensed or developed, and integrated into our current products. These delays, if they occur, could materially adversely affect our business, operating results and financial condition. We currently use third-party software programs in our Steelhead appliances, our Interceptor appliances, our Central Management Console appliances and our Steelhead Mobile software client and controller. For example, in our Steelhead appliances, we use third-party software to configure a storage adapter for specific redundant disk setups as well as to initialize and diagnose hardware on certain models, and in our Central Management Console and Steelhead Mobile Controller appliances we use third-party software to help manage statistics and reporting. Each of these software programs is currently available from only one vendor. As a result, any disruption in our access to these software programs could result in significant delays in our product releases and could require substantial effort to locate or develop a replacement program. If we decide in the future to incorporate into our products any other software program licensed from a third party, and the use of such software program is necessary for the proper operation of our appliances, then our loss of any such license would similarly adversely affect our ability to release our products in a timely fashion.

We are subject to various regulations that could subject us to liability or impair our ability to sell our products.

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

[Table of Contents](#)

countries, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. We must comply with various and increasing environmental regulations, both domestic and international, regarding the manufacturing and disposal of our products. For example, we must comply with Waste Electrical and Electronic Equipment Directive laws, which are being adopted by certain European Economic Area countries on a country-by-country basis. Failure to comply with these and similar laws on a timely basis, or at all, could have a material adverse effect on our business, operating results and financial condition. This would also be true if we fail to comply, either on a timely basis or at all, with any U.S. environmental laws regarding the manufacturing or disposal of our products. Any decreased use of our products or limitation on our ability to export or sell our products would harm our business, operating results and financial condition.

We incur significant costs as a result of operating as a public company, and our management devotes substantial time to new compliance initiatives.

We incur significant legal, accounting and other expenses as a public company, including costs resulting from regulations regarding corporate governance practices and costs relating to compliance with Section 404 of the Sarbanes-Oxley Act. For example, the listing requirements of the Nasdaq Stock Market's Global Select Market require that we satisfy certain corporate governance requirements relating to independent directors, audit committees, distribution of annual and interim reports, stockholder meetings, stockholder approvals, solicitation of proxies, conflicts of interest, stockholder voting rights and codes of conduct. Our management and other personnel devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, these rules and regulations could make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors, our board committees or as executive officers.

While we believe that we currently have adequate internal control over financial reporting, we are exposed to risks from legislation requiring companies to evaluate those internal controls.

The Sarbanes-Oxley Act requires that we test our internal control over financial reporting and disclosure controls and procedures. In particular, for the year ended December 31, 2008, we performed system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our compliance with Section 404 requires that we incur substantial expense and expend significant management time on compliance-related issues. Moreover, if we are not able to comply with the requirements of Section 404 in the future, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock may decline and we could be subject to sanctions or investigations by the Nasdaq Stock Market's Global Select Market, the SEC or other regulatory authorities, which would require significant additional financial and management resources.

We are required to expense equity compensation given to our employees, which has reduced our reported earnings, will harm our operating results in future periods and may reduce our stock price and our ability to effectively utilize equity compensation to attract and retain employees.

We historically have used stock options, restricted stock units (RSU), and an employee stock purchase plan as a significant component of our employee compensation program in order to align employees' interests with the interests of our stockholders, encourage employee retention, and provide competitive compensation packages. The Financial Accounting Standards Board has adopted changes

[Table of Contents](#)

that require companies to record a charge to earnings for employee stock option grants and other equity incentives. We adopted this standard effective January 1, 2006. By causing us to record significantly increased compensation costs, such accounting changes have reduced, and will continue to reduce, our reported earnings, will harm our operating results in future periods, and may require us to reduce the availability and amount of equity incentives provided to employees, which could make it more difficult for us to attract, retain and motivate key personnel. Moreover, if securities analysts, institutional investors and other investors adopt financial models that include stock option expense in their primary analysis of our financial results, our stock price could decline as a result of reliance on these models with higher expense calculations.

We may have exposure to greater than anticipated tax liabilities.

Our future income taxes could be adversely affected by disqualifying dispositions of stock from our employee stock purchase plan and stock options, by earnings being lower than anticipated in jurisdictions where we have lower statutory rates and being higher than anticipated in jurisdictions where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities, and as a result of changes in tax laws, regulations, accounting principles or interpretations thereof. In addition, like other companies, we may be subject to examination of our income tax returns by the Internal Revenue Service and other tax authorities. While we regularly assess the likelihood of adverse outcomes from such examinations and the adequacy of our provision for income taxes, there can be no assurance that such provision is sufficient and that a determination by a tax authority will not have an adverse effect on our results of operations.

If we fail to successfully manage our exposure to the volatility and economic uncertainty in the global financial marketplace, our operating results could be adversely impacted.

We are exposed to financial risk associated with the global financial markets, including volatility in interest rates and uncertainty in the credit markets. Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. The primary objective of our investment activities is to preserve principal, maintain adequate liquidity and portfolio diversification while at the same time maximizing yields without significantly increasing risk. However, the valuation of our investment portfolio is subject to uncertainties that are difficult to predict. Factors that may impact its valuation include changes to credit ratings of the securities that we hold, interest rate changes, the ongoing strength and quality, and recent instability, of the global credit market, and liquidity. If the carrying value of our investments exceeds the fair value, and the decline in fair value is deemed to be other-than-temporary, we will be required to write down the value of our investments. Additionally, the current instability and uncertainty in the financial markets could result in the incurrence of significant realized or impairment losses associated with certain of our investments, which would reduce our net income.

If we need additional capital in the future, it may not be available to us on favorable terms, or at all.

We have historically relied on outside financing and cash flow from operations to fund our operations, capital expenditures and expansion. We may require additional capital from equity or debt financing in the future to fund our operations or respond to competitive pressures or strategic opportunities. We may not be able to secure timely additional financing on favorable terms, or at all. The terms of any additional financing may place limits on our financial and operating flexibility. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new securities we issue could have rights, preferences and

[Table of Contents](#)

privileges senior to those of holders of our common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, if and when we require it, our ability to grow or support our business and to respond to business challenges could be significantly limited.

Our business is subject to the risks of earthquakes, fire, floods, pandemics and other natural catastrophic events, and to interruption by manmade problems such as computer viruses or terrorism.

Our main operations, including our primary data centers, are located in the San Francisco Bay Area, a region known for seismic activity. A significant natural disaster, such as an earthquake, fire or a flood, could harm our business, operating results and financial condition. In addition, our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. Acts of terrorism or war could also cause disruptions in our or our customers' business or the economy as a whole. To the extent that such disruptions result in delays or cancellations of customer orders or the deployment of our products, our business, operating results and financial condition would be adversely affected.

Risks Related to Ownership of Our Common Stock

The trading price of our common stock has been volatile and is likely to be volatile in the future.

The trading prices of the securities of technology companies have been highly volatile. Further, our common stock has a limited trading history. Since our initial public offering in September 2006 through December 31, 2008, our stock price has fluctuated from a low of \$7.10 to a high of \$52.81. Factors that could affect the trading price of our common stock include, but are not limited to:

- variations in our operating results;
- announcements of technological innovations, new services or service enhancements, strategic alliances or significant agreements by us or by our competitors;
- the gain or loss of significant customers;
- recruitment or departure of key personnel;
- changes in the estimates of our operating results, either by us or by any securities analysts who follow our common stock, or changes in recommendations by any securities analysts who follow our common stock;
- significant sales or purchases, or announcement of significant sales or purchases, of our common stock by us or our stockholders, including our directors and executive officers;
- announcements by or about us regarding events or news adverse to our business;
- market conditions in our industry, the industries of our customers and the economy as a whole;
- adoption or modification of regulations, policies, procedures or programs applicable to our business;
- an announced acquisition of or by a competitor; and
- an announced acquisition of or by us.

If the market for technology stocks or the stock market in general experiences loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, operating results or financial condition. The trading price of our common stock might also decline in

[Table of Contents](#)

reaction to events that affect other companies in our industry or the stock market generally even if these events do not directly affect us. Each of these factors, among others, could cause our stock price to decline. Some companies that have had volatile market prices for their securities have had securities class actions filed against them. If a suit were filed against us, regardless of its merits or outcome, it could result in substantial costs and divert management's attention and resources.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will continue to depend in part on the research and reports that securities or industry analysts publish about us or our business. If we do not continue to maintain adequate research coverage or if one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

Insiders have substantial control over us and will be able to influence corporate matters.

As of December 31, 2008, our directors and executive officers and their affiliates beneficially owned, in the aggregate, approximately 20.4% of our outstanding common stock. As a result, these stockholders will be able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit your ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

Anti-takeover provisions in our charter documents and Delaware law could discourage, delay or prevent a change in control of our company and may affect the trading price of our common stock.

We are a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change in control would be beneficial to our existing stockholders. In addition, our restated certificate of incorporation and amended and restated bylaws contain provisions that may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease approximately 85,000 square feet of office space in San Francisco, California pursuant to a lease that expires in 2014. In addition, we lease approximately 46,000 square feet of office space in Sunnyvale, California pursuant to a lease that expires in 2013. We maintain customer service centers in New York, San Francisco Bay Area, Amsterdam area, London area, Singapore and Tokyo, and sales offices in multiple locations worldwide. We believe that our current facilities are suitable and adequate to meet our current needs, and we intend to add new facilities or expand existing facilities as necessary.

Item 3. Legal Proceedings

From time to time, we are subject to various legal proceedings, claims and litigation arising in the ordinary course of business. We do not believe we are party to any currently pending legal proceedings the outcome of which may have a material adverse effect on our financial position, results of operations or cash flows.

There can be no assurance that existing or future legal proceedings arising in the ordinary course of business or otherwise will not have a material adverse effect on our financial position, results of operations or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**Market Information for Common Stock**

Our common stock has traded on Nasdaq under the symbol "RVBD" since our initial public offering on September 20, 2006, first on the Nasdaq Global Market and, since January 1, 2008, on the Nasdaq Global Select Market. Prior to our initial public offering, there was no public market for our common stock.

The following table sets forth for the indicated periods the high and low sales prices of our common stock as reported by the Nasdaq Global Market or the Nasdaq Global Select Market.

	High	Low
First Quarter 2007	\$ 36.25	\$ 25.45
Second Quarter 2007	\$ 45.89	\$ 26.00
Third Quarter 2007	\$ 49.44	\$ 36.62
Fourth Quarter 2007	\$ 52.81	\$ 22.85
First Quarter 2008	\$ 28.36	\$ 14.86
Second Quarter 2008	\$ 18.44	\$ 10.84
Third Quarter 2008	\$ 18.68	\$ 10.40
Fourth Quarter 2008	\$ 13.51	\$ 7.10

The last reported sale price for our common stock on the Nasdaq Global Select Market was \$10.43 per share on February 20, 2009.

Dividend Policy

We have never paid any cash dividends on our common stock. Our board of directors currently intends to retain any future earnings to support operations and to finance the growth and development of our business and does not intend to pay cash dividends on our common stock for the foreseeable future. Any future determination related to our dividend policy will be made at the discretion of our board of directors.

Stockholders

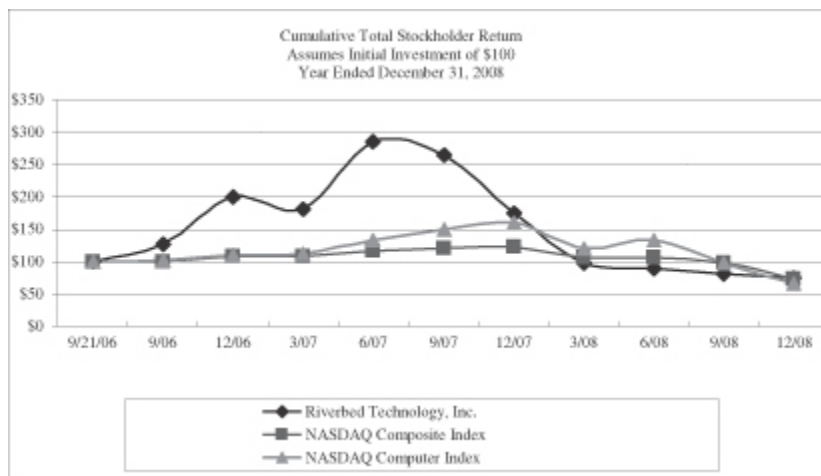
As of February 3, 2009, there were 140 registered stockholders of record of our common stock.

Stock Performance Graph

The graph set forth below compares the cumulative total stockholder return on our common stock between September 21, 2006 (the date of our initial public offering) and December 31, 2008, with the cumulative total return of (i) the Nasdaq Computer Index and (ii) the Nasdaq Composite Index, over the same period. This graph assumes the investment of \$100,000 on September 21, 2006 in our common stock, the Nasdaq Computer Index and the Nasdaq Composite Index, and assumes the reinvestment of dividends, if any. We have never paid dividends on our common stock and have no present plans to do so. The graph assumes the initial value of our common stock on September 21, 2006 was the closing sales price of \$15.30 per share.

[Table of Contents](#)

The comparisons shown in the graph below are based upon historical data and are not intended to suggest future performance. This performance graph shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or incorporated by reference into any filing of ours under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.



Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table summarizes the stock repurchase activity for the three months ended December 31, 2008 and the approximate dollar value of shares that may yet be purchased pursuant to our stock repurchase program:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (2)
October 1, 2008 — October 31, 2008	190,000	\$ 12.38	190,000	\$ 72,671,000
November 1, 2008 — November 30, 2008	1,263,200	9.71	1,263,200	60,408,000
December 1, 2008 — December 31, 2008	1,026,450	10.12	1,026,450	50,024,000
Total	2,479,650	\$ 10.08	2,479,650	\$ 50,024,000

- (1) On April 21, 2008, our Board of Directors authorized a Share Repurchase Program, which authorizes us to repurchase up to \$100.0 million of our outstanding common stock during a period not to exceed 24 months from the Board authorization date.
- (2) During the fourth quarter of 2008, we repurchased 2,479,650 shares of common stock under this Program for an aggregate purchase price of approximately \$25.0 million, or an average of \$10.08 per share. These shares were purchased in open market transactions. The timing and amounts of these purchases were based on market conditions and other factors including price, regulatory requirements and capital availability. The share repurchases were financed by available cash balances and cash from operations.

[Table of Contents](#)

Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with our audited consolidated financial statements and related notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included in this Annual Report on Form 10-K. The consolidated statement of operations data for the years ended December 31, 2008, 2007 and 2006, and the selected consolidated balance sheet data as of December 31, 2008 and 2007 are derived from, and are qualified by reference to, the audited consolidated financial statements included in this Annual Report on Form 10-K. The consolidated statement of operations data for the years ended December 31, 2005 and 2004, and the consolidated balance sheet data as of December 31, 2006, 2005 and 2004 are derived from audited consolidated financial statements, which are not included in this Annual Report on Form 10-K.

(in thousands, except per share amounts)	Year Ended December 31,				
	2008	2007	2006	2005	2004
Consolidated Statement of Operations Data:					
Revenue:					
Product	\$ 252,929	\$ 196,622	\$ 77,298	\$ 20,448	\$ 2,413
Support and services	80,420	39,784	12,909	2,493	149
Total revenue	333,349	236,406	90,207	22,941	2,562
Cost of revenue:					
Cost of product	60,439	51,068	25,174	6,933	838
Cost of support and services	28,175	14,856	4,978	1,661	685
Total cost of revenue (1)	88,614	65,924	30,152	8,594	1,523
Gross profit	244,735	170,482	60,055	14,347	1,039
Operating expenses					
Sales and marketing (1)	140,653	95,652	48,080	19,722	5,586
Research and development (1)	58,658	39,696	19,215	8,108	4,266
General and administrative (1)	38,669	24,834	9,294	3,531	1,033
Other charges (2)	11,000	—	—	—	—
Total operating expenses	248,980	160,182	76,589	31,361	10,885
Operating income (loss)	(4,245)	10,300	(16,534)	(17,014)	(9,846)
Total other income (expense), net					
Income (loss) before income taxes	6,514	9,733	992	(77)	24
Provision (benefit) for income taxes	2,269	20,033	(15,542)	(17,091)	(9,822)
Income (loss) before cumulative change in accounting principle	(8,332)	5,235	303	55	5
Cumulative effect of change in accounting principle	10,601	14,798	(15,845)	(17,146)	(9,827)
Net income (loss)	—	—	—	280	—
Net income (loss)	\$ 10,601	\$ 14,798	\$ (15,845)	\$ (17,426)	\$ (9,827)
Net income (loss) per share:					
Basic	\$ 0.15	\$ 0.22	\$ (0.59)	\$ (1.85)	\$ (1.71)
Diluted	\$ 0.14	\$ 0.20	\$ (0.59)	\$ (1.85)	\$ (1.71)
Shares used in computing basic and diluted net income (loss) per share:					
Basic	70,757	68,020	26,977	9,401	5,760
Diluted	73,267	73,244	26,977	9,401	5,760

[Table of Contents](#)

(1) Includes stock-based compensation as follows:

(in thousands)	2008	2007	2006	2005	2004
Cost of product	\$ 182	\$ 101	\$ —	\$ —	\$ —
Cost of support and services	4,487	2,576	520	40	1
Sales and marketing	23,583	15,160	4,636	482	78
Research and development	13,003	8,593	2,541	397	12
General and administrative	9,153	5,371	1,521	368	1
Total stock-based compensation	<u>\$ 50,408</u>	<u>\$ 31,801</u>	<u>\$ 9,218</u>	<u>\$ 1,287</u>	<u>\$ 92</u>

(2) Settlement of Quantum litigation

(in thousands)	As of December 31,				
	2008	2007	2006	2005	2004
Consolidated Balance Sheet Data					
Cash and cash equivalents, and Marketable securities	\$ 267,776	\$ 246,082	\$ 109,329	\$ 10,410	\$ 23,380
Working capital	248,187	241,135	101,319	6,411	23,382
Total assets	398,517	337,602	150,769	23,644	26,838
Current and long-term debt	—	—	—	2,461	1,374
Convertible preferred stock	—	—	—	36,385	36,469
Common stock and additional paid-in-capital	316,847	295,487	162,033	10,130	612
Stockholders' equity (deficit)	293,829	259,718	108,980	(29,911)	(13,931)

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. The information in this Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Exchange Act. Such statements are based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. For example, words such as "may," "will," "should," "estimates," "predicts," "potential," "continue," "strategy," "believes," "anticipates," "plans," "expects," "intends" and similar expressions are intended to identify forward-looking statements. Our actual results and the timing of certain events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those discussed elsewhere in this Annual Report on Form 10-K in the section titled "Risk Factors" and the risks discussed in our other SEC filings. We undertake no obligation to publicly release any revisions to the forward-looking statements after the date of this Annual Report on Form 10-K.

Overview

We were founded in May 2002 by experienced industry leaders with a vision to improve the performance of wide-area distributed computing. Having significant experience in caching technology, our executive management team understood that existing approaches failed to address adequately all of the root causes of this poor performance. We determined that these performance problems could be best solved by simultaneously addressing inefficiencies in software applications and wide area networks (WANs) as well as insufficient or unavailable bandwidth. This innovative approach served as the foundation of the development of our products. We began commercial shipments of our products in May 2004 and have since sold our products to over 5,500 customers worldwide. We now offer several product lines including Steelhead appliances, Central Management Console, Interceptor and Steelhead Mobile.

We are headquartered in San Francisco, California. Our personnel are located throughout the U.S. and in over twenty countries worldwide. We expect to continue to add personnel in the U.S. and internationally to provide additional geographic sales, research and development, general and administrative and technical support coverage.

Company Strategy

Our goal is to establish our solution as the preeminent performance and efficiency standard for organizations relying on wide-area distributed computing. Key elements of our strategy include:

Maintain and extend our technological advantages

We believe that we offer the broadest ability to enable rapid, reliable access to applications and data for our customers. We intend to enhance our position as a leader and innovator in the WAN optimization market. We also intend to continue to sell new capabilities into our installed base. Continuing investments in research and development are critical to maintaining our technological advantage.

Enhance and extend our product line

We plan to introduce new models of our current products as well as enhancements to their capabilities in order to address our customers' size and application requirements. We also plan to introduce new products to extend our market and utilize our technology platform to extend our capabilities.

[Table of Contents](#)

In August 2007, we began selling our Steelhead[®] Mobile product line, which includes a software client version of our Steelhead appliances, which delivers LAN-like application performance to any employee laptop, whether on the road, working from home or connected wirelessly in the office.

In February 2008, we announced the introduction of the Riverbed Services Platform (RSP), which enables the delivery of virtualized edge services without the need to deploy additional physical servers at remote or branch offices. RSP allows customers to deploy services from an array of vendors on Steelhead appliances in a self-contained partition to minimize the hardware infrastructure footprint at the branch office.

In August 2008, we introduced the 50 series models of our Steelhead appliances. The 50 series models represent the next generation of our Steelhead appliances.

In February 2009, we acquired Mazu Networks, Inc. Mazu helps organizations manage, secure and optimize the availability and performance of global applications. The acquisition allows us to meet enterprise and service provider customer demands by extending our suite of WAN optimization products to include global application performance, reporting and analytics.

Increase market awareness

To generate increased demand for our products, we will continue promoting our brand and the effectiveness of our comprehensive WAN optimization solution.

Scale our distribution channels

We intend to leverage and expand our indirect channels to extend our geographic reach and market penetration. We sell our products directly through our sales force and indirectly through resellers. We derived 92% of our revenue through indirect channels in 2008. We expect revenue from resellers to continue to constitute a substantial majority of our future revenue. During 2008, we added 300 new reseller partners, 4 large systems integrators and 16 managed service providers. Also in 2008, we expanded our direct sales force presence in 4 new countries.

Enhance and extend our support and services capabilities

We plan to enhance and extend our support and services capabilities to continue to support our growing global customer base. In 2008, we increased our sales focus on service contract renewals on our existing customer base, we developed and distributed training programs directed at our partners, and expanded our professional service offering.

Major Trends Affecting Our Financial Results

Company outlook

We believe that our current value proposition, which enables customers to improve the performance of their applications and access to their data across WANs, while also offering the ability to simplify IT infrastructure and realize significant capital and operating cost savings, should allow us to continue to grow our business. Our product revenue growth rate will depend significantly on continued growth in the wide-area data services (WDS), market and our ability to continue to attract new customers in that market and generate additional sales from existing customers. Our growth in support and services revenue is dependent upon increasing the number of products under support contracts, which is dependent on both growing our installed base of customers and renewing existing support contracts. Our future profitability and rate of growth will be directly affected by the continued acceptance of our products in the marketplace, as well as the timing and size of orders, product mix,

[Table of Contents](#)

average selling prices and costs of our products and general economic conditions. Our ability to achieve profitability in the future will also be affected by the extent to which we must incur additional expenses to expand our sales, support, marketing, development, and general and administrative capabilities to grow our business. The largest component of our expenses is personnel costs. Personnel costs consist of salaries, benefits and incentive compensation for our employees, including commissions for sales personnel and stock-based compensation.

Macroeconomic environment

During 2008 the domestic and international economic environment turned sharply negative, with most developed countries, including the U.S., falling into economic recessions. Credit markets and bank lending contracted suddenly in the third quarter of 2008 making credit generally harder to obtain for most businesses and consumers. Commodity prices declined sharply in the second half of 2008 as demand for commodities decreased. This resulted in consumer spending being reduced sharply in the second half of 2008. This macroeconomic environment caused the growth trend in corporate spending on IT infrastructure to slow in 2008 and this trend is forecasted to continue or slow down further in the first half of 2009.

Revenue

Our revenue has grown rapidly since we began shipping products in May 2004, increasing from \$2.6 million in 2004 to \$333.3 million in 2008. Revenue grew by 41% in 2008 to \$333.3 million from \$236.4 million in 2007. We believe that our revenue growth in 2008, when the global macroeconomic environment negatively impacted many businesses, is a positive sign that our products have a significant value proposition to our customers and that the WAN optimization market is still expanding despite the challenging macroeconomic environment.

Costs and Expenses

Operating expenses consist of sales and marketing, research and development and general and administrative expenses. Personnel-related costs, including stock-based compensation, are the most significant component of each of these expense categories. As of December 31, 2008 we had 857 employees, an increase of 38% from the 623 employees at December 31, 2007. The increase in employees is the most significant driver behind the increase in costs and operating expenses in 2008. The increase in employees was required to support our increased revenue. The timing of additional hires has and could materially affect our operating expenses, both in absolute dollars and as a percentage of revenue, in any particular period.

Stock-based compensation expense was \$50.4 million, \$31.8 million, and \$9.2 million in the years ended December 31, 2008, 2007, and 2006, respectively. We expect to continue to incur significant stock-based compensation expense and anticipate further growth in stock-based compensation expense.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). These accounting principles require us to make certain estimates and judgments that can affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. We believe that the estimates and judgments upon which we rely are reasonable based upon information available to us at the time that these estimates and judgments are made. To the extent there are material differences between these estimates and actual results, our consolidated financial statements could be adversely affected.

[Table of Contents](#)

The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following: revenue recognition, stock-based compensation, accounting for income taxes, inventory valuation and allowances for doubtful accounts. Our critical accounting policies have been discussed with the Audit Committee of the Board of Directors.

Revenue Recognition

Our software is integrated on appliance hardware and is essential to the functionality of the product. As a result, we account for revenue in accordance with Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as amended by SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*, for all transactions involving the sale of software. We recognize product revenue when all of the following have occurred: (1) we have entered into a legally binding arrangement with a customer; (2) delivery has occurred, which is when product title transfers to the customer; (3) customer payment is deemed fixed or determinable and free of contingencies and significant uncertainties; and (4) collection is probable.

Product revenue consists of revenue from sales of our appliances and software licenses. Product sales include a perpetual license to our software. Product revenue is generally recognized upon transfer of title at shipment, assuming all other revenue recognition criteria are met. Shipping charges billed to customers are included in product revenue and the related shipping costs are included in cost of product revenue. Product revenue on sales to channel partners is recorded once we have received persuasive evidence of an end-user and all other revenue recognition criteria have been met.

Substantially all of our product sales have been sold in combination with support services, which consist of software updates and support. Software updates provide customers with rights to unspecified software product upgrades and to maintenance releases and patches released during the term of the support period. Support includes access to technical support personnel and content via the internet and telephone. Support services also include an extended warranty for the repair or replacement of defective hardware. Revenue for support services is recognized on a straight-line basis over the service contract term, which is typically one year.

We use the residual method to recognize revenue when a product agreement includes one or more elements to be delivered at a future date and vendor specific objective evidence (VSOE), of the fair value of all undelivered elements exists. Through December 31, 2008, in virtually all of our contracts, the only element that remained undelivered at the time of delivery of the product was support services. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the contract fee is recognized as product revenue. If evidence of the fair value of one or more undelivered elements does not exist, all revenue is generally deferred and recognized when delivery of those elements occurs or when fair value can be established. When the undelivered element for which we do not have a fair value is support services, revenue for the entire arrangement is bundled and recognized ratably over the support period. VSOE of fair value for elements of an arrangement is based upon the normal pricing and discounting practices for those services when sold separately, and VSOE for support services is measured by the renewal rate offered to the customer.

Our fees are typically considered to be fixed or determinable at the inception of an arrangement, generally based on specific products and quantities to be delivered. Substantially all of our contracts do not include rights of return or acceptance provisions. To the extent that our agreements contain such terms, we recognize revenue once the acceptance provisions or right of return lapses. Payment terms to customers generally range from net 30 to 60 days. In the event payment terms are provided that differ from our standard business practices, the fees are deemed to not be fixed or determinable and revenue is recognized when the payments become due, provided the remaining criteria for revenue

[Table of Contents](#)

recognition have been met. Deferred product revenue as of December 31, 2008 and 2007, was approximately \$5.0 million and \$4.4 million, respectively.

We assess the ability to collect from our customers based on a number of factors, including creditworthiness of the customer and past transaction history with the customer. If the customer is not deemed creditworthy, we defer all revenue from the arrangement until payment is received and all other revenue recognition criteria have been met.

Stock-Based Compensation

Prior to January 1, 2006, we accounted for employee stock options using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and Financial Accounting Standards Board Interpretation (FIN) 44, *Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB No. 25*, and had adopted the disclosure only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, and SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*.

In accordance with APB 25, stock-based compensation expense, which is a non-cash charge, resulted from stock option grants at exercise prices that, for financial reporting purposes, were deemed to be below the estimated fair value of the underlying common stock on the date of grant. As of December 31, 2005, deferred stock-based compensation relative to these options was approximately \$9.9 million, which is being amortized on a straight-line basis over the service period, which generally corresponds to the vesting period. During the years ended December 31, 2008, 2007, and 2006, we amortized \$2.0 million, \$2.3 million and \$2.4 million, respectively, of deferred compensation expense, net of reversals for terminations, related to these options.

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment*, using the prospective transition method, which requires us to apply the provisions of SFAS No. 123(R) to new awards granted, and to awards modified, repurchased or cancelled, after the effective date. New awards granted include stock options, RSUs, and stock purchased under our Employee Stock Purchase Plan (the "Purchase Plan"). Under this method, stock-based compensation expense recognized beginning January 1, 2006 is based on a combination of the following: (a) the grant-date fair value of stock option, RSU and employee stock purchase plan awards granted or modified after January 1, 2006; and (b) the amortization of deferred stock-based compensation related to stock option awards granted prior to January 1, 2006, which was calculated using the intrinsic value method as previously permitted under APB 25.

Under SFAS No. 123(R), we estimated the fair value of stock options granted using the Black-Scholes option-pricing formula and a single option award approach. This model utilizes the estimated fair value of common stock and requires that, at the date of grant, we use the expected term of the option, the expected volatility of the price of our common stock, risk free interest rates and expected dividend yield of our common stock. This fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally four years.

On September 20, 2006, the effective date of the registration statement relating to our initial public offering (IPO), we implemented the Purchase Plan, which has a two year offering period and two purchases per year. The fair value of shares granted under the Purchase Plan is amortized over the two year offering period. Under the Purchase Plan, employees may purchase shares of common stock through payroll deductions at a price per share that is 85% of the lesser of the fair market value of our common stock as of the beginning of an applicable offering period or the applicable purchase date, with purchases generally every six months.

Table of Contents

In the year ended December 31, 2008, we granted 856,700 RSUs. The fair value of RSUs is based on the closing market price of our common stock on the date of grant and the related compensation expense, net of estimated forfeitures, is amortized on a straight-line basis over the service period of four years.

The fair value of options granted and Purchase Plan shares was estimated at the date of grant using the following assumptions:

	Year ended December 31,		
	2008	2007	2006
Employee Stock Options (1)			
Expected life in years	4.5	4.5 - 6.0	4.5 - 6.1
Risk-free interest rate	2.5% - 3.1%	3.4% - 4.9%	4.6% - 5.1%
Volatility	50% - 51%	51% - 62%	62% - 81%
Weighted average fair value of grants	\$6.84	\$17.54	\$6.07
Purchase Plan			
Expected life in years	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0
Risk-free interest rate	1.3% - 2.4%	4.0% - 5.0%	4.8% - 5.1%
Volatility	47% - 71%	38% - 46%	42% - 47%
Weighted average fair value of grants	\$5.09	\$11.36	\$15.20

(1) Assumptions used in 2008 exclude the assumptions used related to the modification accounting associated with the Tender Offer.

The expected term represents the period that stock-based awards are expected to be outstanding. For the years ended December 31, 2008, 2007 and 2006, we have elected to use the simplified method of determining the expected term as permitted by SEC Staff Accounting Bulletin 107 and 110 due to our lack of sufficient historical exercise data. The computation of expected volatility for the years ended December 31, 2008, 2007, and 2006 is based on the historical volatility of comparable companies from a representative peer group selected based on industry and market capitalization data. As required by SFAS No. 123(R), management estimated expected forfeitures and is recognizing compensation costs only for those equity awards expected to vest. The estimated forfeiture rates for the years ended December 31, 2008, 2007, and 2006 was 7%, 6%, and 2%, respectively.

During 2008, we filed a Tender Offer Statement on Schedule TO with the SEC pursuant to which we extended an offer to non-section 16 reporting employees to exchange up to an aggregate of 5,511,495 options to purchase shares of our common stock, whether vested or unvested. Options granted prior to May 1, 2008 with an exercise price greater than 120% of the closing market price on April 30, 2008 were eligible to be tendered pursuant to the offer. The closing market price on April 30, 2008 was \$13.67. In accordance with the Tender Offer (the "TO"), the number of new options issued was based on an exchange ratio of 0.85 new shares for each share exchanged based on the number of options tendered. A total of 5,246,325 options were tendered and cancelled, and a total of 4,459,392 options were granted on May 30, 2008 at \$17.95 per share. The new options retain the vesting schedule of the options exchanged. The TO is subject to modification accounting pursuant to SFAS No. 123(R) whereby the total compensation cost measured at the date of modification is the portion of the grant-date fair value of the original award for which the requisite service is expected to be rendered (or has already been rendered) at that date plus the incremental cost resulting from the modification. The incremental cost resulting from the modification is measured as the excess of the fair value of the modified award over the fair value of the original award immediately before its terms are modified. The incremental fair value of \$5.5 million for the new awards was computed using an expected life of 2.5 years to 3.6 years, a risk-free interest rate of 2.4% to 2.6% and a volatility of 48% to 49%. The \$407,000 incremental fair value of the vested awards was recognized as compensation

[Table of Contents](#)

expense on the modification date in 2008. The \$5.1 million incremental fair value of the unvested awards is being amortized over the remaining service period.

As of December 31, 2008, the total compensation cost related to stock options granted under SFAS No. 123(R) but not yet recognized was approximately \$90.0 million, net of estimated forfeitures of \$16.3 million. This cost will be amortized on a straight-line basis over the remaining vesting period. Amortization in the years ended December 31, 2008, 2007 and 2006, was \$36.9 million, \$18.9, and \$4.3 million, respectively.

As of December 31, 2008, total unrecognized compensation cost related to nonvested RSUs granted under SFAS No. 123(R) to employees and directors but not yet recognized was approximately \$8.5 million, net of estimated forfeitures of \$1.8 million. This cost will be recognized over the remaining weighted-average period of 3.4 years. Amortization in the year ended December 31, 2008 was \$1.9 million and zero in the years ended December 31, 2007 and 2006, respectively.

As of December 31, 2008, there was \$10.0 million, net of estimated forfeitures, left to be amortized under our Purchase Plan, which will be amortized over the remaining vesting period, which is 19 months. Amortization in the years ended December 31, 2008, 2007 and 2006 was \$9.6 million, \$10.6 million and \$2.5 million, respectively.

Accounting for Income Taxes

We use the asset and liability method of accounting for income taxes in accordance with FASB Statement No. 109, *Accounting for Income Taxes* (SFAS No. 109). Under this method, income tax expense or benefit is recognized for the amount of taxes payable or refundable for the current year and for deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. The measurement of current and deferred tax assets and liabilities are based on provisions of currently enacted tax laws. The effects of future changes in tax laws or rates are not contemplated.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income tax expense and tax contingencies in each of the tax jurisdictions in which we operate. This process involves estimating current income tax expense together with assessing temporary differences in the treatment of items for tax purposes versus financial accounting purposes that may create net deferred tax assets and liabilities. We rely on management estimates and assumptions in preparing our income tax provision.

In the year ended December 31, 2007 and prior years, in accordance with SFAS No. 109, we recorded a full valuation allowance to reduce our deferred tax assets to the amount we believe is more likely than not to be realized. In assessing the need for a valuation allowance, we have considered our historical levels of income, expectations of future taxable income and on going tax planning strategies. A full valuation allowance against our deferred tax assets was recorded because of the uncertainty of the realization of our deferred tax assets, which is primarily dependent upon future taxable income.

In the year ended December 31, 2008, management reevaluated the need for a full valuation allowance on our deferred tax assets as a result of cumulative profits generated in the most recent three year period as well as other positive evidence. As a result of this evaluation, we concluded that it is more likely than not that we will realize sufficient earnings to utilize a significant portion of our deferred tax assets. Accordingly, we reduced the valuation allowance against our domestic deferred tax assets and recorded a tax benefit of \$11.7 million in 2008. This benefit was partially offset by a provision for income taxes of \$3.4 million for 2008 related to federal, foreign and state income taxes. We continue to maintain a valuation allowance on certain foreign deferred tax assets.

Table of Contents

To the extent we conclude that future taxable income and ongoing tax planning strategies warrant the release of all or a portion of the remaining valuation allowance, which totaled \$764,000 as of December 31, 2008, a further reduction to the valuation allowance would result in additional income tax benefit in such period.

We are subject to periodic audits by the Internal Revenue Service and other taxing authorities. These audits may challenge certain tax positions we have taken, such as the timing and amount of deductions and allocation of taxable income to the various tax jurisdictions. Income tax contingencies are accounted for in accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), and may require significant management judgment in estimating final outcomes. Actual results could materially differ from these estimates and could significantly affect the effective tax rate and cash flows in future years. As of December 31, 2008, we have \$1.6 million recorded for such contingencies and have recognized a decrease in our deferred tax asset of \$594,000. We have elected to record interest and penalties recognized in accordance with FIN 48 in the financial statements as income taxes.

Inventory Valuation

Inventory consists of hardware and related component parts and is stated at the lower of cost (on a first-in, first-out basis) or market. A portion of our inventory relates to evaluation units located at customer locations, as some of our customers test our equipment prior to purchasing. Inventory that is obsolete or in excess of our forecasted demand is written down to its estimated realizable value based on historical usage, expected demand, and with respect to evaluation units, the historical conversion rate and age of the units. Inherent in our estimates of market value in determining inventory valuation are estimates related to economic trends, future demand for our products, the timing of new product introductions and technological obsolescence of our products. Inventory write-downs are reflected as an increase to the cost of product and amounted to approximately \$6.0 million, \$1.1 million and \$1.5 million in the years ended December 31, 2008, 2007 and 2006, respectively. The increase in inventory obsolescence write-downs was related to legacy inventory and resulted from the launch of the new 50 series, which is expected to replace the older legacy models.

Allowances for Doubtful Accounts

We make judgments as to our ability to collect outstanding receivables and provide allowances for the applicable portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding receivables. For those receivables not specifically reviewed, provisions are provided at differing rates, based upon the age of the receivable. In determining these percentages, we analyze our historical collection experience and current economic trends. If the historical data we use to calculate the allowance for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the future results of operations could be materially affected. The allowance for doubtful accounts was \$770,000 and \$734,000 at December 31, 2008 and 2007, respectively.

[Table of Contents](#)

Results of Operations

Revenue

We derive our revenue from sales of our appliances and software licenses and from support and services. Product revenue primarily consists of revenue from sales of our Steelhead products and is typically recognized upon shipment. Support and services revenue includes unspecified software license updates and product support. Support revenue is recognized ratably over the contractual period, which is typically one year. Service revenue includes professional services and training, which to date has not been significant, and is recognized as the services are performed.

(dollars in thousands)	Year ended December 31,		
	2008	2007	2006
Total Revenue	\$ 333,349	\$ 236,406	\$ 90,207
<i>Total Revenue by Type:</i>			
Product	\$ 252,929	\$ 196,622	\$ 77,298
Support and services	\$ 80,420	\$ 39,784	\$ 12,909
<i>% Revenue by Type:</i>			
Product	76%	83%	86%
Support and services	24%	17%	14%
<i>Total Revenue by Geography:</i>			
United States	\$ 193,190	\$ 148,171	\$ 65,675
Europe, Middle East and Africa	\$ 87,446	\$ 49,571	\$ 11,949
Rest of the World	\$ 52,713	\$ 38,664	\$ 12,583
<i>% Revenue by Geography:</i>			
United States	58%	63%	73%
Europe, Middle East and Africa	26%	21%	13%
Rest of the World	16%	16%	14%
<i>Total Revenue by Sales Channel:</i>			
Direct	\$ 27,703	\$ 26,046	\$ 22,177
Indirect	\$ 305,646	\$ 210,360	\$ 68,030
<i>% Revenue by Sales Channel:</i>			
Direct	8%	11%	25%
Indirect	92%	89%	75%

2008 Compared to 2007: Product revenue increased in 2008 due primarily to an increase in unit volume from increasing sales to existing customers and the addition of new customers. As of December 31, 2008, our products had been sold to over 5,500 customers, compared to approximately 3,500 as of December 31, 2007. We believe the market for our products has grown due to increased market awareness of wide-area data services and distributed organizations, which increases dependence on timely access to data and applications.

Substantially all of our customers purchase support when they purchase our products. The increase in support and services revenue on an absolute basis and as a percentage of total revenues is a result of increased product and first year support sales combined with the renewal of support contracts by existing customers. As our customer base grows, we expect the proportion of revenue generated from support and services to increase.

In the year ended December 31, 2008, we derived 92% of our revenue from indirect channels compared to 89% in the year ended December 31, 2007. We expect indirect channel revenue to continue to be a significant portion of our revenue.

We generated 42% of our revenue in the year ended December 31, 2008 from international locations, compared to 37% in the year ended December 31, 2007. We continue to expand into international locations and introduce our products in new markets and expect international revenue to increase in dollar amount over time.

[Table of Contents](#)

2007 Compared to 2006: Product revenue increased in 2007 due primarily to an increase in new customers and additional purchases by existing customers. As of December 31, 2007, our products had been sold to over 3,500 customers, compared to approximately 1,600 as of December 31, 2006.

The increase in support and services revenue on an absolute basis and as a percentage of total revenues is a result of increased product and first year support sales combined with the renewal of support contracts by existing customers.

In the year ended December 31, 2007, we derived 89% of our revenue from indirect channels compared to 75% in the year ended December 31, 2006. This increase in indirect channel revenue is due to our increased focus on expanding our indirect channel sales.

We generated 37% of our revenue in the year ended December 31, 2007 from international locations, compared to 27% in the year ended December 31, 2006.

Cost of Revenue and Gross Margin

Cost of product revenue consists of the costs of the appliance hardware, manufacturing, shipping and logistics costs and expenses for inventory obsolescence and warranty obligations. We utilize third parties to assist in the design of and to manufacture our appliance hardware, embed our proprietary software and perform shipping logistics. Cost of support and service revenue consists of personnel costs of technical support and professional services personnel, spare parts and logistics services. As we expand internationally and into other sectors, we may incur additional costs to conform our products to comply with local laws or local product specifications. In addition, as we expand internationally, we will continue to hire additional technical support personnel to support our growing international customer base.

Our gross margin has been and will continue to be affected by a variety of factors, including the mix and average selling prices of our products, new product introductions and enhancements, the cost of our appliance hardware, expenses for inventory obsolescence and warranty obligations, cost of support and service personnel, and the mix of distribution channels through which our products are sold.

(dollars in thousands)	Year ended December 31,		
	2008	2007	2006
Revenue:			
Product	\$ 252,929	\$ 196,622	\$ 77,298
Support and services	80,420	39,784	12,909
Total revenue	<u>333,349</u>	<u>236,406</u>	<u>90,207</u>
Cost of revenue:			
Cost of product	60,439	51,068	25,174
Cost of support and services	28,175	14,856	4,978
Total cost of revenue	<u>88,614</u>	<u>65,924</u>	<u>30,152</u>
Gross profit	<u>\$ 244,735</u>	<u>\$ 170,482</u>	<u>\$ 60,055</u>
Gross margin for product	76%	74%	67%
Gross margin for support and services	65%	63%	61%
Total gross margin	73%	72%	67%

2008 Compared to 2007: The increase in cost of product revenue was due primarily to increased unit volume associated with higher revenue. Cost of product revenue in the year ended December 31, 2008 also includes \$6.0 million of a write-down of inventory on hand in excess of

[Table of Contents](#)

forecasted demand compared to inventory obsolescence costs in the year ended December 30, 2007 of \$1.1 million. The increase in the write-down of inventory is related to the write down of legacy inventory as we transition to the 50 series Steelhead appliances. Cost of support and services revenue increased as we added more technical support headcount domestically and abroad to support our growing customer base. Technical support and services headcount was 110 employees as of December 31, 2008 compared to 69 employees as of December 31, 2007.

Gross margins increased to 73% in the year ended December 31, 2008 from 72% in the year ended December 31, 2007 primarily due to higher margins on product revenue primarily as a result of lower unit product costs as well as a favorable product mix partially offset by the write-down of inventory. Gross margins for support and services increased to 65% as a result of revenues increasing at a higher rate than support and services costs. This increase was slightly offset by a decrease in support margins of approximately 2% as a result of increased stock-based compensation, which was \$4.5 million in the year ended December 31, 2008, compared to \$2.6 million in the year ended December 31, 2007.

2007 Compared to 2006: The increase in cost of product revenue was due primarily to increased hardware costs associated with higher revenue. Cost of support and services revenue increased as we added more technical support headcount domestically and abroad to support our growing customer base. Technical support and services headcount was 69 employees as of December 31, 2007 compared to 33 employees as of December 31, 2006.

Gross margins increased to 72% in the year ended December 31, 2007 from 67% in the year ended December 31, 2006 primarily due to higher margins on product revenue as a result of lower unit product costs and decreases in inventory valuation and warranty provisions as a percentage of product revenue.

Sales and Marketing Expenses

Sales and marketing expenses represent the largest component of our operating expenses and include personnel costs, sales commissions, marketing programs and facilities costs. Marketing programs are intended to generate revenue from new and existing customers, and are expensed as incurred. We plan to continue to make investments in sales and marketing with the intent to add new customers and increase penetration within our existing customer base by increasing the number of sales personnel worldwide, expanding our domestic and international sales and marketing activities, increasing channel penetration, building brand awareness and sponsoring additional marketing events. We expect future sales and marketing expenses to continue to increase and continue to be our most significant operating expense. Generally, sales personnel are not immediately productive and sales and marketing expenses do not immediately result in increased revenue. Hiring additional sales personnel reduces short-term operating margins until the sales personnel become productive and generate revenue. Accordingly, the timing of sales personnel hiring and the rate at which they become productive will affect our future performance.

(dollars in thousands)	Year ended December 31,		
	2008	2007	2006
Sales and marketing expenses	\$ 140,653	\$ 95,652	\$ 48,080
Percent of total revenue	42%	40%	53%

2008 Compared to 2007: The increase in sales and marketing expenses was primarily due to an increase in the number of sales and marketing employees, as sales and marketing headcount grew to 404 employees as of December 31, 2008 from 285 employees as of December 31, 2007. The increase in employees resulted in higher salary expense and employee related benefits. Additionally,

Table of Contents

commission expense increased in the year ended December 31, 2008 as compared to the year ended December 31, 2007 due to increased revenue and personnel. Salaries and related benefits, bonuses and commissions accounted for \$24.4 million, marketing related activities accounted for \$2.8 million, facilities and information technology expenses accounted for \$3.2 million and travel and entertainment expenses accounted for \$3.3 million of the \$45.0 million increase in sales and marketing expenses. Stock-based compensation, which was \$23.6 million in the year ended December 31, 2008 compared to \$15.2 million in the year ended December 31, 2007, accounted for approximately \$8.4 million of the increase in sales and marketing expenses.

2007 Compared to 2006: The increase in sales and marketing expenses was primarily due to an increase in the number of sales and marketing employees, as sales and marketing headcount grew to 285 employees as of December 31, 2007 from 151 employees as of December 31, 2006. The increase in employees resulted in higher salary expense, employee related benefits and fees for recruitment of new employees. Additionally, commission expense increased in the year ended December 31, 2007 as compared to the year ended December 31, 2006 due to the substantial increase in revenue. Salaries, bonuses and commissions accounted for \$18.5 million, marketing related activities accounted for \$5.3 million, facilities and information technology expenses attributable to sales and marketing accounted for \$4.8 million, and travel and entertainment expenses accounted for \$3.5 million of the \$47.6 million increase in sales and marketing expenses. Stock-based compensation, which was \$15.2 million in the year ended December 31, 2007 compared to \$4.6 million in the year ended December 31, 2006, accounted for approximately \$10.6 million of the increase in sales and marketing expenses.

Research and Development Expenses

Research and development expenses primarily include personnel costs and facilities costs. We expense research and development expenses as incurred. We are devoting substantial resources to the continued development of additional functionality for existing products and the development of new products. We intend to continue to invest significantly in our research and development efforts because we believe they are essential to maintaining our competitive position. Investments in research and development personnel costs are expected to increase in dollar amount.

(dollars in thousands)	Year ended December 31,		
	2008	2007	2006
Research and development expenses	\$ 58,658	\$ 39,696	\$ 19,215
Percent of total revenue	18%	17%	21%

2008 Compared to 2007: Research and development expenses increased in the year ended December 31, 2008 compared to the year ended December 31, 2007 due to an increase in personnel and facility-related costs as a result of research and development headcount increasing to 240 employees as of December 31, 2008 from 181 employees as of December 31, 2007. Salaries, bonuses and related benefits accounted for \$9.0 million and facilities and related costs accounted for \$2.3 million of the \$19.0 million increase in research and development expenses. Stock-based compensation, which was \$13.0 million in the year ended December 31, 2008 compared to \$8.6 million in the year ended December 31, 2007, accounted for \$4.4 million of the increase in research and development expenses. We plan to continue to invest in research and development as we develop new products and make further enhancements to existing models.

2007 Compared to 2006: Research and development expenses increased in the year ended December 31, 2007 compared to the year ended December 31, 2006 due to an increase in personnel and facility-related costs as a result of research and development headcount increasing to 181 employees as of December 31, 2007 from 109 employees as of December 31, 2006. Salaries and

Table of Contents

bonuses accounted for \$6.2 million, facilities and information technology expenses accounted for \$4.7 million and professional services account for \$1.0 million of the \$20.5 million increase in research and development expenses. Stock-based compensation, which was \$8.6 million in the year ended December 31, 2007 compared to \$2.5 million in the year ended December 31, 2006, accounted for \$6.1 million of the increase in research and development expenses.

General and Administrative Expenses

General and administrative expenses consist primarily of compensation for personnel and facilities costs related to our executive, finance, human resources, information technology and legal organizations, and fees for professional services. Professional services include outside legal, audit and information technology consulting costs.

(dollars in thousands)	Year ended December 31,		
	2008	2007	2006
General and administrative expenses	\$ 38,669	\$ 24,834	\$ 9,294
Percent of total revenue	12%	11%	10%

2008 Compared to 2007: The increase in general and administrative expenses for the year ended December 31, 2008 compared to the year ended December 31, 2007 is due to an increase in personnel costs, primarily as a result of headcount increasing to 98 employees as of December 31, 2008 from 83 employees as of December 31, 2007, and an increase in professional services fees. Salaries, bonuses and related benefits accounted for \$3.2 million and professional service fees accounted for approximately \$5.0 million of the \$13.8 million increase in general and administrative expenses. Professional service fees increased primarily due to increased intellectual property (IP) related legal fees associated with IP litigation. Legal fees associated with the IP litigation were \$4.1 million in the year ended December 31, 2008 compared to zero in the year ended December 31, 2007. Legal fees are expected to decrease now that the IP litigation is resolved. Stock-based compensation, which was \$9.2 million in the year ended December 31, 2008 compared to \$5.4 million in the year ended December 31, 2007, accounted for approximately \$3.8 million of the increase in general and administrative expenses.

2007 Compared to 2006: The increase in general and administrative expenses for the year ended December 31, 2007 compared to the year ended December 31, 2006 is due to an increase in personnel costs, primarily as a result of headcount increasing to 83 employees as of December 31, 2007 from 32 employees as of December 31, 2006, and an increase in professional services fees. Salaries and bonuses accounted for \$2.7 million and professional service fees accounted for approximately \$6.1 million of the \$15.5 million increase in general and administrative expenses. Professional service fees increased due to increased Sarbanes-Oxley compliance fees, contract labor, information technology consulting fees and audit and tax advisory fees. Stock-based compensation, which was \$5.4 million in the year ended December 31, 2007 compared to \$1.5 million in the year ended December 31, 2006, accounted for approximately \$3.9 million of the increase in general and administrative expenses.

Other charges

During the year ended December 31, 2008, we entered into a mutual release and settlement agreement (the "*Settlement Agreement*") with Quantum Corporation ("*Quantum*") and certain affiliates of Quantum, pursuant to which we jointly executed and filed dismissals of patent infringement actions brought in the United States District Court for the Northern District of California. Pursuant to the terms of the Settlement Agreement, we paid Quantum a lump sum of \$11.0 million, and entered into a perpetual covenant not to sue each other or certain other parties related to the patents in question and

Table of Contents

certain patents related to data de-duplication as well as a three-year covenant not to file any patent infringement lawsuits against each other or certain other parties. In addition, we released each other from any and all claims, demands, losses, liabilities and causes of action relating to any infringement of any patent based on acts occurring prior to the date of the Settlement Agreement. Based on the terms of the Settlement Agreement we recorded operating expense of \$11.0 million during 2008. No such expenses existed in 2007.

Other Income (Expense), Net

Other income (expense), net consists primarily of interest income on our cash and marketable securities, interest expense, and foreign currency exchange losses. Cash has historically been invested in highly liquid investments such as time deposits held at major banks, commercial paper, U.S. government agency discount notes, money market mutual funds and other money market securities with maturities at the date of purchase of 90 days or less.

(dollars in thousands)	Year ended December 31,		
	2008	2007	2006
Interest income	\$ 6,806	\$ 10,068	\$ 2,096
Interest expense	—	—	(247)
Other	(292)	(335)	(857)
Total other income, net	\$ 6,514	\$ 9,733	\$ 992

2008 Compared to 2007: Other income (expense), net, decreased in the year ended December 31, 2008 due to decreased interest income on cash and marketable securities balances as a result of declining interest rates. Weighted average interest rates applicable to our cash and marketable securities balances decreased to 2.6% in the year ended December 31, 2008 compared to 5.0% in the year ended December 31, 2007. Other expense in the year ended December 31, 2008 and 2007 consists primarily of foreign currency losses.

2007 Compared to 2006: Other income (expense), net, increased in the year ended December 31, 2007 primarily due to interest income on higher cash and marketable securities balances. We did not have interest expense in 2007, as we paid off the balance of our credit facility on October 2, 2006. Other expense decreased due to recording our preferred stock warrants to fair value in 2006 and no such adjustment was required in 2007. In the year ended December 31, 2006 we recognized a \$644,000 charge to record our preferred stock warrants at fair value. Subsequent to our IPO, we were no longer required to record the warrants to fair value. Other expense in the years ended December 31, 2007 consists primarily of foreign currency losses.

Provision (Benefit) for Income Taxes

The provision (benefit) for income taxes was (\$8.3) million, \$5.2 million and \$303,000 for the years ended December 31, 2008, 2007 and 2006, respectively. Our income tax provision (benefit) consists of federal, foreign, and state income taxes. Our effective tax rate was (367%), 26% and (2%) for the year ended December 31, 2008, 2007 and 2006, respectively.

The decrease in the effective tax rate for 2008 as compared to 2007 was primarily the result of the reduction in income tax expense of \$11.7 million due to the reduction of valuation allowances during the fourth quarter of 2008 against our domestic deferred tax assets. This benefit was partially offset by a provision for income taxes of \$3.4 million in 2008 related to federal, foreign and state income taxes.

Table of Contents

Our effective tax rate differs from the federal statutory rate due to state taxes, significant permanent differences and the change in our valuation allowances on our net deferred tax assets. Significant permanent differences arise from the portion of stock-based compensation expense that is not expected to generate a tax deduction, such as stock compensation expense on grants to foreign employees, our purchase plan and incentive stock options, offset by the actual tax benefits in the current periods from disqualifying dispositions of those shares.

In the year ended December 31, 2007 and in prior years, in accordance with SFAS No. 109, we recorded a full valuation allowance against our deferred tax assets because of the uncertainty of the realization of the deferred tax assets. Realization of our deferred tax assets is dependent primarily upon future taxable income. In assessing the need for a valuation allowance, we have considered our historical levels of income, expectations of future taxable income and on-going tax planning strategies.

In the year ended December 31, 2008, management reevaluated the need for a full valuation allowance on its deferred tax assets as a result of cumulative profits generated in the most recent three year period as well as other positive evidence. As a result of this evaluation, we concluded that it is more likely than not that we will realize sufficient earnings to utilize a significant portion of our deferred tax assets. Accordingly, we reversed the valuation allowance against our domestic deferred tax assets.

We continue to maintain a valuation allowance on certain foreign deferred tax assets. To the extent we conclude that future taxable income and ongoing tax planning strategies warrant the release of all or a portion of the remaining valuation allowance, which totaled \$764,000 as of December 31, 2008, a reduction in the valuation allowance would result in additional income tax benefit in such period.

Our effective tax rate in 2008 has fluctuated significantly on a quarterly basis. The effective tax rate can be affected by our stock-based compensation expense, changes in the valuation of our deferred tax assets, changes in actual results versus our estimates, or changes in tax laws, regulations, accounting principles, or interpretations thereof. In October 2008, the federal research and development tax credit was reinstated. The impact of the credit on our effective tax rate is reflected in the tax rate for the year ended December 31, 2008.

We are subject to potential income tax audits on open tax years by any taxing jurisdiction which we operate in. The taxing authorities of the most significant jurisdictions are the United States Internal Revenue Service, California Franchise Tax Board and HM Revenue and Customs in the United Kingdom (UK). We do not anticipate any material adjustments to our tax provisions relating to previously filed tax returns. The statute of limitations for federal, state, and UK tax purposes are generally three, four, and three years respectively; however, we continue to carryover tax attributes prior to these periods for federal and state purposes, which would still be open for examination by the respective tax authorities. Accordingly, all years since our inception are open to tax examinations for federal and state purposes. Our UK tax returns from 2005 to the present are open for examination.

[Table of Contents](#)

Quarterly Results of Operations

The following table sets forth our unaudited quarterly consolidated statement of operations data for each of the eight quarters ended December 31, 2008. In management's opinion, the data has been prepared on the same basis as the audited consolidated financial statements included in this Annual Report on Form 10-K, and reflects all necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of this data. The results of historical periods are not necessarily indicative of the results of operations for a full year or any future period.

(in thousands, except per share data)	For the three months ended							
	2008				2007			
	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
Revenue:								
Product	\$ 67,355	\$ 65,238	\$ 62,607	\$ 57,729	\$ 63,287	\$ 52,508	\$ 45,188	\$ 35,639
Support and services	24,873	21,309	18,985	15,253	13,023	10,802	8,814	7,145
Total revenue	92,228	86,547	81,592	72,982	76,310	63,310	54,002	42,784
Cost of revenue:								
Cost of product	15,286	16,653	14,564	13,936	14,015	14,029	12,856	10,168
Cost of support and services	8,024	7,174	6,967	6,010	4,857	4,111	3,502	2,386
Total cost of revenue	23,310	23,827	21,531	19,946	18,872	18,140	16,358	12,554
Gross profit	68,918	62,720	60,061	53,036	57,438	45,170	37,644	30,230
Operating expenses	63,785	70,856	60,151	54,188	52,949	43,206	35,440	28,587
Operating income (loss)	5,133	(8,136)	(90)	(1,152)	4,489	1,964	2,204	1,643
Other income (expense), net	1,455	1,287	1,472	2,300	2,705	2,754	2,555	1,719
Income (loss) before provision for income taxes	6,588	(6,849)	1,382	1,148	7,194	4,718	4,759	3,362
Provision (benefit) for income taxes	(16,667)	5,574	2,251	510	2,367	1,950	815	103
Net income (loss)	\$ 23,255	\$ (12,423)	\$ (869)	\$ 638	\$ 4,827	\$ 2,768	\$ 3,944	\$ 3,259
Net income (loss) per share basic	\$ 0.33	\$ (0.17)	\$ (0.01)	\$ 0.01	\$ 0.07	\$ 0.04	\$ 0.06	\$ 0.05
Net income (loss) per share diluted	\$ 0.33	\$ (0.17)	\$ (0.01)	\$ 0.01	\$ 0.07	\$ 0.04	\$ 0.05	\$ 0.05
Stock-based compensation expense included in above	\$ 12,251	\$ 13,031	\$ 13,918	\$ 11,208	\$ 9,622	\$ 9,363	\$ 7,440	\$ 5,376

Our operating results may fluctuate due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance. In addition, a significant portion of our quarterly sales typically occurs during the last month of the quarter, which we believe reflects customer buying patterns of products similar to ours and other products in the technology industry generally. As a result, our quarterly operating results are difficult to predict even in the near term.

Commencing with the first shipment of our products in the second quarter of 2004, revenue has increased sequentially in all but one quarter, due to increases in the number of products sold to new and existing customers and international expansion. Cost of revenue has increased sequentially each quarter in absolute dollars; however, has decreased over time as a percentage of revenue. The increase in gross margins is primarily due to higher margins on product revenue as a result of lower unit product costs. Excluding the impact of the Quantum settlement of \$11.0 million in the third quarter of 2008, operating expenses increased sequentially in all quarters, as we continued to add headcount and related costs to accommodate our growing business.

[Table of Contents](#)**Liquidity and Capital Resources**

(in thousands)	As of December 31,		
	2008	2007	2006
Working capital	\$ 248,187	\$ 241,135	\$ 101,319
Cash and cash equivalents	95,378	162,979	105,330
Marketable securities	172,398	83,103	3,999

(in thousands)	Year ended December 31,		
	2008	2007	2006
Cash provided by operating activities	\$ 71,446	\$ 48,168	\$ 297
Cash used in investing activities	(105,055)	(90,927)	(10,509)
Cash provided by (used in) financing activities	(33,518)	100,323	105,090

Cash and Cash Equivalents

Cash and cash equivalents consist of money market mutual funds, government sponsored enterprise obligations, treasury bills, commercial paper and other money market securities with remaining maturities at date of purchase of 90 days or less.

Marketable securities consist of government sponsored enterprise obligations, treasury bills and corporate bonds and notes. We adopted SFAS No. 157 in the year ended December 31, 2008. The fair value of marketable securities is determined in accordance with SFAS No. 157, which defines the fair value as the exit price in the principal market in which we would transact. The fair value of our marketable securities has not materially fluctuated from historical cost. The accumulated unrealized gains, net of tax, on marketable securities recognized in accumulated other comprehensive income (loss) in our stockholders' equity is approximately \$289,000. The recent volatility in the credit markets has increased the risk of material fluctuations in the fair value of marketable securities.

Cash and cash equivalents, and marketable securities increased by \$21.7 million to \$267.8 million in the year ended December 31, 2008.

Pursuant to certain lease agreements and as security for our merchant services agreement with our financial institution, we are required to maintain cash reserves, classified as restricted cash. Current restricted cash totaled \$55,000 at December 31, 2008 and \$142,000 at December 31, 2007, and long-term restricted cash totaled \$3.5 million at December 31, 2008 and 2007. Long-term restricted cash is included in other assets in the consolidated balance sheets and consists primarily of funds held as collateral for letters of credit for the security deposit on the leases of our corporate headquarters and is restricted until the end of the lease terms on August 30, 2010 and July 31, 2014.

Since the fourth quarter of 2004, we have expanded our operations internationally. Our sales contracts are principally denominated in U.S. dollars and therefore changes in foreign exchange rates have not materially affected our cash flows from operations. As we fund our international operations, our cash and cash equivalents are affected by changes in exchange rates. To date, the foreign currency effect on our cash and cash equivalents has not been material.

Cash Flows from Operating Activities

Our largest source of operating cash flows is cash collections from our customers. Our primary uses of cash from operating activities are for personnel related expenditures, product costs, outside services, and rent payments. Our cash flows from operating activities will continue to be affected principally by the extent to which we grow our revenue and spend on hiring personnel in order to grow our business.

[Table of Contents](#)

Cash provided by operating activities was \$71.4 million in the year ended December 31, 2008 compared to \$48.2 million in the year ended December 31, 2007 primarily due to increased profitability after excluding the effects of non-cash stock-based compensation expense and depreciation and amortization.

Cash Flows from Investing Activities

Cash flows used in investing activities primarily relate to investments in marketable securities and capital expenditures to support our growth.

Cash used in investing activities increased in the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to additional purchases of marketable securities and additional capital expenditures.

Cash Flows from Financing Activities

Cash flows from financing activities in the year ended December 31, 2008 consisted of repurchases of common stock and proceeds and tax benefits received from the exercise of stock options and stock purchases under our Purchase Plan.

On April 21, 2008, our Board of Directors authorized a Share Repurchase Program, which authorizes us to repurchase up to \$100.0 million of our outstanding common stock during a period not to exceed 24 months from the Board authorization date. The Program does not require us to purchase a minimum number of shares, and may be suspended, modified or discontinued at any time. During 2008, we repurchased 4,027,706 shares of common stock under this Program for an aggregate purchase price of approximately \$50.0 million, or an average of \$12.41 per share. The timing and amounts of these repurchases were based on market conditions and other factors including price, regulatory requirements and capital availability. The share repurchases were financed by available cash balances and cash from operations.

We believe that our net proceeds from operations, together with our cash balance at December 31, 2008, will be sufficient to fund our projected operating requirements for at least the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities, the timing and extent of expansion into new territories, the timing of introductions of new products and enhancements to existing products, and the continuing market acceptance of our products. In February 2009, we acquired Mazu Networks, Inc. for approximately \$25.0 million of cash which was paid for from our existing cash balance. In the future, we may enter into other arrangements for potential investments in, or acquisitions of, complementary businesses, services or technologies, which could require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Contractual Obligations

The following is a summary of our contractual obligations as of December 31, 2008:

	Year ending December 31,						
	Total	2009	2010	2011	2012	2013	Thereafter
				(in thousands)			
Contractual Obligations							
Operating leases	\$ 29,488	\$ 5,721	\$ 5,576	\$ 6,453	\$ 5,361	\$ 4,099	\$ 2,278
Purchase obligations (1)	13,265	12,034	1,200	31	—	—	—
Total contractual obligations	\$ 42,753	\$ 17,755	\$ 6,776	\$ 6,484	\$ 5,361	\$ 4,099	\$ 2,278

Table of Contents

- (1) Represents amounts associated with agreements that are enforceable, legally binding and specify terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of payment. Obligations under contracts that we can cancel without a significant penalty are not included in the table above.

Off-Balance Sheet Arrangements

At December 31, 2008 and 2007, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes, nor did we have any undisclosed material transactions or commitments involving related persons or entities.

Other

At December 31, 2008 and 2007, we did not have commercial commitments under lines of credit, standby repurchase obligations or other such debt arrangements.

Recent Accounting Pronouncements

See Note 16 of "Notes to Consolidated Financial Statements" for recent accounting pronouncements that could have an effect on us.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Risk

Our sales contracts are principally denominated in U.S. dollars and therefore our revenue and receivables are not subject to significant foreign currency risk. We do incur certain operating expenses in currencies other than the U.S. dollar and therefore are subject to volatility in cash flows due to fluctuations in foreign currency exchange rates, particularly changes in the British pound, Euro, Australian dollar and Singapore dollar. To date, we have not entered into any hedging contracts since exchange rate fluctuations have had minimal impact on our operating results and cash flows. We sell predominantly in U.S. dollars, and the recent increase in value of the U.S. dollar relative to most other major currencies may negatively affect our sales as any foreign currency devaluation against the U.S. dollar would increase the real cost of our products to our customers and partners in foreign markets where we sell in U.S. dollars. In addition, sales would be negatively affected if we chose to more heavily discount our product price in foreign markets to maintain competitive pricing.

Interest Rate Sensitivity

We had unrestricted cash and cash equivalents totaling \$95.4 million and \$163.0 million at December 31, 2008 and December 31, 2007, respectively. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Cash and cash equivalents include highly liquid investments with a maturity of ninety days or less at the time of purchase. Cash equivalents consist primarily of money market mutual funds, government sponsored enterprise obligations, treasury bills, and other money market securities. Due to the high investment quality and short duration of these investments, we do not believe that we have any material exposure to changes in the fair market value as a result of changes in interest rates. Declines in interest rates, however, will reduce future investment income. The recent volatility in the credit markets has caused a macro shift in investments into highly liquid short-term investments such as U.S. Treasury bills. This has caused a significant decline in short-term interest rates, which we expect will reduce future investment income. In addition, the volatility in the credit markets increases the risk of write-downs of investments to fair market value.

[Table of Contents](#)

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The following financial statements are filed as part of this Annual Report on Form 10-K

	<u>Page No.</u>
Reports of Ernst & Young LLP, Independent Registered Public Accounting Firm	56
Consolidated Balance Sheets	58
Consolidated Statements of Operations	59
Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)	60
Consolidated Statements of Cash Flows	63
Notes to Consolidated Financial Statements	64

**REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders
Riverbed Technology, Inc.

We have audited the accompanying consolidated balance sheets of Riverbed Technology, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, preferred stock and stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the index at Item 15(b). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Riverbed Technology, Inc. at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, under the heading Income Taxes, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*", effective January 1, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Riverbed Technology, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 20, 2009 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Francisco, California
February 20, 2009

**REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders
Riverbed Technology, Inc.

We have audited Riverbed Technology Inc.'s internal control over financial reporting as of December 31, 2008 based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Riverbed Technology, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting which is contained in Part I, Item 9A of this Annual Report on Form 10-K under the heading "Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Riverbed Technology, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Riverbed Technology, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, preferred stock and stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2008 and our report dated February 20, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Francisco, California
February 20, 2009

RIVERBED TECHNOLOGY, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	As of December 31,	
	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 95,378	\$ 162,979
Marketable securities	172,398	83,103
Trade receivables, net of allowances of \$770 and \$734 as of December 31, 2008 and 2007, respectively	46,839	50,072
Inventory	10,637	9,413
Prepaid expenses and other current assets	6,713	6,409
Deferred tax asset	6,185	—
Total current assets	<u>338,150</u>	<u>311,976</u>
Fixed assets, net	21,993	18,826
Deferred tax asset, non-current	27,033	—
Other long-term assets	11,341	6,800
Total assets	<u>\$ 398,517</u>	<u>\$ 337,602</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 18,290	\$ 20,325
Accrued compensation and benefits	13,137	14,290
Other accrued liabilities	13,342	9,381
Deferred revenue	45,194	26,845
Total current liabilities	<u>89,963</u>	<u>70,841</u>
Deferred revenue, non-current	12,967	6,634
Other long-term liabilities	1,758	409
Total long-term liabilities	<u>14,725</u>	<u>7,043</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.0001 par value — 30,000 shares authorized, no shares outstanding	—	—
Common stock and additional paid-in-capital; \$0.0001 par value — 600,000 shares authorized; 69,145 and 71,332 shares issued and outstanding as of December 31, 2008 and 2007, respectively	316,847	295,487
Deferred stock-based compensation	(965)	(3,287)
Accumulated deficit	(21,934)	(32,535)
Accumulated other comprehensive income (loss)	(119)	53
Total stockholders' equity	<u>293,829</u>	<u>259,718</u>
Total liabilities and stockholders' equity	<u>\$ 398,517</u>	<u>\$ 337,602</u>

See Notes to Consolidated Financial Statements

RIVERBED TECHNOLOGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Year ended December 31,		
	2008	2007	2006
Revenue:			
Product	\$ 252,929	\$ 196,622	\$ 77,298
Support and services	80,420	39,784	12,909
Total revenue	<u>333,349</u>	<u>236,406</u>	<u>90,207</u>
Cost of revenue:			
Cost of product	60,439	51,068	25,174
Cost of support and services	28,175	14,856	4,978
Total cost of revenue	<u>88,614</u>	<u>65,924</u>	<u>30,152</u>
Gross profit	<u>244,735</u>	<u>170,482</u>	<u>60,055</u>
Operating expenses:			
Sales and marketing	140,653	95,652	48,080
Research and development	58,658	39,696	19,215
General and administrative	38,669	24,834	9,294
Other charges	11,000	—	—
Total operating expenses	<u>248,980</u>	<u>160,182</u>	<u>76,589</u>
Operating income (loss)	<u>(4,245)</u>	<u>10,300</u>	<u>(16,534)</u>
Other income (expense)			
Interest income	6,806	10,068	2,096
Interest expense	—	—	(247)
Other expense, net	(292)	(335)	(857)
Total other income (expense)	<u>6,514</u>	<u>9,733</u>	<u>992</u>
Income (loss) before provision for income taxes	2,269	20,033	(15,542)
Provision (benefit) for income taxes	(8,332)	5,235	303
Net income (loss)	<u>\$ 10,601</u>	<u>\$ 14,798</u>	<u>\$ (15,845)</u>
Net income (loss) per common share:			
Basic	<u>\$ 0.15</u>	<u>\$ 0.22</u>	<u>\$ (0.59)</u>
Diluted	<u>\$ 0.14</u>	<u>\$ 0.20</u>	<u>\$ (0.59)</u>
Shares used in computing net income (loss) per common share:			
Basic	<u>70,757</u>	<u>68,020</u>	<u>26,977</u>
Diluted	<u>73,267</u>	<u>73,244</u>	<u>26,977</u>
Stock-based compensation expense included in above:			
Cost of product	\$ 182	\$ 101	\$ —
Cost of support and services	4,487	2,576	520
Sales and marketing	23,583	15,160	4,636
Research and development	13,003	8,593	2,541
General and administrative	9,153	5,371	1,521
Total stock-based compensation expense	<u>\$ 50,408</u>	<u>\$ 31,801</u>	<u>\$ 9,218</u>

See Notes to Consolidated Financial Statements

RIVERBED TECHNOLOGY, INC.
CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)
For the Years Ended December 31, 2008, 2007 and 2006
(in thousands)

	Convertible Preferred Stock		Common Stock and Additional Paid-in-Capital		Deferred Stock-Based Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2005	35,704	\$ 36,385	16,721	\$ 10,130	\$ (8,495)	\$ (31,488)	\$ (58)	\$ (29,911)
Issuance of Series D preferred stock for cash net of issuance costs of \$85	3,738	19,915	—	—	—	—	—	—
Preferred stock converted to common at IPO	(39,442)	(56,300)	39,442	56,300	—	—	—	56,300
Proceeds from IPO, net of expenses	—	—	9,990	87,496	—	—	—	87,496
Stock options exercised	—	—	254	213	—	—	—	213
Stock options repurchased	—	—	(325)	(34)	—	—	—	(34)
Reclassification of options exercised but not vested	—	—	—	263	—	—	—	263
Reclassification of warrant liability upon IPO	—	—	—	1,238	—	—	—	1,238
Warrant exercise	—	—	98	—	—	—	—	—
Amortization of deferred stock-based compensation	—	—	—	(389)	2,791	—	—	2,402
Stock-based compensation	—	—	—	6,816	—	—	—	6,816
Comprehensive loss:								
Currency translation adjustments	—	—	—	—	—	—	42	42
Net loss	—	—	—	—	—	(15,845)	—	(15,845)
Comprehensive loss	—	—	—	—	—	—	—	(15,803)
Balance at December 31, 2006	—	\$ —	66,180	\$ 162,033	\$ (5,704)	\$ (47,333)	\$ (16)	\$ 108,980

See Notes to Consolidated Financial Statements

RIVERBED TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)
For the Years Ended December 31, 2008, 2007 and 2006 — (Continued)
(in thousands)

	Convertible Preferred Stock		Common Stock and Additional Paid-in-Capital		Deferred Stock-Based Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Proceeds from follow-on stock offering, net of expenses	—	\$ —	2,855	\$ 87,681	\$ —	\$ —	\$ —	\$ 87,681
Stock issued under the Purchase Plan	—	—	734	6,733	—	—	—	6,733
Stock options exercised	—	—	1,531	5,059	—	—	—	5,059
Reclassification of options exercised but not vested	—	—	—	313	—	—	—	313
Warrant exercise	—	—	32	—	—	—	—	—
Tax benefit from employee stock plans	—	—	—	4,284	—	—	—	4,284
Amortization of deferred stock-based compensation	—	—	—	(146)	2,417	—	—	2,271
Stock-based compensation	—	—	—	29,530	—	—	—	29,530
Comprehensive income:								
Currency translation adjustments	—	—	—	—	—	—	84	84
Unrealized loss on marketable securities	—	—	—	—	—	—	(15)	(15)
Net income	—	—	—	—	—	14,798	—	14,798
Comprehensive income	—	—	—	—	—	—	—	14,867
Balance at December 31, 2007	—	\$ —	71,332	\$ 295,487	\$ (3,287)	\$ (32,535)	\$ 53	\$ 259,718

See Notes to Consolidated Financial Statements

RIVERBED TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)
For the Years Ended December 31, 2008, 2007 and 2006 — (Continued)
(in thousands)

	Convertible Preferred Stock		Common Stock and Additional Paid-in-Capital		Deferred Stock-Based Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Repurchase of common stock	—	\$ —	(4,028)	\$ (49,992)	\$ —	\$ —	\$ —	\$ (49,992)
Stock issued under the Purchase Plan	—	—	910	8,599	—	—	—	8,599
Stock options exercised	—	—	973	2,993	—	—	—	2,993
Stock options repurchased	—	—	(42)	(27)	—	—	—	(27)
Reclassification of options exercised but not vested	—	—	—	250	—	—	—	250
Tax benefit from employee stock plans	—	—	—	11,451	—	—	—	11,451
Amortization of deferred stock-based compensation	—	—	—	(364)	2,322	—	—	1,958
Stock-based compensation	—	—	—	48,450	—	—	—	48,450
Comprehensive income:								
Currency translation adjustments	—	—	—	—	—	—	(476)	(476)
Unrealized gain on marketable securities, net of tax	—	—	—	—	—	—	304	304
Net income	—	—	—	—	—	10,601	—	10,601
Comprehensive income	—	—	—	—	—	—	—	10,429
Balance at December 31, 2008	—	\$ —	69,145	\$ 316,847	\$ (965)	\$ (21,934)	\$ (119)	\$ 293,829

See Notes to Consolidated Financial Statements

RIVERBED TECHNOLOGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended December 31,		
	2008	2007	2006
Operating Activities:			
Net income (loss)	\$ 10,601	\$ 14,798	\$ (15,845)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	10,506	5,052	2,037
Stock-based compensation	50,408	31,801	9,218
Revaluation and amortization of warrants	—	—	683
Deferred taxes	(32,619)	—	—
Excess tax benefit from employee stock plans	(4,909)	(850)	—
Changes in operating assets and liabilities:			
Trade receivables	1,926	(32,265)	(12,792)
Inventory	(6,040)	(5,160)	(5,186)
Prepaid expenses and other assets	(190)	(1,614)	(3,887)
Accounts payable and other current liabilities	4,878	16,893	12,362
Income taxes payable	11,499	4,597	224
Deferred revenue	25,386	14,916	13,483
Net cash provided by operating activities	<u>71,446</u>	<u>48,168</u>	<u>297</u>
Investing Activities:			
Capital expenditures	(12,406)	(9,708)	(5,110)
Purchase of available for sale securities	(424,864)	(129,099)	(3,999)
Proceeds from sales of available for sale securities	161,517	39,000	—
Proceeds from maturities of available for sale securities	174,538	10,980	—
Increase in other assets	(3,840)	(2,100)	(1,400)
Net cash used in investing activities	<u>(105,055)</u>	<u>(90,927)</u>	<u>(10,509)</u>
Financing Activities:			
Proceeds from issuance of convertible preferred stock, net of issuance costs	—	—	19,915
Proceeds from public offerings, net of expenses	—	87,681	87,496
Proceeds from issuance of common stock under employee stock plans, net of repurchases	11,565	11,792	179
Payments for repurchases of common stock	(49,992)	—	(2,500)
Excess tax benefit from employee stock plans	4,909	850	—
Net cash provided by (used in) financing activities	<u>(33,518)</u>	<u>100,323</u>	<u>105,090</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(474)</u>	<u>85</u>	<u>42</u>
Net increase (decrease) in cash and cash equivalents	(67,601)	57,649	94,920
Cash and cash equivalents at beginning of period	162,979	105,330	10,410
Cash and cash equivalents at end of period	<u>\$ 95,378</u>	<u>\$ 162,979</u>	<u>\$ 105,330</u>
Supplemental schedule of cash flow data:			
Cash paid for interest	\$ 6	\$ —	\$ 206
Cash paid for income taxes	11,994	464	79

See Notes to Consolidated Financial Statements

RIVERBED TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Riverbed Technology, Inc. was founded on May 23, 2002 and has developed a comprehensive solution to the fundamental problems of wide-area distributed computing. Our products enable our customers simply and efficiently to improve the performance of their applications and access to their data over wide area networks (WANs).

Public Offerings

In September 2006, we completed our initial public offering (IPO) of common stock in which we sold and issued 9,990,321 shares of our common stock, including 1,290,321 shares sold by us pursuant to the underwriters' exercise of their over-allotment option, at an issue price of \$9.75 per share. We raised a total of \$97.4 million in gross proceeds from the IPO, or approximately \$87.5 million in net proceeds after deducting underwriting discounts and commissions of \$6.8 million and other offering costs of \$3.1 million. Upon the closing of the IPO, all shares of convertible preferred stock outstanding automatically converted into 39,441,439 shares of common stock.

In February 2007, we completed a follow-on public offering of common stock in which we sold and issued 2,854,671 shares of our common stock, including 250,000 shares sold by us pursuant to the underwriters' partial exercise of their over-allotment option, at an issue price of \$32.50 per share. As a result of the offering, we raised a total of \$92.8 million in gross proceeds, or approximately \$87.7 million in net proceeds after deducting underwriting discounts and commissions of \$4.2 million and other offering costs of \$0.9 million.

Significant Accounting Policies

Basis of Financial Statements

The consolidated financial statements include our accounts and the accounts of our wholly owned subsidiaries. Intercompany transactions and balances have been eliminated.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Use of Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). These accounting principles require us to make certain estimates and judgments that can affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. Significant estimates and assumptions made by management include the determination of the fair value of stock awards issued, the allowance for doubtful accounts, inventory valuation and the accounting for income taxes, including the determination of the timing of the release of our valuation allowance related to our deferred tax asset balances. We believe that the estimates and judgments upon which we rely are reasonable based upon information available to us at the time that these estimates and judgments are made. To the extent there are material differences between these estimates and actual results, our consolidated financial statements will be affected.

RIVERBED TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Revenue Recognition

Our software is integrated on appliance hardware and is essential to the functionality of the product. As a result, we account for revenue in accordance with Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as amended by SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*, for all transactions involving the sale of software. We recognize product revenue when all of the following have occurred: (1) we have entered into a legally binding arrangement with a customer; (2) delivery has occurred, which is when product title transfers to the customer; (3) customer payment is deemed fixed or determinable and free of contingencies and significant uncertainties; and (4) collection is probable.

Product revenue consists of revenue from sales of our appliances and software licenses. Product sales include a perpetual license to our software. Product revenue is generally recognized upon transfer of title at shipment, assuming all other revenue recognition criteria are met. Shipping charges billed to customers are included in product revenue and the related shipping costs are included in cost of product revenue. Product revenue on sales to channel partners is recorded once we have received persuasive evidence of an end-user and all other revenue recognition criteria have been met.

Substantially all of our product sales have been sold in combination with support services, which consist of software updates and support. Software updates provide customers with rights to unspecified software product upgrades and to maintenance releases and patches released during the term of the support period. Support includes access to technical support personnel and content via the internet and telephone. Support services also include an extended warranty for the repair or replacement of defective hardware. Revenue for support services is recognized on a straight-line basis over the service contract term, which is typically one year.

We use the residual method to recognize revenue when a product agreement includes one or more elements to be delivered at a future date and vendor specific objective evidence (VSOE), of the fair value of all undelivered elements exists. Through December 31, 2008, in virtually all of our contracts, the only element that remained undelivered at the time of delivery of the product was support services. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the contract fee is recognized as product revenue. If evidence of the fair value of one or more undelivered elements does not exist, all revenue is generally deferred and recognized when delivery of those elements occurs or when fair value can be established. When the undelivered element for which we do not have a fair value is support, revenue for the entire arrangement is bundled and recognized ratably over the support period. VSOE of fair value for elements of an arrangement is based upon the normal pricing and discounting practices for those services when sold separately, and VSOE for support services is measured by the renewal rate offered to the customer.

Our fees are typically considered to be fixed or determinable at the inception of an arrangement, generally based on specific products and quantities to be delivered. Substantially all of our contracts do not include rights of return or acceptance provisions. To the extent that our agreements contain such terms, we recognize revenue once the acceptance provisions or right of return lapses. Payment terms to customers generally range from net 30 to 60 days. In the event payment terms are provided that differ from our standard business practices, the fees are deemed to not be fixed or determinable and revenue is recognized when the payments become due, provided the remaining criteria for revenue recognition have been met.

RIVERBED TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We assess the ability to collect from our customers based on a number of factors, including creditworthiness of the customer and past transaction history with the customer. If the customer is not deemed creditworthy, we defer all revenue from the arrangement until payment is received and all other revenue recognition criteria have been met.

Stock-Based Compensation

Prior to January 1, 2006, we accounted for employee stock options using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and Financial Accounting Standards Board Interpretation (FIN) 44, *Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB No. 25*, and had adopted the disclosure only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, and SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*.

In accordance with APB 25, stock-based compensation expense, which is a non-cash charge, resulted from stock option grants at exercise prices that, for financial reporting purposes, were deemed to be below the estimated fair value of the underlying common stock on the date of grant. As of December 31, 2005, deferred stock-based compensation relative to these options was approximately \$9.9 million, which is being amortized on a straight-line basis over the service period, which generally corresponds to the vesting period. As of December 31, 2008, total compensation cost related to stock options granted under APB 25 but not yet recognized was approximately \$965,000. During the years ended December 31, 2008, 2007 and 2006, we amortized \$2.0 million, \$2.3 million and \$2.4 million, respectively, of deferred compensation expense, net of reversals for terminations, related to these options.

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment*, using the prospective transition method, which requires us to apply the provisions of SFAS No. 123(R) to new awards granted, and to awards modified, repurchased or cancelled, after the effective date. New awards granted include stock options, restricted stock units (RSUs), and stock purchased under our Employee Stock Purchase Plan (the "Purchase Plan"). Under this method, stock-based compensation expense recognized beginning January 1, 2006 is based on a combination of the following: (a) the grant-date fair value of stock option, RSU and employee stock purchase plan awards granted or modified after January 1, 2006; and (b) the amortization of deferred stock-based compensation related to stock option awards granted prior to January 1, 2006, which was calculated using the intrinsic value method as previously permitted under APB 25.

Under SFAS No. 123(R), we estimated the fair value of stock options granted using the Black-Scholes option-pricing formula and a single option award approach. This model utilizes the estimated fair value of common stock and requires that, at the date of grant, we use the expected term of the option, the expected volatility of the price of our common stock, risk free interest rates and expected dividend yield of our common stock. This fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally four years.

On September 20, 2006, the effective date of the registration statement relating to our IPO, we implemented the Purchase Plan, which has a two year offering period and two purchases per year. The fair value of shares granted under the Purchase Plan is amortized over the two year offering period. Under the Purchase Plan, employees may purchase shares of common stock through payroll

RIVERBED TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

deductions at a price per share that is 85% of the lesser of the fair market value of our common stock as of the beginning of an applicable offering period or the applicable purchase date, with purchases generally every six months.

In the year ended December 31, 2008, we granted 856,700 RSUs. The fair value of RSUs is based on the closing market price of our common stock on the date of grant and the related compensation expense, net of estimated forfeitures, is amortized on a straight-line basis over the service period of four years.

The fair value of options granted and Purchase Plan shares was estimated at the date of grant using the following assumptions:

	Year ended December 31,		
	2008	2007	2006
Employee Stock Options (1)			
Expected life in years	4.5	4.5 – 6.0	4.5 – 6.1
Risk-free interest rate	2.5% – 3.1%	3.4% – 4.9%	4.6% – 5.1%
Volatility	50% – 51%	51% – 62%	62% – 81%
Weighted average fair value of grants	\$6.84	\$17.54	\$6.07
Purchase Plan			
Expected life in years	0.5 – 2.0	0.5 – 2.0	0.5 – 2.0
Risk-free interest rate	1.3% – 2.4%	4.0% – 5.0%	4.8% – 5.1%
Volatility	47% – 71%	38% – 46%	42% – 47%
Weighted average fair value of grants	\$5.09	\$11.36	\$15.20

(1) Assumptions used in 2008 exclude the assumptions used related to the modification accounting associated with the Tender Offer.

The expected term represents the period that stock-based awards are expected to be outstanding. For the years ended December 31, 2008, 2007 and 2006, we have elected to use the simplified method of determining the expected term of stock options as permitted by Securities and Exchange Commission (SEC) Staff Accounting Bulletin 107 and 110 due to our lack of sufficient historical exercise data. The computation of expected volatility for the year ended December 31, 2008 is based on the historical volatility of comparable companies from a representative peer group selected based on industry, financial and market capitalization data. As required by SFAS No. 123(R), management estimated expected forfeitures and is recognizing compensation costs only for those equity awards expected to vest.

During 2008, we filed a Tender Offer Statement on Schedule TO with the SEC pursuant to which we extended an offer to non-section 16 reporting employees to exchange up to an aggregate of 5,511,495 options to purchase shares of our common stock, whether vested or unvested. Options granted prior to May 1, 2008 with an exercise price greater than 120% of the closing market price on April 30, 2008 were eligible to be tendered pursuant to the offer. The closing market price on April 30, 2008 was \$13.67. In accordance with the Tender Offer (the "TO"), the number of new options issued was based on an exchange ratio of 0.85 new shares for each share exchanged based on the number of options tendered. A total of 5,246,325 options were tendered and cancelled, and a total of 4,459,392 options were granted on May 30, 2008 at \$17.95 per share. The new options retain the vesting schedule of the options exchanged. The TO is subject to modification accounting pursuant to SFAS No. 123(R) whereby the total compensation cost measured at the date of modification is the

RIVERBED TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

portion of the grant-date fair value of the original award for which the requisite service is expected to be rendered (or has already been rendered) at that date plus the incremental cost resulting from the modification. The incremental cost resulting from the modification is measured as the excess of the fair value of the modified award over the fair value of the original award immediately before its terms are modified. The incremental fair value of \$5.5 million for the new awards was computed using an expected life of 2.5 years to 3.6 years, a risk-free interest rate of 2.4% to 2.6% and a volatility of 48% to 49%. The \$407,000 incremental fair value of the vested awards was recognized as compensation expense on the modification date in 2008. The \$5.1 million incremental fair value of the unvested awards is being amortized over the remaining service period.

As of December 31, 2008, total compensation cost related to stock options granted under SFAS No. 123(R) to employees and directors but not yet recognized was approximately \$90.0 million, net of estimated forfeitures of \$16.3 million. This cost will be recognized on a straight-line basis over the remaining weighted-average period of 2.7 years. Amortization in the years ended December 31, 2008, 2007 and 2006 was \$36.9 million, \$18.9 million and \$4.3 million, respectively.

As of December 31, 2008, total unrecognized compensation cost related to nonvested RSUs granted under SFAS No. 123(R) to employees and directors but not yet recognized was approximately \$8.5 million, net of estimated forfeitures of \$1.8 million. This cost will be recognized over the remaining weighted-average period of 3.4 years. Amortization in the year ended December 31, 2008 was \$1.9 million and zero in the years ended December 31, 2007 and 2006, respectively.

As of December 31, 2008, there was \$10.0 million, net of estimated forfeitures, left to be amortized under our Purchase Plan, which will be amortized over the remaining Purchase Plan offering period, which is 19 months. Amortization in the years ended December 31, 2008, 2007 and 2006 was \$9.6 million, \$10.6 million and \$2.5 million, respectively.

In accordance with SFAS No. 123(R), we have presented the cash-related tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options as financing cash flows for the years ended December 31, 2008 and 2007. Tax benefits presented as financing cash flows for the years ended December 31, 2008, 2007 and 2006 were \$4.9 million, \$850,000 and zero, respectively. Tax benefits related to stock option exercises for options granted before the adoption of SFAS No. 123(R) are presented as operating cash flows.

Accounting for Income Taxes

We use the asset and liability method of accounting for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Under this method, income tax expenses or benefits are recognized for the amount of taxes payable or refundable for the current year and for deferred tax liabilities and assets for the expected tax consequences of temporary differences between the tax bases of assets and liabilities for financial reporting purposes and amounts recognized for income tax purposes. The measurement of current and deferred tax assets and liabilities are based on provisions of currently enacted tax laws. The effects of future changes in tax laws or rates are not contemplated.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income tax expense and tax contingencies in each of the tax jurisdictions in which we operate. This process involves estimating current income tax expense together with assessing temporary differences in the treatment of items for tax purposes versus financial accounting purposes that may create net deferred tax assets and liabilities. We rely on management estimates and assumptions in preparing our income tax provision.

RIVERBED TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In the year ended December 31, 2007 and in prior years, in accordance with SFAS No. 109, we recorded a full valuation allowance because of the uncertainty of the realization of the deferred tax assets. In assessing the need for a valuation allowance, we considered our historical levels of income, expectations of future taxable income and on going tax planning strategies.

As of December 31, 2008, management reevaluated the need for a full valuation allowance on its deferred tax assets as a result of cumulative profits generated in the most recent three year period as well as other positive evidence. As a result of this evaluation, we concluded that it is more likely than not that we will generate sufficient taxable income to realize a significant portion of our deferred tax assets. Accordingly, we reversed the valuation allowance against our domestic deferred tax assets and recorded a tax benefit of \$11.7 million in 2008. This benefit was partially offset by a provision for income taxes of \$3.4 million for 2008 related to federal, state and foreign taxes. We continue to maintain a valuation allowance on certain foreign deferred tax assets.

To the extent we conclude that future taxable income and ongoing tax planning strategies warrant the reversal of all or a portion of the remaining valuation allowance, which totaled \$764,000 as of December 31, 2008, a reduction to the valuation allowance would result in additional income tax benefit in such period.

We are subject to periodic audits by the Internal Revenue Service and other taxing authorities. These audits may challenge certain tax positions we have taken, such as the timing and amount of deductions and allocation of taxable income to the various tax jurisdictions. Income tax contingencies are accounted for in accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), and may require significant management judgment in estimating final outcomes. Actual results could differ materially from these estimates and could significantly affect the effective tax rate and cash flows in future years. As of December 31, 2008, we have \$1.6 million recorded for such contingencies and have recognized a decrease in our deferred tax asset of \$594,000. We have elected to record interest and penalties recognized in accordance with FIN 48 in the financial statements as a component of income taxes.

Inventory Valuation

Inventory consists of hardware and related component parts and is stated at the lower of cost (on a first-in, first-out basis) or market. A portion of our inventory relates to evaluation units located at customer locations, as some of our customers test our equipment prior to purchasing. Inventory that is obsolete or in excess of our forecasted demand is written down to its estimated realizable value based on historical usage, expected demand, and with respect to evaluation units, the historical conversion rate and age of the unit. Inherent in our estimates of market value in determining inventory valuation are estimates related to economic trends, future demand for our products, the timing of new product introductions and technological obsolescence of our products. Inventory write-downs are reflected as an increase to the cost of product and amounted to approximately \$6.0 million, \$1.1 million and \$1.5 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Allowances for Doubtful Accounts

We make judgments as to our ability to collect outstanding receivables and provide allowances for the portion of trade receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding receivables. For those receivables not specifically

RIVERBED TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

reviewed, provisions are provided at differing rates, based upon the age of the receivable. In determining these rates, we analyze our historical collection experience and current economic trends. The allowance for doubtful accounts was \$770,000 and \$734,000 at December 31, 2008 and 2007, respectively.

Software Development Costs

We account for costs incurred for computer software purchased or developed for internal use in accordance with Statement of position 98-1 (SOP 98-1), *Accounting for the Cost of Computer Software Developed or Obtained for Internal Use*. SOP 98-1 requires companies to capitalize qualifying computer software costs, which are incurred during the application development stage, and amortize them over the software's estimated useful life.

We capitalized \$3.5 million, \$2.1 million and \$1.3 million in internal use software during the years ended December 31, 2008, 2007 and 2006, respectively. Amortization expense related to these assets totaled \$1.1 million, \$343,000 and \$43,000 during the years ended December 31, 2008, 2007 and 2006, respectively.

Warranty Reserve

Upon shipment of products to our customers, we provide for the estimated cost to repair or replace products that may be returned under warranty. Our warranty period is typically 12 months from the date of shipment to the end-user customer for hardware and 90 days for software. For existing products, the reserve is estimated based on actual historical experience. For new products, the warranty reserve is based on historical experience of similar products until such time as sufficient historical data has been collected for the new product. Our warranty liability was approximately \$1.2 million and \$1.1 million at December 31, 2008 and 2007, respectively.

The following is a summary of the warranty reserve activity for the three years ended December 31, 2008:

(in thousands)	Year ended December 31,		
	2008	2007	2006
Beginning balance	\$ 1,089	\$ 735	\$ 138
Additions charged to operations	1,745	2,120	1,226
Warranty costs provided to customers	(1,629)	(1,766)	(629)
Ending balance	<u>\$ 1,205</u>	<u>\$ 1,089</u>	<u>\$ 735</u>

Cash and Cash Equivalents

We consider all highly liquid investments purchased with original maturities at the date of purchase of three months or less to be cash equivalents. Cash and cash equivalents are stated at cost, which approximates fair value.

Marketable Securities

We determine the appropriate classification of investments in marketable securities at the time of purchase in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and reevaluate such determination at each balance sheet date. The fair value of our

RIVERBED TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

marketable securities is determined in accordance with SFAS No. 157, *Fair Value Measurements*, which we adopted in 2008. SFAS No. 157 defines fair value as the exit price in the principal market in which we would transact. Securities, which are classified as available for sale at December 31, 2008, 2007 and 2006, are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity. Unrealized gains and losses to date have not been material. Realized gains and losses and declines in value judged by us to be other-than-temporary on securities available for sale are included as a component of interest income (expense). The cost of securities sold is based on the specific-identification method. Interest on securities classified as available for sale is included as a component of interest income.

Deferred Inventory Costs

When our products have been delivered, but the product revenue associated with the arrangement has been deferred as a result of not meeting the revenue recognition criteria in SOP 97-2, we also defer the related inventory costs for the delivered items in accordance with Accounting Research Bulletin 43, *Restatement and Revision of Accounting Research Bulletins*. Deferred inventory costs amounted to approximately \$2.2 million and \$2.3 million at December 31, 2008 and 2007, respectively, and are included in prepaid expenses and other current assets in the consolidated balance sheets.

Service Inventory

We hold service inventory that is used to repair or replace defective hardware reported by our customers who purchase support services. We classify service inventory as other long term assets. At December 31, 2008 and 2007 our service inventory balance was \$5.9 million and \$2.5 million, respectively. In the years ended December 31, 2008 and 2007, we recognized \$2.0 million and \$711,000, respectively, to cost of support and services relating to service inventory.

Concentrations of Risk

Financial instruments that are potentially subject to concentrations of credit risk consist primarily of cash, cash equivalents, marketable securities, and trade receivables. Investment policies have been implemented that limit investments to investment grade securities and the average portfolio maturity is less than six months. The risk with respect to trade receivables is mitigated by credit evaluations we perform on our customers and by the diversification of our customer base. No customer represented more than 10% of our revenue for the years ended December 31, 2008, 2007 or 2006.

We outsource the production of our inventory to third-party manufacturers. We rely on purchase orders or long-term contracts with our contract manufacturers. At December 31, 2008, we had no long-term contractual commitment with any manufacturer; however, we did have a 90 day commitment totaling \$10.8 million.

Foreign Currency Translation

While the majority of our revenue contracts are denominated in U.S. dollars, we incur certain operating expenses in various foreign currencies. The functional currency of our foreign operations is the local country's currency. Consequently, expenses of operations outside the U.S. are translated into U.S. dollars using average exchange rates for the period reported while assets and liabilities of operations outside the U.S. are translated into U.S. dollars using end of period exchange rates. Foreign currency translation adjustments not affecting net income are included in stockholders' equity

RIVERBED TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as a component of accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets. The revaluation effect of foreign currency fluctuations on intercompany balances is recorded to foreign currency gain (loss) and included in other income (expense) in the accompanying consolidated statements of operations. Foreign currency losses included in other income (expense) for the years ended December 31, 2008, 2007 and 2006, were \$253,000, \$349,000 and \$219,000, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of other comprehensive income (loss) and net income (loss). Other comprehensive income includes certain changes in equity that are excluded from net loss. Specifically, cumulative foreign currency translation adjustments and unrealized gains (losses), net of tax, on marketable securities are included in accumulated other comprehensive income (loss). Comprehensive income (loss) has been reflected in the consolidated statements of convertible preferred stock and stockholders' equity (deficit).

Accumulated other comprehensive income (loss) was (\$119,000) and \$53,000 at December 31, 2008 and 2007, respectively, resulting primarily from foreign currency translation adjustments.

Impairment of Long-Lived Assets

We review long-lived assets and identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. We assess these assets for impairment based on estimated undiscounted future cash flows from these assets. If the carrying value of the assets exceeds the estimated future undiscounted cash flows, a loss is recorded for the excess of the asset's carrying value over the fair value. To date we have not recognized any impairment loss for long-lived assets.

Advertising

Advertising costs are expensed as incurred. Advertising expenses were \$1.2 million, \$2.4 million and \$295,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

Research and Development

All costs to develop our products are expensed as incurred.

2. NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of vested common shares outstanding during the period. Diluted net income (loss) per common share is computed by giving effect to all potential dilutive common shares, including options, common stock subject to repurchase, warrants and convertible preferred stock.

RIVERBED TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table sets forth the computation of income (loss) per share:

(in thousands, except per share data)	Year ended December 31,		
	2008	2007	2006
Net income (loss)	\$ 10,601	\$ 14,798	\$ (15,845)
Weighted average common shares outstanding — basic	70,757	68,020	26,977
Dilutive effect of employee stock plans	2,510	5,224	—
Weighted average common shares outstanding — diluted	73,267	73,244	26,977
Basic net income (loss) per share	\$ 0.15	\$ 0.22	\$ (0.59)
Diluted net income (loss) per share	\$ 0.14	\$ 0.20	\$ (0.59)

The following weighted average outstanding options and RSUs were excluded from the computation of diluted net income (loss) per common share for the periods presented because including them would have had an anti-dilutive effect:

(in thousands)	Year ended December 31,		
	2008	2007	2006
Stock options and awards outstanding:			
In-the-money awards	—	—	35,728
Out-of-the-money awards	8,642	3,440	157
Total potential shares of common stock excluded from the computation of earning per share	8,642	3,440	35,885

Stock options outstanding with an exercise price lower than our average stock price for the periods presented, RSUs, and Plan Shares (“In-the-money awards”) that would otherwise have a dilutive effect under the treasury stock method, are excluded from the calculations of the diluted loss per share in periods with a loss since the effect in such periods would have been anti-dilutive.

Stock options outstanding with an exercise price higher than our average stock price for the periods presented, (“Out-of-the-money awards”) are excluded from the calculations of the diluted net income (loss) per share since the effect would have been anti-dilutive under the treasury stock method.

3. CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES

Cash, Cash Equivalents and Marketable Securities

Cash and cash equivalents consist primarily of highly liquid investments in money market mutual funds, government sponsored enterprise obligations, treasury bills, commercial paper and other money market securities with remaining maturities at date of purchase of 90 days or less. The carrying value of cash and cash equivalents at December 31, 2008 and 2007 was approximately \$95.4 million and \$163.0 million, and the weighted average interest rates were 2.6% and 5.0%, respectively. The carrying value approximates fair value at December 31, 2008 and 2007.

Marketable securities, which are classified as available for sale at December 31, 2008, are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity. Marketable securities consist of U.S. government sponsored enterprise obligations, treasury bills and corporate bonds and notes. As of December 31, 2008, the fair

RIVERBED TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

value of our marketable securities is determined in accordance with SFAS No. 157, which defines fair value as the exit price in the principal market in which we would transact. Under SFAS No. 157, level 1 instruments are valued based on quoted market prices in active markets and include treasury bills and money market funds. Level 2 instruments are valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency and include corporate bonds and notes and government sponsored enterprise obligations. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect our own assumptions in measuring fair value. We have no level 3 instruments.

As of December 31, 2008, the fair value measurements of our cash and cash equivalents, and marketable securities consisted of the following:

(in thousands)	Total	Level 1	Level 2
Corporate bonds and notes	\$ 16,783	\$ —	\$ 16,783
Money market funds	73,877	73,877	—
Cash	4,718	—	—
Total Cash and cash equivalents	<u>\$ 95,378</u>		
Corporate bonds and notes	\$ 33,487	\$ —	\$ 33,487
U.S. government backed securities	69,829	69,829	—
U.S. government-sponsored enterprise obligations	69,082	—	69,082
Total Marketable securities	<u>\$ 172,398</u>		

As of December 31, 2008 and 2007, the marketable securities are recorded at amortized cost which approximates fair market value. All investments mature in one year or less.

(in thousands)	Fair Value	Unrealized Gains	Unrealized Losses
Corporate bonds and notes	\$ 12,467	\$ 5	\$ —
Corporate bonds and notes	16,730	—	(23)
U.S. government-sponsored enterprise obligations	35,910	13	—
U.S. government-sponsored enterprise obligations	17,996	—	(10)
Total marketable securities at December 31, 2007	<u>\$ 83,103</u>	<u>\$ 18</u>	<u>\$ (33)</u>
Corporate bonds and notes	\$ 33,488	\$ 39	\$ —
U.S. government-sponsored enterprise obligations	52,815	203	—
U.S. government-sponsored enterprise obligations	16,267	—	(28)
U.S. government backed securities	65,839	259	—
U.S. government backed securities	3,989	—	(1)
Total marketable securities at December 31, 2008	<u>\$ 172,398</u>	<u>\$ 501</u>	<u>\$ (29)</u>

Proceeds from the sales of available-for-sale securities were \$161.5 million, \$39.0 million and zero in the years ended December 31, 2008, 2007 and 2006, respectively. Gross realized gains or losses recorded on those sales during 2008, 2007 and 2006, were insignificant. Net unrealized holding gains and (losses), net of tax, on available-for-sale securities in the amount of \$304,000, and (\$15,000) and zero as of December 31, 2008, 2007 and 2006, respectively, have been included in accumulated other comprehensive income (loss).

RIVERBED TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We evaluate investments with unrealized losses to determine if the losses are other than temporary. The gross unrealized losses were primarily due to changes in interest rates. We have determined that the gross unrealized losses at December 31, 2008 are temporary. In making this determination, we considered the financial condition and near-term prospects of the issuers, the magnitude of the losses compared to the investments' cost, the length of time the investments have been in an unrealized loss position and our intent and ability to hold the investment to maturity. Investments with unrealized losses have been in an unrealized loss position for less than a year.

Restricted Cash

Pursuant to certain lease agreements and as security for our merchant services agreement with our financial institution, we are required to maintain cash reserves, classified as restricted cash. Current restricted cash totaled \$55,000 and \$142,000 at December 31, 2008 and 2007, respectively. Long-term restricted cash totaled \$3.5 million at December 31, 2008 and 2007. Long-term restricted cash is included in Other assets in the consolidated balance sheets and consists primarily of funds held as collateral for letters of credit for the security deposit on the leases of our corporate headquarters. The long-term restricted cash is restricted until the end of the lease terms on August 30, 2010 and July 31, 2014.

4. INVENTORY

Inventories consist primarily of hardware and related component parts and evaluation units located at customer locations, and are stated at the lower of cost (on a first-in, first-out basis) or market. Inventory is comprised of the following:

(in thousands)	December 31,	
	2008	2007
Raw materials	\$ 544	\$ 513
Finished goods	7,545	4,086
Evaluation Units	2,548	4,814
Total	\$ 10,637	\$ 9,413

5. FIXED ASSETS

Fixed assets are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets, which is typically two to five years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset. Repair and maintenance costs are expensed as incurred.

RIVERBED TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fixed assets consisted of the following:

(in thousands)	Estimated Useful Lives	December 31,	
		2008	2007
Computer hardware and equipment	3 years	\$ 15,641	\$ 10,191
Leasehold improvements	2-5 years	9,432	8,039
Furniture and fixtures	3 years	4,332	3,796
Software	2-5 years	7,057	3,552
Total fixed assets		36,462	25,578
Accumulated depreciation and amortization		(14,469)	(6,752)
Fixed assets, net		\$ 21,993	\$ 18,826

Depreciation expense was \$7.9 million, \$4.2 million and \$1.8 million for the years ended December 31, 2008, 2007 and 2006, respectively.

6. OTHER ACCRUED LIABILITIES

Other accrued liabilities consisted of the following:

(in thousands)	December 31,	
	2008	2007
Deferred rent liability	\$ 4,783	\$ 3,059
Other accrued liabilities	8,559	6,322
Total other accrued liabilities	\$ 13,342	\$ 9,381

7. DEFERRED REVENUE

Deferred revenue consisted of the following:

(in thousands)	December 31,	
	2008	2007
Product	\$ 4,987	\$ 4,406
Support and services	53,174	29,073
Total deferred revenue	\$ 58,161	\$ 33,479
Reported as:		
Deferred revenue, current	\$ 45,194	\$ 26,845
Deferred revenue, non-current	12,967	6,634
Total deferred revenue	\$ 58,161	\$ 33,479

Deferred product revenue relates to arrangements where not all revenue recognition criteria have been met. Deferred support revenue represents customer payments made in advance for support contracts. Support contracts are typically billed on a per annum basis in advance and revenue is recognized ratably over the support period. Deferred revenue, non-current consists of customer payments made in advance for support contracts with terms of more than 12 months.

RIVERBED TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. GUARANTEES

Our agreements with customers, as well as our reseller agreements, generally include certain provisions for indemnifying customers and resellers and their affiliated parties against liabilities if our products infringe a third party's intellectual property rights. To date, we have not incurred any material costs as a result of such indemnifications and have not accrued any liabilities related to such obligations in our consolidated financial statements.

As permitted or required under Delaware law and to the maximum extent allowable under that law, we have certain obligations to indemnify our officers, directors and certain key employees for certain events or occurrences while the officer, director or employee is or was serving at our request in such capacity. These indemnification obligations are valid as long as the director, officer or employee acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. The maximum potential amount of future payments we could be required to make under these indemnification obligations is unlimited; however, we have a director and officer insurance policy that mitigates our exposure and enables us to recover a portion of any future amounts paid.

9. LEASE COMMITMENTS

We lease our facilities under non-cancelable operating lease agreements. Future minimum commitments for these operating leases in place as of December 31, 2008 with a remaining non-cancelable lease term in excess of one year are as follows:

(in thousands)	December 31, 2008
2009	\$ 5,721
2010	5,576
2011	6,453
2012	5,361
2013	4,099
Thereafter	2,278
Total	<u>\$ 29,488</u>

The terms of certain lease agreements provide for rental payments on a graduated basis. We recognize rent expense on the straight-line basis over the lease period and have accrued for rent expense incurred but not paid. Rent expense under operating leases was \$7.1 million, \$5.3 million and \$2.1 million for the years ended December 31, 2008, 2007 and 2006, respectively.

On September 26, 2006, we entered into an Agreement of Sublease (Sublease) for new corporate headquarters, and on March 21, 2007 entered into another lease agreement to expand our corporate headquarters as well as extend the term of the existing Sublease mentioned above. The terms of the leases are from February 1, 2007 and March 31, 2007, respectively, to July 31, 2014, with two five year renewal options. The aggregate minimum lease commitment for the combined leases is \$19.1 million and is included in the table above. We have entered into two letters of credit totaling \$3.0 million to serve as security deposits for the leases, which is included in other assets in the consolidated balance sheet.

RIVERBED TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

On July 3, 2007, we entered into a lease agreement for office space in Sunnyvale, California. The term of the lease is for five years and seven months, with two five year renewal options, commencing on January 1, 2008. The aggregate minimum lease commitment is \$4.0 million and is reflected in the table above. On July 2, 2007, we entered into a letter of credit in the amount of \$500,000 to serve as the security deposit for the lease.

10. COMMON STOCK

In July 2002, our board of directors adopted the 2002 Stock Plan (the "2002 Plan"). In September 2006, all shares of common stock available for grant under the 2002 Plan transferred to the 2006 Equity Incentive Plan (the "2006 Plan").

In April and May 2006, our board of directors approved the 2006 Plan, the Purchase Plan and the 2006 Director Stock Option Plan, which became effective upon our IPO.

The Plans provide for automatic replenishments as follows:

- 2006 Plan — increased on January 1 of each year for five years, beginning in 2007, by a number equal to the lesser of (i) 4,000,000 shares or (ii) 5% of the shares of common stock outstanding at that time or (iii) the number of shares determined by the Board.
- 2006 Employee Stock Purchase Plan — increased on January 1 of each year by a number of shares equal to the lesser of (i) 750,000 shares or (ii) 1% of the shares of common stock outstanding at that time or (iii) the number of shares determined by the Board.
- 2006 Director Option Plan — increased on January 1 of each year by 250,000 shares.

Options issued under our stock option plans are generally for periods not to exceed 10 years and are issued with an exercise price equal to the market value of our common stock on the date of grant, as determined by the last sale price of such stock on the Nasdaq Global Select Market. Options typically vest either 25% of the shares one year after the options' vesting commencement date and the remainder ratably on a monthly basis over the following three years, or ratably on a monthly basis over four years. Options granted under the 2002 Plan prior to May 31, 2006 have a maximum term of ten years, and options granted under the 2002 Plan on or after May 31, 2006 have a maximum term of seven years. Options granted under the 2006 Plan have a maximum term of seven years. Options granted under the 2006 Director Option Plan prior to March 4, 2008 have a maximum term of ten years, and options granted beginning March 4, 2008 have a maximum term of seven years.

Options granted under the 2002 Plan to the employees in the U.S. prior to March 28, 2006 were immediately exercisable. For options granted beginning March 28, 2006, optionees may only exercise vested shares. Any unvested stock issued upon early exercise under the 2002 Plan is subject to repurchase by us. Grants made pursuant to the 2006 Plan do not provide for the early exercise of options. At December 31, 2008 and 2007, there were 273,000 and 1,088,000 shares, respectively, subject to repurchase under all common stock repurchase agreements. The cash received from the sale of these shares is initially recorded as a liability and is subsequently reclassified to common stock as the shares vest. At December 31, 2008 and 2007, there was \$96,000 and \$346,000, respectively, recorded in accrued liabilities and other long-term liabilities related to the issuance of these shares.

In the year ended December 31, 2008, we awarded 856,700 RSUs to employees. The RSUs, which upon vesting entitle the holder to one share of common stock for each RSU, vest over four years. The fair value of the RSUs is based on our stock price on the date of grant, and compensation expense, net of estimated forfeitures, is recognized on a straight-line basis over the vesting period.

RIVERBED TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes information about nonvested stock awards as of December 31, 2008:

(in thousands, except per share amounts)	Number of Shares	Weighted Average Grant Date Fair Value
Balance, December 31, 2007	—	\$ —
Granted	857	\$ 14.38
Vested	—	\$ —
Canceled	(26)	\$ 14.38
Balance, December 31, 2008	<u>831</u>	<u>\$ 14.38</u>

As of December 31, 2008, 1,175,852 shares were available for grant under the 2006 Plan and the 2006 Director Option Plan.

The Purchase Plan became effective on the effective date of the registration statement relating to our IPO. Under the Purchase Plan, employees may purchase shares of common stock through payroll deductions at a price per share that is 85% of the lesser of the fair market value of our common stock as of the beginning of an applicable offering period or the applicable purchase date. Offering periods are generally 24 months with purchases generally every six months. Employees' payroll deductions may not exceed 15% of their compensation. Employees may purchase up to 2,000 shares per purchase period provided that the value of the shares purchased in any calendar year does not exceed IRS limitations. As of December 31, 2008, 1,230,856 shares were available under the Purchase Plan.

On April 21, 2008, our Board of Directors authorized a Share Repurchase Program (the "Program"), which authorizes us to repurchase and retire up to \$100.0 million of our outstanding common stock during a period not to exceed 24 months from the Board authorization date. The Program does not require us to purchase a minimum number of shares, and may be suspended, modified or discontinued at any time. For the year ended December 31, 2008, we repurchased 4,027,706 shares of common stock under this Program on the open market for an aggregate purchase price of approximately \$50.0 million, or an average of \$12.41 per share. The timing and amounts of these purchases were based on market conditions and other factors including price, regulatory requirements and capital availability. The share repurchases were financed by available cash balances and cash from operations.

The following table summarizes information about stock options activity under all stock option plans:

(in thousands, except per share amounts)	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Balance, December 31, 2007	10,835	\$ 21.36	6.54	\$ 105,213
Granted	9,440	\$ 16.58		
Exercised	(972)	\$ 3.08		
Canceled or expired	(6,018)	\$ 31.59		
Balance, December 31, 2008	<u>13,285</u>	<u>\$ 14.67</u>	<u>5.49</u>	<u>\$ 23,174</u>
Exercisable	<u>4,581</u>	<u>\$ 12.48</u>	<u>5.32</u>	<u>\$ 15,746</u>
Vested and expected to vest	<u>12,453</u>	<u>\$ 14.59</u>	<u>5.48</u>	<u>\$ 22,660</u>

RIVERBED TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The range of exercise prices for options outstanding at December 31, 2008 was \$0.05 to \$42.78.

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.05 – \$1.75	771	6.50	\$ 1.07	771	\$ 1.07
\$1.76 – \$12.42	3,224	5.50	\$ 6.73	1,424	\$ 5.92
\$12.43 – \$15.65	3,142	6.30	\$ 14.37	407	\$ 14.38
\$15.66 – \$17.95	4,831	4.55	\$ 17.80	1,507	\$ 17.90
\$17.96 – \$42.78	1,317	5.81	\$ 31.33	472	\$ 31.93
\$0.05 – \$42.78	<u>13,285</u>	5.49	\$ 14.67	<u>4,581</u>	\$ 12.48

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock option awards and the closing price of our common stock at December 31, 2008. During the years ended December 31, 2008, 2007 and 2006, the aggregate intrinsic value of stock option awards exercised was \$13.7 million, \$50.0 million and \$1.5 million, respectively, determined at the date of option exercise.

The weighted average grant-date fair value of options granted for the years ended December 31, 2008, 2007 and 2006 was \$6.84, \$17.54 and \$6.07, respectively.

The weighted average grant-date fair value of RSUs granted in the year ended December 31, 2008 was \$14.38. No RSUs were granted for the years ended December 31, 2007 and 2006. No RSUs granted in the year ended December 31, 2008 have vested.

11. INCOME TAXES

A geographical breakdown of income before provision for income taxes is shown in the following table:

(in thousands)	Year ended December 31,		
	2008	2007	2006
Domestic	\$ 8,022	\$ 23,340	\$ (16,362)
Foreign	(5,753)	(3,307)	820
Total	<u>\$ 2,269</u>	<u>\$ 20,033</u>	<u>\$ (15,542)</u>

RIVERBED TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The provision (benefit) for income tax expense consists of the following:

(in thousands)	Year ended December 31,		
	2008	2007	2006
Current:			
Federal	\$ 20,399	\$ 4,177	\$ —
State	2,972	768	—
Foreign	916	290	303
Total Current	\$ 24,287	\$ 5,235	\$ 303
Deferred:			
Federal	\$ (27,338)	\$ —	\$ —
State	(5,281)	—	—
Foreign	—	—	—
Total Deferred	\$ (32,619)	\$ —	\$ —
Total Provision (Benefit)	\$ (8,332)	\$ 5,235	\$ 303

Our effective tax rate was (367%), 26% and (2%) for the years ended December 31, 2008, 2007 and 2006, respectively. We have not provided U.S. taxes for our foreign earnings because such earnings are intended to be indefinitely reinvested outside the U.S.

The difference between the provision (benefit) for income taxes and the amount computed by applying the federal statutory income tax rate to income (loss) before taxes is as follows:

(in thousands)	Year ended December 31,		
	2008	2007	2006
Expected provision (benefit) at federal statutory rate*	\$ 793	\$ 7,011	\$ (5,284)
State taxes, net of federal benefit	(3,353)	521	(928)
Change in federal valuation allowance	(8,661)	(5,054)	3,751
Research and development tax credits	(1,012)	(1,534)	(830)
Foreign rate differential	2,890	1,449	24
Stock-based compensation expense	2,510	2,705	3,134
Manufacturing deduction	(898)	—	—
Non-deductible expenses	274	137	327
Other (net)	(875)	—	109
Total	\$ (8,332)	\$ 5,235	\$ 303

*35% for 2008 and 2007, 34% for 2006.

RIVERBED TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The components of the current and deferred tax assets and liabilities consist of the following:

(in thousands)	December 31,	
	2008	2007
Current deferred tax assets:		
Other accrued liabilities and reserves	\$ 5,093	\$ 1,297
Deferred revenue	—	231
Deferred compensation	1,092	719
Valuation allowance	—	(2,247)
Total current deferred tax assets	<u>\$ 6,185</u>	<u>\$ —</u>
Non-current deferred tax assets:		
Deferred compensation	\$ 17,733	\$ 5,121
Intangibles	5,217	274
Deferred revenue	3,230	—
Credit carryforwards	2,215	2,016
Other accrued liabilities and reserves	1,767	1,615
Net operating losses	—	185
Depreciation and amortization	(2,365)	584
Valuation allowance	(764)	(9,795)
Total non-current deferred tax assets	<u>\$ 27,033</u>	<u>\$ —</u>

As of December 31, 2008, we had net operating loss carryforwards for state and foreign income tax purposes of \$20.2 million and \$3.9 million, respectively. We also had state research and development tax credit carryforwards of approximately \$4.0 million. If not utilized, the state net operating loss will expire between 2013 and 2016. The state tax credit carryforwards and foreign net operating loss carryforwards do not expire.

We track the portion of our federal and state net operating loss carryforwards attributable to stock option benefits in a separate memo account pursuant to SFAS No. 123(R). Therefore, these amounts are not included in gross or net deferred tax assets. Pursuant to SFAS No. 123(R), footnote 82, the benefit of these net operating loss and tax credit carryforwards will only be recorded to equity when they reduce cash taxes payable. We elected to use the "with-and-without" approach for utilizing the tax benefits of stock option exercises under SFAS No. 123(R). These benefits would result in a credit to additional paid-in-capital when they reduce income taxes payable. In 2008, we recognized a reduction in taxes payable for the tax benefit of stock option exercises of \$11.5 million.

Uncertain Income Tax Positions

Effective January 1, 2007, we adopted FIN 48. A reconciliation of the beginning and ending amount of the consolidated liability for unrecognized income tax benefits during the year is as follows:

(in thousands)	2008	2007
Beginning Balance	\$ 298	\$ —
Additions for tax positions of prior years	1,766	298
Additions for tax positions related to current years	516	—
Reductions for tax positions of prior year	—	—
Settlements	—	—
Ending Balance	<u>\$ 2,580</u>	<u>\$ 298</u>

RIVERBED TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Included in the unrecognized tax benefits of \$2.6 million at December 31, 2008 was approximately \$1.8 million of tax benefits that, if recognized, would reduce our annual effective tax rate. We did not accrue for any interest and penalty associated with the uncertain tax position due to our prior net operating losses. Over the next 12 months, we expect our unrecognized tax benefits to be reduced by \$820,000, upon receiving approval for a change in tax method of accounting, of which no part will reduce our annual effective tax rate. The statute of limitations for U.S. federal, state, and United Kingdom (UK) tax purposes are generally three, four, and three years respectively; however, we continue to carryover tax attributes prior to these periods for federal and state purposes, which would still be open for examination by the respective tax authorities. Accordingly, all years since our inception are open to tax examinations for federal and state purposes. Our UK tax returns from 2005 to the present remain open for examination.

12. SEGMENT INFORMATION

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our Chief Executive Officer. Our Chief Executive Officer reviews financial information presented on a consolidated basis, accompanied by information about revenue by geographic region for purposes of allocating resources and evaluating financial performance. We have one business activity and there are no segment managers who are held accountable for operations, operating results and plans for levels or components below the consolidated unit level. Accordingly, we are considered to be in a single reporting segment and operating unit structure.

Long-lived assets outside of the U.S. represented \$1.4 million and \$1.2 million for the years ended December 31, 2008 and 2007, respectively. Revenue by geography is based on the billing address of the customer. The following table sets forth revenue by geographic area:

Revenue

(in thousands)	For the year ended December 31,		
	2008	2007	2006
United States	\$ 193,190	\$ 148,171	\$ 65,675
Europe, Middle East and Africa	87,446	49,571	11,949
Rest of the World	52,713	38,664	12,583
Total revenue	\$ 333,349	\$ 236,406	\$ 90,207

13. EMPLOYEE BENEFIT PLAN

We have a 401(k) plan covering all eligible employees. We are not required to contribute to the plan and have made no contributions through December 31, 2008.

14. LEGAL MATTERS

During the year ended December 31, 2008, we entered into a mutual release and settlement agreement (the "*Settlement Agreement*") with Quantum Corporation ("*Quantum*") and certain affiliates of Quantum, pursuant to which we jointly executed and filed dismissals of patent infringement actions

RIVERBED TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

brought in the United States District Court for the Northern District of California. Pursuant to the terms of the Settlement Agreement, we paid Quantum a lump sum of \$11.0 million, and entered into a perpetual covenant not to sue each other or certain other parties related to the patents in question and certain patents related to data de-duplication as well as a three-year covenant not to file any patent infringement lawsuits against each other or certain other parties. In addition, we released each other from any and all claims, demands, losses, liabilities and causes of action relating to any infringement of any patent based on acts occurring prior to the date of the Settlement Agreement. Based on the terms of the Settlement Agreement we recorded operating expense of \$11.0 million during 2008, which was recorded as Other charges in our consolidated statements of operations.

From time to time, we are involved in various legal proceedings, claims and litigation arising in the ordinary course of business. There are no currently pending legal proceedings at December 31, 2008 that, in the opinion of management, might have a material adverse effect on our financial position, results of operations or cash flows.

15. RELATED PARTIES

No significant related party transactions occurred in the year ended December 31, 2008.

16. NEW ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) will significantly change the accounting for business combinations. Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. It also amends the accounting treatment for certain specific items including acquisition costs and non controlling minority interests and includes a substantial number of new disclosure requirements. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is in the fiscal year beginning after December 15, 2008.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. For financial assets and liabilities, SFAS No. 157 was effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. See "Note 2—Cash, Cash Equivalents, and Marketable Securities" for further discussion. In February 2008, the FASB issued Staff Position (FSP) No. 157-2 which delays the effective date of SFAS No. 157 one year for all nonfinancial assets and nonfinancial liabilities, except those recognized or disclosed at fair value in the financial statements on a recurring basis. FSP 157-2 is effective for us beginning January 1, 2009.

Those assets and liabilities measured at fair value under SFAS No. 157 in Q1 2008 did not have a material impact on our consolidated financial statements. In accordance with FSP 157-2, we will measure the remaining assets and liabilities beginning Q1 2009. We do not expect the adoption of SFAS No. 157, as amended by FSP 157-2, will have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets*. FSP No. 142-3 amends the factors that should be considered in developing renewal or

RIVERBED TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. FSP No. 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. We do not expect the adoption of FSP No. 142-3 will have a material impact on our consolidated financial statements.

17. SUBSEQUENT EVENTS

On January 20, 2009, we entered into an Agreement of Merger with Maple Acquisition Sub, Inc., our wholly owned subsidiary (“Merger Sub”), Mazu Networks, Inc. (“Mazu”), and an agent for the stockholders of Mazu, pursuant to which, upon the terms and subject to the conditions set forth therein: (a) Merger Sub will merge with and into Mazu (the “Merger”), with Mazu continuing as the surviving corporation and as a wholly-owned subsidiary of Riverbed; and (b) we will: (i) acquire all of the outstanding securities of Mazu; (ii) made payments totaling approximately \$25.0 million in cash promptly following the closing; and (iii) will potentially make payments totaling up to \$22.0 million in cash based on achievement of certain bookings targets for the one-year period from April 1, 2009 through March 31, 2010. The closing of the Merger occurred on February 19, 2009.

Mazu helps organizations manage, secure and optimize the availability and performance of global applications. The acquisition allows us to meet enterprise and service provider customer demands by extending our suite of WAN optimization products to include global application performance, reporting and analytics.

On February 18, 2009, our Board of Directors adopted the Riverbed Technology, Inc. 2009 Inducement Equity Incentive Plan (the “Inducement Plan”), and reserved 1,500,000 shares of common stock for future issuance thereunder. The objective of the Inducement Plan is to provide incentives to attract, retain and motivate eligible persons whose potential contributions are important to promote our long-term success and the creation of stockholder value. The Inducement Plan is intended to comply with NASDAQ Rule 4350(i)(1)(A)(iv), which governs granting certain awards as a material inducement to an individual entering into employment with us. The Inducement Plan will be used to grant options to Mazu employees that are joining Riverbed following the closing of the Merger, and may be used for new hire equity grants should our Board or Compensation Committee of the Board determine to do so in the future.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no disagreements with accountants on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures required to be reported under this item.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2008, the end of the period covered by this Annual Report on Form 10-K. This controls evaluation was done under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act.

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed such that information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Based upon the controls evaluation, our CEO and CFO have concluded that as of December 31, 2008, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission and to ensure that material information relating to us and our consolidated subsidiaries is made known to management, including the CEO and CFO.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, management used the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on our assessment, using those criteria, our management concluded that, as of December 31, 2008, our internal control over financial reporting was effective. The attestation report concerning the effectiveness of our internal control over financial reporting as of December 31, 2008, issued by Ernst & Young, LLP, Independent Registered Public Accounting Firm, appears in Part II, Item 8 of the Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fourth quarter of 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Internal control over financial reporting means a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

[Table of Contents](#)

Inherent Limitations of Internal Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Item 9B. Other Information

None.

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference to Riverbed's Proxy Statement for its 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2008.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to Riverbed's Proxy Statement for its 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2008.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference to Riverbed's Proxy Statement for its 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2008.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to Riverbed's Proxy Statement for its 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2008.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference to Riverbed's Proxy Statement for its 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2008.

Part IV

Item 15. Exhibits and Financial Statement Schedules**(a) Financial Statements**

The financial statements filed as part of this report are listed on the index to financial statements on page .

(b) Financial Statement Schedules

The following financial statement schedule is filed as a part of this Annual Report on Form 10-K

Schedule II – Valuation and Qualifying Accounts

SCHEDULE II
Valuation and Qualifying Accounts

(in thousands)	Year ended December 31,		
	2008	2007	2006
Trade Receivable Allowance			
Beginning balance	\$ 734	\$ 472	\$ 90
Additions charged to operations	95	461	474
Write-offs	(59)	(199)	(92)
Ending balance	\$ 770	\$ 734	\$ 472

All other schedules are omitted because they are not required or the required information is shown in the financial statements or notes thereto.

(c) Exhibits

The following exhibits are incorporated by reference or filed herewith.

Exhibit No.	Description
3.1	Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.2 of Registrant's Form S-1 Registration No. 333-133437).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K filed with the SEC on December 18, 2008).
4.1	Reference is made to Exhibits 3.1 and 3.2.
4.2	Form of Common Stock certificate (incorporated by reference to Exhibit 4.2 of Registrant's Form S-1 Registration No. 333-133437).
4.3	Amended and Restated Investors' Rights Agreement, dated February 10, 2006, by and among the Registrant and the investors listed on the signature pages thereto (incorporated by reference to Exhibit 4.3 of Registrant's Form S-1 Registration No. 333-133437).
10.1	Form of Indemnification Agreement between the Registrant and each of its directors, executive officers and certain key employees (incorporated by reference to Exhibit 10.1 of Registrant's Form S-1 Registration No. 333-133437).

Table of Contents

<u>Exhibit No.</u>	<u>Description</u>
10.2	Riverbed Technology, Inc. 2002 Stock Plan (incorporated by reference to Exhibit 10.2 of Registrant's Form S-1 Registration No. 333-133437). *
10.3	Form of 2002 Stock Plan Stock Option Agreement (incorporated by reference to Exhibit 10.3 of Registrant's Form S-1 Registration No. 333-133437). *
10.4	Form of 2002 Stock Plan Stock Option Agreement (Officers and Key Employees) (incorporated by reference to Exhibit 10.4 of Registrant's Form S-1 Registration No. 333-133437). *
10.5	Form of 2002 Stock Plan Stock Option Agreement (Installment Vesting) (incorporated by reference to Exhibit 10.34 of Registrant's Form S-1 Registration No. 333-133437). *
10.6	Form of 2002 Stock Plan Stock Option Agreement (Officers and Key Employees) (Installment Vesting) (incorporated by reference to Exhibit 10.35 of Registrant's Form S-1 Registration No. 333-133437). *
10.7	2006 Equity Incentive Plan and form of agreement thereunder (incorporated by reference to Exhibit 10.5 of Registrant's Form S-1 Registration No. 333-133437). *
10.8	Form of 2006 Equity Incentive Plan Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed with the SEC on May 7, 2008).*
10.9	Form of 2006 Equity Incentive Plan Notice of Stock Option Grant and Stock Option Agreement (incorporated by reference to Exhibit 10.42 of Registrant's Quarterly Report on Form 10-Q, Registration No. 001-33023, filed with the SEC on July 30, 2007). *
10.10	2006 Director Option Plan and forms of agreements thereunder (incorporated by reference to Exhibit 10.6 of Registrant's Form S-1 Registration No. 333-133437). *
10.11	Amendment No. 1 to 2006 Director Option Plan, dated March 4, 2008. *
10.12	Form of 2006 Director Option Plan Notice of Stock Option Grant (incorporated by reference to Exhibit 10.45 of Registrant's Quarterly Report on Form 10-Q, Registration No. 001-33023, filed with the SEC on October 25, 2007). *
10.13	2006 Employee Stock Purchase Plan, as amended on April 11, 2007. *
10.14	Riverbed Technology, Inc. Management Bonus Plan (incorporated by reference to Exhibit 10.43 of Registrant's Quarterly Report on Form 10-Q, Registration No. 001-33023, filed with the SEC on July 30, 2007).*
10.15	Management Bonus Plan, as amended December 15, 2008.*
10.16	Amended and Restated Change in Control Severance Agreement, dated as of December 19, 2008, with Jerry M. Kennelly. *
10.17	Amended and Restated Change in Control Severance Agreement, dated as of December 19, 2008, with Randy S. Gottfried. *
10.18	Offer Letter with David M. Peranich, dated July 7, 2006 (incorporated by reference to Exhibit 10.39 of Registrant's Form S-1 Registration No. 333-133437). *
10.19	Agreement of Sublease dated September 26, 2006 between PricewaterhouseCoopers LLP and the Registrant (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed on October 2, 2006).
10.20	Lease agreement for 199 Fremont Street dated March 21, 2007 between GLL Fremont Street Partners, Inc. and the Registrant (incorporated by reference to Exhibit 10.22 of Registrant's Annual Report on Form 10-K, Registration No. 001-33023, filed with the SEC on February 15, 2008).

Table of Contents

<u>Exhibit No.</u>	<u>Description</u>
10.21	Lease agreement dated June 28, 2007 between W2005 RPS Realty, L.L.C. and the Registrant (incorporated by reference to Exhibit 10.44 of Registrant's Quarterly Report on Form 10-Q, Registration No. 001-33023, filed with the SEC on July 30, 2007).
14.1	Code of Business Conduct, as adopted on April 12, 2006.
14.2	Code of Ethics for Chief Executive Officer and Senior Financial Officers, as adopted on April 12, 2006.
21.1	List of subsidiaries.
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.

The certification attached as Exhibit 32.1 that accompanies this Annual Report on Form 10-K is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Riverbed Technology, Inc. under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date of this Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing.

* Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 23, 2009.

RIVERBED TECHNOLOGY, INC.

By: /s/ JERRY M. KENNELLY
Jerry M. Kennelly,
President and Chief Executive Officer

RIVERBED TECHNOLOGY, INC.

By: /s/ RANDY S. GOTTFRIED
Randy S. Gottfried,
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ JERRY M. KENNELLY</u> Jerry M. Kennelly	President, Chief Executive Officer and Chairman <i>(Principal Executive Officer)</i>	February 23, 2009
<u>/s/ RANDY S. GOTTFRIED</u> Randy S. Gottfried	Chief Financial Officer <i>(Principal Financial and Accounting Officer)</i>	February 23, 2009
<u>/s/ STEVEN McCANNE</u> Steven McCanne	Director	February 23, 2009
<u>/s/ MARK A. FLOYD</u> Mark A. Floyd	Director	February 23, 2009
<u>/s/ MICHAEL R. KOUREY</u> Michael R. Kourey	Director	February 23, 2009
<u>/s/ STANLEY J. MERESMAN</u> Stanley J. Meresman	Director	February 23, 2009
<u>/s/ CHRISTOPHER J. SCHAEPE</u> Christopher J. Schaepe	Director	February 23, 2009
<u>/s/ JAMES R. SWARTZ</u> James R. Swartz	Director	February 23, 2009

**AMENDMENT NO. 1 TO
RIVERBED TECHNOLOGY, INC. 2006 DIRECTOR OPTION PLAN**

This Amendment No. 1 to the Riverbed Technology, Inc. 2006 Director Option Plan (the "*Plan*") by Riverbed Technology, Inc. (the "*Company*") is effective March 4, 2008.

W I T N E S S E T H:

WHEREAS, the Company previously adopted the Plan for the benefit of eligible non-employee directors;

WHEREAS, pursuant to Section 8.2 of the Plan, the Company's Board of Directors (the "*Board*") may amend the Plan at any time;

WHEREAS, the Company desires to reduce the term of options issued under the Plan from ten (10) years to seven (7) years; and

WHEREAS, the Board has approved of this Amendment No. 1 to the Plan.

NOW, THEREFORE, effective March 4, 2008, the Plan is hereby amended by replacing the existing Section 4.6 of the Plan in its entirety with the following new Section 4.6:

"**4.6 Term.** All Options granted to a Non-Employee Director under this Article 4 shall terminate on the earliest of (a) the 7th anniversary of the date of grant if granted on or after March 4, 2008 or the 10th anniversary of the date of grant if granted prior to March 4, 2008 or (b) the date 12 months after the termination of such Non-Employee Director's Service for any reason."

IN WITNESS WHEREOF, the Company, by its duly authorized officer, has executed this Amendment No. 1 to the Plan as of the day and year set forth above.

RIVERBED TECHNOLOGY, INC.

/s/ Randy S. Gottfried

By: Randy S. Gottfried
Title: CFO

RIVERBED TECHNOLOGY, INC.
2006 EMPLOYEE STOCK PURCHASE PLAN
ADOPTED EFFECTIVE SEPTEMBER 20, 2006
AMENDED AND RESTATED EFFECTIVE APRIL 11, 2007

TABLE OF CONTENTS

	<u>Page</u>
SECTION 1. PURPOSE OF THE PLAN	1
SECTION 2. ADMINISTRATION OF THE PLAN	1
(a) Committee Composition	1
(b) Committee Responsibilities	1
SECTION 3. STOCK OFFERED UNDER THE PLAN	1
(a) Authorized Shares	1
(b) Anti-Dilution Adjustments	1
(c) Reorganizations	1
SECTION 4. ENROLLMENT AND PARTICIPATION	2
(a) Offering Periods	2
(b) Accumulation Periods	2
(c) Enrollment	2
(d) Duration of Participation	2
(e) Applicable Offering Period	2
SECTION 5. EMPLOYEE CONTRIBUTIONS	3
(a) Commencement of Payroll Deductions	3
(b) Amount of Payroll Deductions	3
(c) Changing Withholding Rate	3
SECTION 6. WITHDRAWAL FROM THE PLAN	3
(a) Withdrawal	3
(b) Enrollment After Withdrawal	4
SECTION 7. CHANGE IN EMPLOYMENT STATUS	4
(a) Termination of Employment	4
(b) Leave of Absence	4
(c) Death	4
SECTION 8. PLAN ACCOUNTS AND PURCHASE OF SHARES	4
(a) Plan Accounts	4
(b) Purchase Price	4
(c) Number of Shares Purchased	4
(d) Available Shares Insufficient	5
(e) Issuance of Stock	5
(f) Tax Withholding	5
(g) Unused Cash Balances	5
(h) Stockholder Approval	5

SECTION 9. LIMITATIONS ON STOCK OWNERSHIP	6
(a) Five Percent Limit	6
(b) Dollar Limit	6
SECTION 10. RIGHTS NOT TRANSFERABLE	7
SECTION 11. NO RIGHTS AS AN EMPLOYEE	7
SECTION 12. NO RIGHTS AS A STOCKHOLDER	7
SECTION 13. SECURITIES LAW REQUIREMENTS	7
SECTION 14. AMENDMENT OR DISCONTINUANCE	7
(a) General Rule	7
(b) Impact on Purchase Price	8
SECTION 15. DEFINITIONS	8
(a) Accumulation Period	8
(b) Board	8
(c) Code	8
(d) Committee	8
(e) Company	8
(f) Compensation	8
(g) Corporate Reorganization	9
(h) Eligible Employee	9
(i) Exchange Act	9
(j) Fair Market Value	9
(k) IPO	10
(l) Offering Period	10
(m) Participant	10
(n) Participating Company	10
(o) Plan	10
(p) Plan Account	10
(q) Purchase Price	10
(r) Stock	10
(s) Subsidiary	10

RIVERBED TECHNOLOGY, INC.

2006 EMPLOYEE STOCK PURCHASE PLAN

SECTION 1. PURPOSE OF THE PLAN.

The Board adopted the Plan effective as of the date of the IPO. The purpose of the Plan is to provide Eligible Employees with an opportunity to increase their proprietary interest in the success of the Company by purchasing Stock from the Company on favorable terms and to pay for such purchases through payroll deductions. The Plan is intended to qualify for favorable tax treatment under section 423 of the Code.

SECTION 2. ADMINISTRATION OF THE PLAN.

(a) **Committee Composition.** The Committee shall administer the Plan. The Committee shall consist exclusively of one or more directors of the Company, who shall be appointed by the Board.

(b) **Committee Responsibilities.** The Committee shall interpret the Plan and make all other policy decisions relating to the operation of the Plan. The Committee may adopt such rules, guidelines and forms as it deems appropriate to implement the Plan. The Committee's determinations under the Plan shall be final and binding on all persons.

SECTION 3. STOCK OFFERED UNDER THE PLAN.

(a) **Authorized Shares.** The number of shares of Stock available for purchase under the Plan shall be 1,500,000 (subject to adjustment pursuant to Subsection (b) below). On January 1 of each year, commencing with January 1, 2007, the aggregate number of shares of Stock available for purchase during the life of the Plan shall automatically be increased by a number equal to the lowest of (i) 1% of the total number of shares of Stock then outstanding, (ii) 750,000 shares of Stock (subject to adjustment pursuant to Subsection (b) below) or (iii) the number of shares of Stock determined by the Board.

(b) **Anti-Dilution Adjustments.** The aggregate number of shares of Stock offered under the Plan, the number of shares of Stock set forth in Subsection (a)(ii) above, the 2,000-share limitation described in Section 8(c) and the price of shares that any Participant has elected to purchase shall be adjusted proportionately for any increase or decrease in the number of outstanding shares of Stock resulting from a subdivision or consolidation of shares or the payment of a stock dividend, any other increase or decrease in such shares effected without receipt or payment of consideration by the Company, the distribution of the shares of a Subsidiary to the Company's stockholders, or a similar event.

(c) **Reorganizations.** Any other provision of the Plan notwithstanding, immediately prior to the effective time of a Corporate Reorganization, the Offering Period and

Accumulation Period then in progress shall terminate and shares shall be purchased pursuant to Section 8, unless the Plan is continued or assumed by the surviving corporation or its parent corporation. The Plan shall in no event be construed to restrict in any way the Company's right to undertake a dissolution, liquidation, merger, consolidation or other reorganization.

SECTION 4. ENROLLMENT AND PARTICIPATION.

(a) **Offering Periods.** While the Plan is in effect, the Committee shall determine the duration and commencement date of each Offering Period, provided that an Offering Period shall in no event be longer than 27 months. Offering Periods may be consecutive or overlapping.

(b) **Accumulation Periods.** While the Plan is in effect, the Committee shall determine the duration and commencement date of each Accumulation Period, provided that an Accumulation Period shall in no event end later than the close of the Offering Period in which it begins. Accumulation Periods shall be consecutive.

(c) **Enrollment.** In the case of any individual who qualifies as an Eligible Employee on the first day of any Offering Period, he or she may elect to become a Participant on such day by filing the prescribed enrollment form with the Company. The enrollment form shall be filed at the prescribed location not later than the commencement date of such Offering Period.

(d) **Duration of Participation.** Once enrolled in the Plan, a Participant shall continue to participate in the Plan until he or she:

- (i) Reaches the end of the Accumulation Period in which his or her employee contributions were discontinued under Section 5(c) or 9(b);
- (ii) Withdraws from the Plan under Section 6(a); or
- (iii) Ceases to be an Eligible Employee.

A Participant whose employee contributions were discontinued automatically under Section 9(b) shall automatically resume participation at the beginning of the earliest Accumulation Period ending in the next calendar year, if he or she then is an Eligible Employee. In all other cases, a former Participant may again become a Participant, if he or she then is an Eligible Employee, by following the procedure described in Subsection (c) above.

(e) **Applicable Offering Period.** For purposes of calculating the Purchase Price under Section 8(b), the applicable Offering Period shall be determined as follows:

- (i) Once a Participant is enrolled in the Plan for an Offering Period, such Offering Period shall continue to apply to him or her until the earliest of (A) the end of such Offering Period, (B) the end of his or her participation under Subsection (d) above or (C) enrollment for a subsequent Offering Period under Paragraph (ii), (iii) or (iv) below, provided that the Committee has determined that there will be a subsequent Offering Period.

(ii) In the event that the Fair Market Value of Stock on the first trading day in the Offering Period for which the Participant is enrolled is higher than on the first trading day in any subsequent Offering Period, the Participant shall automatically be enrolled for such subsequent Offering Period.

(iii) If Section 14(b) applies, the Participant shall automatically be enrolled for a new Offering Period.

(iv) Any other provision of the Plan notwithstanding, the Company (at its sole discretion) may determine prior to the commencement of any new Offering Period that all Participants shall be enrolled for such new Offering Period.

(v) When a Participant reaches the end of an Offering Period but his or her participation is to continue, then such Participant shall automatically be enrolled for the Offering Period that commences immediately after the end of the prior Offering Period.

SECTION 5. EMPLOYEE CONTRIBUTIONS.

(a) **Commencement of Payroll Deductions.** A Participant may purchase shares of Stock under the Plan solely by means of payroll deductions. Payroll deductions shall commence as soon as reasonably practicable after the Company has received the prescribed enrollment form.

(b) **Amount of Payroll Deductions.** An Eligible Employee shall designate on the enrollment form the portion of his or her Compensation that he or she elects to have withheld for the purchase of Stock. Such portion shall be a whole percentage of the Eligible Employee's Compensation, but not less than 1% nor more than 15%.

(c) **Changing Withholding Rate.** When the Committee adopts an Offering Period under Section 4(a), it shall also prescribe the rules that will apply if a Participant wishes to change his or her rate of payroll withholding during such Offering Period. A Participant may change his or her rate of payroll withholding, only if and to the extent permitted by such rules, by filing a new enrollment form with the Company at the prescribed location. The new withholding rate shall be effective as soon as reasonably practicable after the Company has received such form. The rules prescribed by the Committee may also provide that a Participant's rate of payroll withholding will automatically revert to a prior rate as of the commencement date of a new Accumulation Period.

SECTION 6. WITHDRAWAL FROM THE PLAN.

(a) **Withdrawal.** A Participant may elect to withdraw from the Plan by filing the prescribed form with the Company at the prescribed location at any time before the last day of an Accumulation Period. As soon as reasonably practicable thereafter, payroll deductions shall cease and the entire amount credited to the Participant's Plan Account shall be refunded to him or her in cash, without interest. No partial withdrawals shall be permitted.

(b) **Enrollment After Withdrawal.** A former Participant who has withdrawn from the Plan shall not be a Participant until he or she again enrolls in the Plan under Section 4(c). Enrollment may be effective only at the commencement of an Offering Period.

SECTION 7. CHANGE IN EMPLOYMENT STATUS.

(a) **Termination of Employment.** Termination of employment as an Eligible Employee for any reason, including death, shall be treated as an automatic withdrawal from the Plan under Section 6(a). (A transfer from one Participating Company to another shall not be treated as a termination of employment.)

(b) **Leave of Absence.** For purposes of the Plan, employment shall not be deemed to terminate when the Participant goes on a military leave, a sick leave or another *bona fide* leave of absence, if the leave was approved by the Company in writing. Employment, however, shall be deemed to terminate 90 days after the Participant goes on a leave, unless a contract or statute guarantees his or her right to return to work. Employment shall be deemed to terminate in any event when the approved leave ends, unless the Participant immediately returns to work.

(c) **Death.** In the event of the Participant's death, the amount credited to his or her Plan Account shall be paid to a beneficiary designated by him or her for this purpose on the prescribed form or, if none, to the Participant's estate. Such form shall be valid only if it was filed with the Company at the prescribed location before the Participant's death.

SECTION 8. PLAN ACCOUNTS AND PURCHASE OF SHARES.

(a) **Plan Accounts.** The Company shall maintain a Plan Account on its books in the name of each Participant. Whenever an amount is deducted from the Participant's Compensation under the Plan, such amount shall be credited to the Participant's Plan Account. Amounts credited to Plan Accounts shall not be trust funds and may be commingled with the Company's general assets and applied to general corporate purposes. No interest shall be credited to Plan Accounts.

(b) **Purchase Price.** The Purchase Price for each share of Stock purchased at the close of an Accumulation Period shall be the lower of:

(i) 85% of the Fair Market Value of such share on the first trading day in the applicable Offering Period (as determined under Section 4(e)) or, in the case of the first Offering Period under the Plan, 85% of the price at which one share of Stock is offered to the public in the IPO; or

(ii) 85% of the Fair Market Value of such share on the last trading day in such Accumulation Period.

(c) **Number of Shares Purchased.** As of the last day of each Accumulation Period, each Participant shall be deemed to have elected to purchase the number of shares of Stock calculated in accordance with this Subsection (c), unless the Participant has previously

elected to withdraw from the Plan in accordance with Section 6(a). The amount then in the Participant's Plan Account shall be divided by the Purchase Price, and the number of shares that results shall be purchased from the Company with the funds in the Participant's Plan Account. The foregoing notwithstanding, no Participant shall purchase more than 2,000 shares of Stock with respect to any Accumulation Period nor more than the amounts of Stock set forth in Sections 3(a) and 9(b). The Committee may determine with respect to all Participants that any fractional share, as calculated under this Subsection (c), shall be (i) rounded down to the next lower whole share or (ii) credited as a fractional share.

(d) **Available Shares Insufficient.** In the event that the aggregate number of shares that all Participants elect to purchase during an Accumulation Period exceeds the maximum number of shares remaining available for issuance under Section 3, then the number of shares to which each Participant is entitled shall be determined by multiplying the number of shares available for issuance by a fraction. The numerator of such fraction is the number of shares that such Participant has elected to purchase, and the denominator of such fraction is the number of shares that all Participants have elected to purchase.

(e) **Issuance of Stock.** The shares of Stock purchased by a Participant under the Plan may be registered in the name of such Participant, or jointly in the name of such Participant and his or her spouse as joint tenants with the right of survivorship or as community property (with or without the right of survivorship). Until the expiration of the holding period described in section 423(a)(1) of the Code, such shares shall be held for the Participant's benefit by (i) a broker designated by the Committee or (ii) any other broker whom the Participant has directed in writing to sell such shares pursuant to Rule 10b5-1(c)(1) under the Exchange Act. (The preceding sentence shall apply whether or not the Participant is required to pay income tax in the United States.)

(f) **Tax Withholding.** To the extent required by applicable federal, state, local or foreign law, a Participant shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan. The Company shall not be required to issue any shares of Stock under the Plan until such obligations are satisfied.

(g) **Unused Cash Balances.** An amount remaining in the Participant's Plan Account that represents the Purchase Price for any fractional share shall be carried over in the Participant's Plan Account to the next Accumulation Period. Any amount remaining in the Participant's Plan Account that represents the Purchase Price for whole shares that could not be purchased by reason of Subsection (c) above, Section 3 or Section 9(b) shall be refunded to the Participant in cash, without interest.

(h) **Stockholder Approval.** Any other provision of the Plan notwithstanding, no shares of Stock shall be purchased under the Plan unless and until the Company's stockholders have approved the adoption of the Plan.

SECTION 9. LIMITATIONS ON STOCK OWNERSHIP.

(a) **Five Percent Limit.** Any other provision of the Plan notwithstanding, no Participant shall be granted a right to purchase Stock under the Plan if such Participant, immediately after his or her election to purchase such Stock, would own stock possessing more than 5% of the total combined voting power or value of all classes of stock of the Company or any parent or Subsidiary of the Company. For purposes of this Subsection (a), the following rules shall apply:

- (i) Ownership of stock shall be determined after applying the attribution rules of section 424(d) of the Code;
- (ii) Each Participant shall be deemed to own any stock that he or she has a right or option to purchase under this or any other plan; and
- (iii) Each Participant shall be deemed to have the right to purchase 2,000 shares of Stock under this Plan with respect to each Accumulation Period.

(b) **Dollar Limit.** Any other provision of the Plan notwithstanding, no Participant shall purchase Stock with a Fair Market Value in excess of the following limit:

(i) In the case of Stock purchased during an Offering Period that commenced in the current calendar year, the limit shall be equal to (A) \$25,000 minus (B) the Fair Market Value of the Stock that the Participant previously purchased in the current calendar year (under this Plan and all other employee stock purchase plans of the Company or any parent or Subsidiary of the Company).

(ii) In the case of Stock purchased during an Offering Period that commenced in the immediately preceding calendar year, the limit shall be equal to (A) \$50,000 minus (B) the Fair Market Value of the Stock that the Participant previously purchased (under this Plan and all other employee stock purchase plans of the Company or any parent or Subsidiary of the Company) in the current calendar year and in the immediately preceding calendar year.

(iii) In the case of Stock purchased during an Offering Period that commenced in the second preceding calendar year, the limit shall be equal to (A) \$75,000 minus (B) the Fair Market Value of the Stock that the Participant previously purchased (under this Plan and all other employee stock purchase plans of the Company or any parent or Subsidiary of the Company) in the current calendar year and in the two preceding calendar years.

For purposes of this Subsection (b), the Fair Market Value of Stock shall be determined in each case as of the beginning of the Offering Period in which such Stock is purchased. Employee stock purchase plans not described in section 423 of the Code shall be disregarded. If a Participant is precluded by this Subsection (b) from purchasing additional Stock under the Plan, then his or her employee contributions shall automatically be discontinued and shall automatically resume at the beginning of the first Accumulation Period that will end in the next calendar year (if he or she then is an Eligible Employee).

SECTION 10. RIGHTS NOT TRANSFERABLE.

The rights of any Participant under the Plan, or any Participant's interest in any Stock or moneys to which he or she may be entitled under the Plan, shall not be transferable by voluntary or involuntary assignment or by operation of law, or in any other manner other than by beneficiary designation or the laws of descent and distribution. If a Participant in any manner attempts to transfer, assign or otherwise encumber his or her rights or interest under the Plan, other than by beneficiary designation or the laws of descent and distribution, then such act shall be treated as an election by the Participant to withdraw from the Plan under Section 6(a).

SECTION 11. NO RIGHTS AS AN EMPLOYEE.

Nothing in the Plan or in any right granted under the Plan shall confer upon the Participant any right to continue in the employ of a Participating Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Participating Companies or of the Participant, which rights are hereby expressly reserved by each, to terminate his or her employment at any time and for any reason, with or without cause.

SECTION 12. NO RIGHTS AS A STOCKHOLDER.

A Participant shall have no rights as a stockholder with respect to any shares of Stock that he or she may have a right to purchase under the Plan until such shares have been purchased on the last day of the applicable Accumulation Period.

SECTION 13. SECURITIES LAW REQUIREMENTS.

Shares of Stock shall not be issued under the Plan unless the issuance and delivery of such shares comply with (or are exempt from) all applicable requirements of law, including (without limitation) the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, state securities laws and regulations, and the regulations of any stock exchange or other securities market on which the Company's securities may then be traded.

SECTION 14. AMENDMENT OR DISCONTINUANCE.

(a) **General Rule.** The Board shall have the right to amend, suspend or terminate the Plan at any time and without notice. Except as provided in Section 3, any increase in the aggregate number of shares of Stock that may be issued under the Plan shall be subject to the approval of the Company's stockholders. In addition, any other amendment of the Plan shall be subject to the approval of the Company's stockholders to the extent required by any applicable law or regulation. The Plan shall terminate automatically 20 years after its adoption by the Board, unless (a) the Plan is extended by the Board and (b) the extension is approved within 12 months by a vote of the stockholders of the Company.

(b) **Impact on Purchase Price.** This Subsection (b) shall apply in the event that (i) the Company's stockholders during an Accumulation Period approve an increase in the number of shares of Stock that may be issued under Section 3 and (ii) the aggregate number of shares to be purchased at the close of such Accumulation Period exceeds the number of shares that remained available under Section 3 before such increase. In such event, the Purchase Price for each share of Stock purchased at the close of such Accumulation Period shall be the lower of:

- (i) The higher of (A) 85% of the Fair Market Value of such share on the first trading day in the applicable Offering Period or, in the case of the first Offering Period under the Plan, 85% of the price at which one share of Stock is offered to the public in the IPO or (B) 85% of the Fair Market Value of such share on the earliest trading day coinciding with or following the date when the Company's stockholders approve such increase; or
- (ii) 85% of the Fair Market Value of such share on the last trading day in such Accumulation Period.

Immediately after the close of such Accumulation Period, a new Offering Period shall commence for all Participants, provided that the Committee has determined that a new Offering Period should commence.

SECTION 15. DEFINITIONS.

(a) "**Accumulation Period**" means a period during which contributions may be made toward the purchase of Stock under the Plan, as determined by the Committee pursuant to Section 4(b).

(b) "**Board**" means the Board of Directors of the Company, as constituted from time to time.

(c) "**Code**" means the Internal Revenue Code of 1986, as amended.

(d) "**Committee**" means a committee of the Board, as described in Section 2.

(e) "**Company**" means Riverbed Technology, Inc., a Delaware corporation.

(f) "**Compensation**" means (i) the total compensation paid in cash to a Participant by a Participating Company, including salaries, wages, bonuses, incentive compensation, commissions, overtime pay and shift premiums, plus (ii) any pre-tax contributions made by the Participant under section 401(k) or 125 of the Code. "Compensation" shall exclude all non-cash items, moving or relocation allowances, cost-of-living equalization payments, car allowances, tuition reimbursements, imputed income attributable to cars or life insurance, severance pay, fringe benefits, contributions or benefits received under employee benefit plans, income attributable to the exercise of stock options, and similar items. The Committee shall determine whether a particular item is included in Compensation.

(g) “**Corporate Reorganization**” means:

- (i) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization; or
- (ii) The sale, transfer or other disposition of all or substantially all of the Company’s assets or the complete liquidation or dissolution of the Company.

(h) “**Eligible Employee**” means any employee of a Participating Company who meets both of the following requirements:

- (i) His or her customary employment is for more than five months per calendar year and for more than 20 hours per week; and
- (ii) He or she has been an employee of a Participating Company for such period as the Committee may determine before the beginning of the applicable Offering Period.

The foregoing notwithstanding, an individual shall not be considered an Eligible Employee if his or her participation in the Plan is prohibited by the law of any country that has jurisdiction over him or her or if he or she is subject to a collective bargaining agreement that does not provide for participation in the Plan.

(i) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

(j) “**Fair Market Value**” means the market price of Stock, determined by the Committee as follows:

- (i) If the Stock was traded on the Nasdaq Global Select Market, Nasdaq Global Market or Nasdaq Capital Market on the date in question, then the Fair Market Value shall be equal to the last-transaction price quoted for such date by such Market;
- (ii) If the Stock was traded on a stock exchange on the date in question, then the Fair Market Value shall be equal to the closing price reported by the applicable composite transactions report for such date; or
- (iii) If none of the foregoing provisions is applicable, then the Committee shall determine the Fair Market Value in good faith on such basis as it deems appropriate.

Whenever possible, the determination of Fair Market Value by the Committee shall be based on the prices reported in The Wall Street Journal or as reported directly to the Company by Nasdaq or a stock exchange. Such determination shall be conclusive and binding on all persons.

(k) “**IPO**” means the effective date of the registration statement filed by the Company with the Securities and Exchange Commission for its initial offering of Stock to the public.

(l) “**Offering Period**” means a period with respect to which the right to purchase Stock may be granted under the Plan, as determined by the Committee pursuant to Section 4(a).

(m) “**Participant**” means an Eligible Employee who participates in the Plan, as provided in Section 4.

(n) “**Participating Company**” means (i) the Company and (ii) each present or future Subsidiary designated by the Committee as a Participating Company.

(o) “**Plan**” means this Riverbed Technology, Inc. 2006 Employee Stock Purchase Plan, as it may be amended from time to time.

(p) “**Plan Account**” means the account established for each Participant pursuant to Section 8(a).

(q) “**Purchase Price**” means the price at which Participants may purchase Stock under the Plan, as determined pursuant to Section 8(b).

(r) “**Stock**” means the Common Stock of the Company.

(s) “**Subsidiary**” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

RIVERBED TECHNOLOGY, INC.

AMENDMENT TO RIVERBED TECHNOLOGY, INC. MANAGEMENT BONUS PLAN

This Amendment to the Riverbed Technology, Inc. Management Bonus Plan (the "**Plan**") by Riverbed Technology, Inc. (the "**Company**") is effective December 15, 2008.

WHEREAS, the Company originally adopted the Plan effective as of May 29, 2007 to motivate participants to achieve excellent short and long term financial performance of the Company; and

WHEREAS, the Company desires to amend certain provisions of the Plan in order to come into documentary compliance with Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**"), and any final regulations and official guidance promulgated thereunder (together, "**Section 409A**") so as to avoid the imposition of the additional tax imposed under Section 409A, as set forth below.

NOW, THEREFORE, the Plan is hereby amended as follows:

1. Timing of Payment. The Plan is hereby amended by replacing the existing Section 4.2 in its entirety with the following new Section 4.2 to provide as follows:

"4.2 Timing of Payment. Subject to Section 3.5, payment of each Actual Award shall be made as soon as administratively practicable, as determined in the sole discretion of the Company, but in no event later than the 15th day of the 3rd month after the end of the applicable Performance Period or Progress Period."

2. Section 409A. The Plan is hereby amended by adding the following new Section 8.6 to provide as follows:

"8.6 Section 409A. It is intended that this Plan comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and the final regulations and other official guidance thereunder ("Section 409A") so that none of the payments hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply."

3. Full Force and Effect. To the extent not expressly amended hereby, the Plan shall remain in full force and effect.

4. Successors and Assigns. This Amendment and the rights and obligations of the parties hereunder shall inure to the benefit of, and be binding upon, their respective successors, assigns, and legal representatives.

5. Governing Law. This Amendment will be governed by the laws of the State of California (with the exception of its conflict of laws provisions).

(signature page to follow)

RIVERBED TECHNOLOGY, INC.

AMENDED AND RESTATED CHANGE IN CONTROL SEVERANCE AGREEMENT

This Amended and Restated Change in Control Severance Agreement (the "Agreement") is made and entered into by and between Jerry M. Kennelly ("Executive") and Riverbed Technology, Inc. (the "Company"), effective as of the latest date set forth by the signatures of the parties hereto below (the "Effective Date"). This Agreement amends and supersedes the prior version of this agreement executed on or about May 1, 2008 in its entirety.

RECITALS

1. It is expected that the Company from time to time will consider the possibility of an acquisition by another company or other change in control. The Compensation Committee of the Board of Directors of the Company (the "Committee") recognizes that such consideration can be a distraction to Executive and can cause Executive to consider alternative employment opportunities. The Committee has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication and objectivity of Executive, notwithstanding the possibility, threat or occurrence of a Change in Control of the Company.

2. The Committee believes that it is in the best interests of the Company and its stockholders to provide Executive with an incentive to continue his employment and to motivate Executive to maximize the value of the Company upon a Change in Control for the benefit of its stockholders.

3. The Committee believes that it is imperative to provide Executive with certain severance benefits upon Executive's termination of employment following a Change in Control. These benefits will provide Executive with enhanced financial security and incentive and encouragement to remain with the Company notwithstanding the possibility of a Change in Control.

4. Certain capitalized terms used in the Agreement are defined in Section 5 below.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties hereto agree as follows:

1. Term of Agreement. This Agreement will not terminate until all of the obligations of the parties hereto with respect to this Agreement have been satisfied.

2. At-Will Employment. The Company and Executive acknowledge that Executive's employment is and will continue to be at-will, as defined under applicable law. If Executive's employment terminates for any reason other than for the reasons specified herein during the period that is on or within twelve (12) months after a Change in Control as provided herein, Executive will not be entitled to any payments, benefits, damages, awards or compensation other than the payment of accrued but unpaid wages, as required by law, and any unreimbursed reimbursable expenses or pursuant to written agreements with the Company, including equity award agreements.

3. Severance Benefits.

(a) Termination without Cause or Resignation for Good Reason in Connection with a Change in Control. If the Company terminates Executive's employment with the Company without Cause or if Executive resigns from such employment for Good Reason, and such termination or resignation occurs on or within twelve (12) months after a Change in Control, and Executive signs and does not revoke a release of claims with the Company in a form reasonably acceptable to the Company (the "Release") subject to the conditions of Section 3(c), then Executive will receive the following from the Company:

(i) Accrued Compensation. The Company will pay Executive all accrued but unpaid vacation, expense reimbursements, wages, and other benefits due to Executive under any Company-provided plans, policies, and arrangements.

(ii) Severance Payment. Executive will receive a lump-sum payment of severance equal to two hundred percent (200%) of Executive's annual base salary as in effect immediately prior to Executive's termination or resignation date or (if greater) at the level in effect immediately prior to the Change in Control.

(iii) Bonus Payment. Executive will receive a lump-sum cash payment in an amount equal to two hundred percent (200%) of Executive's full target bonus for the fiscal year in effect at the date of such termination or resignation.

(iv) Continued Employee Benefits. If Executive elects continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA") for Executive and Executive's eligible dependents, within the time period prescribed pursuant to COBRA, the Company will reimburse Executive for the COBRA premiums for such coverage (at the coverage levels in effect immediately prior to Executive's termination or resignation) until the earlier of (A) a period of twelve (12) months from the last date of employment of Executive with the Company, or (B) the date upon which Executive and/or Executive's eligible dependents becomes covered under similar plans. COBRA reimbursements will be made by the Company to Executive consistent with the Company's normal expense reimbursement policy.

(b) Timing of Severance Payments. Subject to Section 3(h) below, the severance payment to which Executive is entitled shall be paid by the Company to Executive in cash and in full on the sixty-first (61st) day following the employment termination date or such later date as is required under Section 3(h). If Executive should die before all amounts have been paid, such unpaid amounts will be paid in a lump-sum payment (less any withholding taxes) promptly following such event to Executive's designated beneficiary, if living, or otherwise to the personal representative of Executive's estate.

(c) Release Effectiveness. The receipt of any severance payment or benefits pursuant to section 3(a) will be subject to Executive signing and not revoking the Release and

provided that such Release is effective within sixty (60) days following the termination of Executive's employment. No severance pursuant to such section shall be paid or provided until the Release becomes effective.

(d)Voluntary Resignation; Termination for Cause. If Executive's employment with the Company terminates (i) voluntarily by Executive (other than for Good Reason during the period that is on or within twelve (12) months after a Change in Control) or (ii) for Cause by the Company, then Executive will not be entitled to receive severance or other benefits except for those (if any) as may then be established under the Company's then existing written severance and benefits plans and practices or pursuant to other written agreements with the Company.

(e)Disability; Death. If the Company terminates Executive's employment as a result of Executive's Disability, or Executive's employment terminates due to his death, then Executive will not be entitled to receive severance or other benefits except for those (if any) as may then be established under the Company's then existing written severance and benefits plans and practices or pursuant to other written agreements with the Company.

(f)Termination not in Connection with a Change in Control. In the event Executive's employment is terminated for any reason other than as provided in Section 3(a), then Executive will be entitled to receive severance and any other benefits only as may then be established under the Company's then existing written severance and benefits plans and practices or pursuant to other written agreements with the Company.

(g)Exclusive Remedy. In the event of a termination of Executive's employment as set forth in Section 3(a) of this Agreement, the provisions of Section 3, as applicable, are intended to be and are exclusive and in lieu of any other rights or remedies to which Executive or the Company may otherwise be entitled, whether at law, tort or contract, in equity, or under this Agreement (other than the payment of accrued but unpaid wages, as required by Law, and any unreimbursed reimbursable expenses). Executive will be entitled to no benefits, compensation or other payments or rights upon a Change in Control or a termination of employment following a Change in Control other than those benefits expressly set forth in Section 3 of this Agreement or pursuant to written agreements with the Company, including equity award agreements.

(h)Section 409A.

(i) Notwithstanding any provision to the contrary herein, no Deferred Compensation Separation Payments (as defined below) that becomes payable under this Agreement by reason of Executive's termination of employment with the Company (or any successor entity thereto) will be made unless such termination of employment constitutes a "separation from service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and any final regulations and Internal Revenue Service guidance promulgated thereunder ("Section 409A"). Further, if Executive is a "specified employee" of the Company (or any successor entity thereto) within the meaning of Section 409A on the date of Executive's termination of employment (other than a termination of employment due to death), then the severance payable to Executive, if any, under this Agreement, when considered together with any other severance payments or separation benefits that are considered deferred compensation under Section 409A

(together the “Deferred Compensation Separation Payments”) that are payable within the first six (6) months following Executive’s termination of employment, shall be delayed until the first payroll date that occurs on or after the date that is six (6) months and one (1) day after the date of Executive’s termination of employment, when they shall be paid in full arrears. All subsequent Deferred Compensation Separation Payments, if any, will be paid in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if Executive dies following his termination but prior to the six (6) month anniversary of his termination, then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of Executive’s death and all other Deferred Compensation Separation Payments will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under this Agreement is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

(ii) Any amounts paid under this Agreement that satisfy the requirements of the “short-term deferral” rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations shall not constitute Deferred Compensation Separation Payments for purposes of clause (i) above.

(iii) Any amount paid under this Agreement that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that do not exceed the Section 409A Limit shall not constitute Deferred Compensation Separation Payments for purposes of clause (i) above.

(iv) Any taxable reimbursements and/or taxable in-kind benefits provided in this Agreement shall be made or provided in accordance with the requirements of Section 409A, including: (i) the amount of any such expense reimbursement or in-kind benefit provided during a taxable year of Executive shall not affect any expenses eligible for reimbursement in any other taxable year; (ii) the reimbursement of an eligible expense shall be made no later than the last day of Executive’s taxable year that immediately follows the taxable year in which the expense was incurred; and (iii) the right to any such reimbursement shall not be subject to liquidation or exchange for another benefit or payment.

(v) The foregoing provisions are intended to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. The Company and Executive agree to work together in good faith to consider amendments to this Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to Executive under Section 409A.

4. Limitation on Payments.

(a) In the event that the severance and other benefits provided for in this Agreement or otherwise payable to Executive (i) constitute “parachute payments” within the meaning of Section 280G of the Code and (ii) but for this Section 4, would be subject to the excise tax imposed by Section 4999 of the Code, then Executive’s severance benefits under Section 3 will be either:

(A) delivered in full, or

(B) delivered as to such lesser extent which would result in no portion of such benefits being subject to excise tax under Section 4999 of the Code,

whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by Executive on an after-tax basis, of the greatest amount of severance benefits, notwithstanding that all or some portion of such severance benefits may be taxable under Section 4999 of the Code. Any taxes due under Section 4999 shall be the responsibility of Executive.

(b) In the event of a reduction in accordance with subsection 4(a), the reduction shall occur in the following order: (1) reduction of cash payments; (2) reduction of vesting acceleration of equity awards; and (3) reduction of other benefits paid or provided to Executive. If, as a result of any reduction required by Section 4(a), amounts previously paid to Executive exceed the amount to which Executive is entitled, Executive will promptly return the excess amount to the Company.

(c) Unless the Company and Executive otherwise agree in writing, any determination required under this Section 4 will be made in writing by a major national "Big Four" accounting firm selected by the Company (the "Accountants"), whose determination will be conclusive and binding upon Executive and the Company for all purposes. For purposes of making the calculations required by this Section 4, the Accountants may, after taking into account the information provided by Executive, make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and Executive will furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section. The Company will bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 4.

5. Definition of Terms. The following terms referred to in this Agreement will have the following meanings:

(a) Cause. "Cause" means:

- (i) Executive's unauthorized use or disclosure of the Company's confidential information or trade secrets;
- (ii) Executive's material failure to comply with the Company's written policies or rules;
- (iii) Executive's conviction of, or plea of "guilty" or "no contest" to, a felony under the laws of the United States or any State thereof; or

(iv) Executive's gross misconduct.

(b) Change in Control. "Change in Control" means:

(i) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization own immediately after such merger, consolidation or other reorganization fifty percent (50%) or more of the voting power of the outstanding securities of each of (i) the continuing or surviving entity and (ii) any direct or indirect parent corporation of such continuing or surviving entity;

(ii) The sale, transfer or other disposition of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board of Directors (the "Board"), as a result of which fewer than fifty percent (50%) of the incumbent directors are directors who either:

(1) Had been directors of the Company on the date twenty four (24) months prior to the date of such change in the composition of the Board (the "Original Directors"); or

(2) Were appointed to the Board, or nominated for election to the Board, with the affirmative votes of at least a majority of the aggregate of (A) the Original Directors who were in office at the time of their appointment or nomination and (B) the directors whose appointment or nomination was previously approved in a manner consistent with this Paragraph (2); or

(iv) Any transaction as a result of which any person is the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), directly or indirectly, of securities of the Company representing at least fifty percent (50%) of the total voting power represented by the Company's then outstanding voting securities. For purposes of this Subsection (iv), the term "person" shall have the same meaning as when used in sections 13(d) and 14(d) of the Exchange Act but shall exclude (i) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or of a parent or subsidiary and (ii) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the common stock of the Company.

A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(c) Disability. "Disability" means that Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than one (1) year.

(d)Good Reason. “Good Reason” means Executive’s termination of employment within ninety (90) days following the expiration of any cure period (discussed below) following the occurrence, without Executive’s consent, of one or more of the following:

(i) A material reduction of Executive’s authority or responsibilities, relative to Executive’s authority or responsibilities in effect immediately prior to such reduction, or a change in Executive’s reporting position such that Executive no longer reports directly to the Board of Directors of the parent corporation in a group of controlled corporations following a Change in Control to the extent Executive was reporting to the Board prior to the Change in Control, or to the officer position or its functional equivalent to which Executive was reporting immediately prior to such change in reporting position (unless Executive is reporting to the comparable officer position of the parent corporation in a group of controlled corporations following a Change in Control);

(ii) A reduction in Executive’s compensation;

(iii) A material change in the geographic location at which Executive must perform services (in other words, the relocation of Executive to a facility that is more than thirty-five (35) miles from Executive’s current location);

(iv) Any purported termination of Executive’s employment for “Cause” without first satisfying the procedural protections, as applicable, required by the definition of “Cause” set forth in that definition; or

(v) The failure of the Company to obtain the assumption of this Agreement by a successor and/or acquirer and an agreement from such successor and/or acquirer that Executive will retain substantially similar responsibilities in the acquirer or the merged or surviving company as he had prior to the transaction.

Executive will not resign for Good Reason without first providing the Company with written notice within sixty (60) days of the event that Executive believes constitutes “Good Reason” specifically identifying the acts or omissions constituting the grounds for Good Reason and a reasonable cure period of not less than thirty (30) days following the date of such notice.

(e)Section 409A Limit. “Section 409A Limit” will mean the lesser of two (2) times: (i) Executive’s annualized compensation based upon the annual rate of pay paid to Executive during Executive’s taxable year preceding Executive’s taxable year of Executive’s termination of employment as determined under, and with such adjustments as are set forth in, Treasury Regulation 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which Executive’s employment is terminated.

6. Successors.

(a)The Company’s Successors. Any successor (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company’s business and/or assets will assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same

extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" will include any successor to the Company's business and/or assets which executes and delivers the assumption agreement described in this Section 6(a) or which becomes bound by the terms of this Agreement by operation of law.

(b)Executive's Successors. The terms of this Agreement and all rights of Executive hereunder will inure to the benefit of, and be enforceable by, Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

7. Arbitration.

(a) The Company and Executive each agree that any and all disputes arising out of the terms of this Agreement, Executive's employment by the Company, Executive's service as an officer or director of the Company, or Executive's compensation and benefits, their interpretation and any of the matters herein released, will be subject to binding arbitration under the arbitration rules set forth in California Code of Civil Procedure Sections 1280 through 1294.2, including Section 1281.8 (the "Act"), and pursuant to California law. Disputes that the Company and Executive agree to arbitrate, and thereby agree to waive any right to a trial by jury, include any statutory claims under local, state, or federal law, including, but not limited to, claims under Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the Sarbanes-Oxley Act, the Worker Adjustment and Retraining Notification Act, the California Fair Employment and Housing Act, the Family and Medical Leave Act, the California Family Rights Act, the California Labor Code, claims of harassment, discrimination, and wrongful termination, and any statutory or common law claims. The Company and Executive further understand that this Agreement to arbitrate also applies to any disputes that the Company may have with Executive.

(b)Procedure. The Company and Executive agree that any arbitration will be administered by Judicial Arbitration & Mediation Services, Inc. ("JAMS"), pursuant to its Employment Arbitration Rules & Procedures (the "JAMS Rules"). The Arbitrator will have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication, motions to dismiss and demurrers, and motions for class certification, prior to any arbitration hearing. The Arbitrator will have the power to award any remedies available under applicable law, and the Arbitrator will award attorneys' fees and costs to the prevailing party, except as prohibited by law. The Company will pay for any administrative or hearing fees charged by the Arbitrator or JAMS except that Executive will pay any filing fees associated with any arbitration that Executive initiates, but only so much of the filing fees as Executive would have instead paid had he filed a complaint in a court of law. The Arbitrator will administer and conduct any arbitration in accordance with California law, including the California Code of Civil Procedure, and the Arbitrator will apply substantive and procedural California law to any dispute or claim, without reference to rules of conflict of law. To the extent that the JAMS Rules conflict with California law, California law will take precedence. The decision of the Arbitrator will be in writing. Any arbitration under this Agreement will be conducted in San Francisco County, California.

(c)Remedy. Except as provided by the Act and this Agreement, arbitration will be the sole, exclusive, and final remedy for any dispute between Executive and the Company. Accordingly, except as provided for by the Act and this Agreement, neither Executive nor the Company will be permitted to pursue court action regarding claims that are subject to arbitration.

(d)Administrative Relief. Executive understand that this Agreement does not prohibit him from pursuing any administrative claim with a local, state, or federal administrative body or government agency that is authorized to enforce or administer laws related to employment, including, but not limited to, the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission, the National Labor Relations Board, or the Workers' Compensation Board. This Agreement does, however, preclude Executive from pursuing court action regarding any such claim, except as permitted by law.

(e)Voluntary Nature of Agreement. Each of the Company and Executive acknowledges and agrees that such party is executing this Agreement voluntarily and without any duress or undue influence by anyone. Executive further acknowledges and agrees that he has carefully read this Agreement and has asked any questions needed for him to understand the terms, consequences, and binding effect of this Agreement and fully understand it, including that ***Executive is waiving his right to a jury trial.*** Finally, Executive agrees that he has been provided an opportunity to seek the advice of an attorney of his choice before signing this Agreement.

8. Notice.

(a)General. Notices and all other communications contemplated by this Agreement will be in writing and will be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of Executive, mailed notices will be addressed to him at the home address which he most recently communicated to the Company in writing. In the case of the Company, mailed notices will be addressed to its corporate headquarters, and all notices will be directed to the attention of its General Counsel.

(b)Notice of Termination. Any termination by the Company for Cause or by Executive for Good Reason will be communicated by a notice of termination to the other party hereto given in accordance with Section 8(a) of this Agreement. Such notice will indicate the specific termination provision in this Agreement relied upon, will set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and will specify the termination date (which will be not more than thirty (30) days after the giving of such notice). The failure by Executive to include in the notice any fact or circumstance which contributes to a showing of Good Reason will not waive any right of Executive hereunder or preclude Executive from asserting such fact or circumstance in enforcing his rights hereunder.

9. Miscellaneous Provisions.

(a)No Duty to Mitigate. Executive will not be required to mitigate the amount of any payment contemplated by this Agreement, nor will any such payment be reduced by any earnings that Executive may receive from any other source.

(b)Other Requirements. Executive's receipt of any payments or benefits under Section 3 will be subject to Executive continuing to comply with the terms of any confidential information agreement executed by Executive in favor of the Company and the provisions of this Agreement.

(c)Waiver. No provision of this Agreement will be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by Executive and by an authorized officer of the Company (other than Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party will be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(d)Headings. All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.

(e)Entire Agreement. This Agreement constitutes the entire agreement of the parties hereto and supersedes in their entirety all prior representations, understandings, undertakings or agreements (whether oral or written and whether expressed or implied) of the parties with respect to the subject matter hereof. No waiver, alteration, or modification of any of the provisions of this Agreement will be binding unless in writing and signed by duly authorized representatives of the parties hereto and which specifically mention this Agreement.

(f)Choice of Law. The validity, interpretation, construction and performance of this Agreement will be governed by the laws of the State of California (with the exception of its conflict of laws provisions). Any claims or legal actions by one party against the other arising out of the relationship between the parties contemplated herein (whether or not arising under this Agreement) will be commenced or maintained in any state or federal court located in the jurisdiction where Executive resides, and Executive and the Company hereby submit to the jurisdiction and venue of any such court.

(g)Severability. The invalidity or unenforceability of any provision or provisions of this Agreement will not affect the validity or enforceability of any other provision hereof, which will remain in full force and effect.

(h)Withholding. All payments made pursuant to this Agreement will be subject to withholding of applicable income, employment and other taxes.

(i)Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

[Signature Page to Follow]

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year set forth below.

COMPANY

RIVERBED TECHNOLOGY, INC.

By: /s/ Randy S. Gottfried
Title: CHIEF FINANCIAL OFFICER
Date: 12-18-08

EXECUTIVE

By: /s/ Jerry M. Kennelly
Date: 12-19-08

-11-

RIVERBED TECHNOLOGY, INC.

AMENDED AND RESTATED CHANGE IN CONTROL SEVERANCE AGREEMENT

This Amended and Restated Change in Control Severance Agreement (the "Agreement") is made and entered into by and between Randy S. Gottfried ("Executive") and Riverbed Technology, Inc. (the "Company"), effective as of the latest date set forth by the signatures of the parties hereto below (the "Effective Date"). This Agreement amends and supersedes the prior version of this agreement executed on or about May 1, 2008 in its entirety.

RECITALS

1. It is expected that the Company from time to time will consider the possibility of an acquisition by another company or other change in control. The Compensation Committee of the Board of Directors of the Company (the "Committee") recognizes that such consideration can be a distraction to Executive and can cause Executive to consider alternative employment opportunities. The Committee has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication and objectivity of Executive, notwithstanding the possibility, threat or occurrence of a Change in Control of the Company.

2. The Committee believes that it is in the best interests of the Company and its stockholders to provide Executive with an incentive to continue his employment and to motivate Executive to maximize the value of the Company upon a Change in Control for the benefit of its stockholders.

3. The Committee believes that it is imperative to provide Executive with certain severance benefits upon Executive's termination of employment following a Change in Control. These benefits will provide Executive with enhanced financial security and incentive and encouragement to remain with the Company notwithstanding the possibility of a Change in Control.

4. Certain capitalized terms used in the Agreement are defined in Section 5 below.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties hereto agree as follows:

1. Term of Agreement. This Agreement will not terminate until all of the obligations of the parties hereto with respect to this Agreement have been satisfied.

2. At-Will Employment. The Company and Executive acknowledge that Executive's employment is and will continue to be at-will, as defined under applicable law. If Executive's employment terminates for any reason other than for the reasons specified herein during the period that is on or within twelve (12) months after a Change in Control as provided herein, Executive will not be entitled to any payments, benefits, damages, awards or compensation other than the payment of accrued but unpaid wages, as required by law, and any unreimbursed reimbursable expenses or pursuant to written agreements with the Company, including equity award agreements.

3. Severance Benefits.

(a) Termination without Cause or Resignation for Good Reason in Connection with a Change in Control. If the Company terminates Executive's employment with the Company without Cause or if Executive resigns from such employment for Good Reason, and such termination or resignation occurs on or within twelve (12) months after a Change in Control, and Executive signs and does not revoke a release of claims with the Company in a form reasonably acceptable to the Company (the "Release") subject to the conditions of Section 3(c), then Executive will receive the following from the Company:

(i) Accrued Compensation. The Company will pay Executive all accrued but unpaid vacation, expense reimbursements, wages, and other benefits due to Executive under any Company-provided plans, policies, and arrangements.

(ii) Severance Payment. Executive will receive a lump-sum payment of severance equal to one hundred percent (100%) of Executive's annual base salary as in effect immediately prior to Executive's termination or resignation date or (if greater) at the level in effect immediately prior to the Change in Control.

(iii) Bonus Payment. Executive will receive a lump-sum cash payment in an amount equal to one hundred percent (100%) of Executive's full target bonus for the fiscal year in effect at the date of such termination or resignation.

(iv) Continued Employee Benefits. If Executive elects continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA") for Executive and Executive's eligible dependents, within the time period prescribed pursuant to COBRA, the Company will reimburse Executive for the COBRA premiums for such coverage (at the coverage levels in effect immediately prior to Executive's termination or resignation) until the earlier of (A) a period of twelve (12) months from the last date of employment of Executive with the Company, or (B) the date upon which Executive and/or Executive's eligible dependents becomes covered under similar plans. COBRA reimbursements will be made by the Company to Executive consistent with the Company's normal expense reimbursement policy.

(b) Timing of Severance Payments. Subject to Section 3(h) below, the severance payment to which Executive is entitled shall be paid by the Company to Executive in cash and in full on the sixty-first (61st) day following the employment termination date or such later date as is required under Section 3(h). If Executive should die before all amounts have been paid, such unpaid amounts will be paid in a lump-sum payment (less any withholding taxes) promptly following such event to Executive's designated beneficiary, if living, or otherwise to the personal representative of Executive's estate.

(c) Release Effectiveness. The receipt of any severance payment or benefits pursuant to section 3(a) will be subject to Executive signing and not revoking the Release and

provided that such Release is effective within sixty (60) days following the termination of Executive's employment. No severance pursuant to such section shall be paid or provided until the Release becomes effective.

(d)Voluntary Resignation; Termination for Cause. If Executive's employment with the Company terminates (i) voluntarily by Executive (other than for Good Reason during the period that is on or within twelve (12) months after a Change in Control) or (ii) for Cause by the Company, then Executive will not be entitled to receive severance or other benefits except for those (if any) as may then be established under the Company's then existing written severance and benefits plans and practices or pursuant to other written agreements with the Company.

(e)Disability; Death. If the Company terminates Executive's employment as a result of Executive's Disability, or Executive's employment terminates due to his death, then Executive will not be entitled to receive severance or other benefits except for those (if any) as may then be established under the Company's then existing written severance and benefits plans and practices or pursuant to other written agreements with the Company.

(f)Termination not in Connection with a Change in Control. In the event Executive's employment is terminated for any reason other than as provided in Section 3(a), then Executive will be entitled to receive severance and any other benefits only as may then be established under the Company's then existing written severance and benefits plans and practices or pursuant to other written agreements with the Company.

(g)Exclusive Remedy. In the event of a termination of Executive's employment as set forth in Section 3(a) of this Agreement, the provisions of Section 3, as applicable, are intended to be and are exclusive and in lieu of any other rights or remedies to which Executive or the Company may otherwise be entitled, whether at law, tort or contract, in equity, or under this Agreement (other than the payment of accrued but unpaid wages, as required by law, and any unreimbursed reimbursable expenses). Executive will be entitled to no benefits, compensation or other payments or rights upon a Change in Control or a termination of employment following a Change in Control other than those benefits expressly set forth in Section 3 of this Agreement or pursuant to written agreements with the Company, including equity award agreements.

(h)Section 409A.

(i) Notwithstanding any provision to the contrary herein, no Deferred Compensation Separation Payments (as defined below) that becomes payable under this Agreement by reason of Executive's termination of employment with the Company (or any successor entity thereto) will be made unless such termination of employment constitutes a "separation from service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and any final regulations and Internal Revenue Service guidance promulgated thereunder ("Section 409A"). Further, if Executive is a "specified employee" of the Company (or any successor entity thereto) within the meaning of Section 409A on the date of Executive's termination of employment (other than a termination of employment due to death), then the severance payable to Executive, if any, under this Agreement, when considered together with any other severance payments or separation benefits that are considered deferred compensation under Section 409A

(together the “Deferred Compensation Separation Payments”) that are payable within the first six (6) months following Executive’s termination of employment, shall be delayed until the first payroll date that occurs on or after the date that is six (6) months and one (1) day after the date of Executive’s termination of employment, when they shall be paid in full arrears. All subsequent Deferred Compensation Separation Payments, if any, will be paid in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if Executive dies following his termination but prior to the six (6) month anniversary of his termination, then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of Executive’s death and all other Deferred Compensation Separation Payments will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under this Agreement is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

(ii) Any amounts paid under this Agreement that satisfy the requirements of the “short-term deferral” rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations shall not constitute Deferred Compensation Separation Payments for purposes of clause (i) above.

(iii) Any amount paid under this Agreement that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that do not exceed the Section 409A Limit shall not constitute Deferred Compensation Separation Payments for purposes of clause (i) above.

(iv) Any taxable reimbursements and/or taxable in-kind benefits provided in this Agreement shall be made or provided in accordance with the requirements of Section 409A, including: (i) the amount of any such expense reimbursement or in-kind benefit provided during a taxable year of Executive shall not affect any expenses eligible for reimbursement in any other taxable year; (ii) the reimbursement of an eligible expense shall be made no later than the last day of Executive’s taxable year that immediately follows the taxable year in which the expense was incurred; and (iii) the right to any such reimbursement shall not be subject to liquidation or exchange for another benefit or payment.

(v) The foregoing provisions are intended to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. The Company and Executive agree to work together in good faith to consider amendments to this Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to Executive under Section 409A.

4. Limitation on Payments.

(a) In the event that the severance and other benefits provided for in this Agreement or otherwise payable to Executive (i) constitute “parachute payments” within the meaning of Section 280G of the Code and (ii) but for this Section 4, would be subject to the excise tax imposed by Section 4999 of the Code, then Executive’s severance benefits under Section 3 will be either:

(A) delivered in full, or

(B) delivered as to such lesser extent which would result in no portion of such benefits being subject to excise tax under Section 4999 of the Code,

whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by Executive on an after-tax basis, of the greatest amount of severance benefits, notwithstanding that all or some portion of such severance benefits may be taxable under Section 4999 of the Code. Any taxes due under Section 4999 shall be the responsibility of Executive.

(b) In the event of a reduction in accordance with subsection 4(a), the reduction shall occur in the following order: (1) reduction of cash payments; (2) reduction of vesting acceleration of equity awards; and (3) reduction of other benefits paid or provided to Executive. If, as a result of any reduction required by Section 4(a), amounts previously paid to Executive exceed the amount to which Executive is entitled, Executive will promptly return the excess amount to the Company.

(c) Unless the Company and Executive otherwise agree in writing, any determination required under this Section 4 will be made in writing by a major national "Big Four" accounting firm selected by the Company (the "Accountants"), whose determination will be conclusive and binding upon Executive and the Company for all purposes. For purposes of making the calculations required by this Section 4, the Accountants may, after taking into account the information provided by Executive, make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and Executive will furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section. The Company will bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 4.

5. Definition of Terms. The following terms referred to in this Agreement will have the following meanings:

(a) Cause. "Cause" means:

- (i) Executive's unauthorized use or disclosure of the Company's confidential information or trade secrets;
- (ii) Executive's material failure to comply with the Company's written policies or rules;
- (iii) Executive's conviction of, or plea of "guilty" or "no contest" to, a felony under the laws of the United States or any State thereof; or

(iv) Executive's gross misconduct.

(b) Change in Control. "Change in Control" means:

(i) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization own immediately after such merger, consolidation or other reorganization fifty percent (50%) or more of the voting power of the outstanding securities of each of (i) the continuing or surviving entity and (ii) any direct or indirect parent corporation of such continuing or surviving entity;

(ii) The sale, transfer or other disposition of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board of Directors (the "Board"), as a result of which fewer than fifty percent (50%) of the incumbent directors are directors who either:

(1) Had been directors of the Company on the date twenty four (24) months prior to the date of such change in the composition of the Board (the "Original Directors"); or

(2) Were appointed to the Board, or nominated for election to the Board, with the affirmative votes of at least a majority of the aggregate of (A) the Original Directors who were in office at the time of their appointment or nomination and (B) the directors whose appointment or nomination was previously approved in a manner consistent with this Paragraph (2); or

(iv) Any transaction as a result of which any person is the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), directly or indirectly, of securities of the Company representing at least fifty percent (50%) of the total voting power represented by the Company's then outstanding voting securities. For purposes of this Subsection (iv), the term "person" shall have the same meaning as when used in sections 13(d) and 14(d) of the Exchange Act but shall exclude (i) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or of a parent or subsidiary and (ii) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the common stock of the Company.

A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(c) Disability. "Disability" means that Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than one (1) year.

(d)Good Reason. “Good Reason” means Executive’s termination of employment within ninety (90) days following the expiration of any cure period (discussed below) following the occurrence, without Executive’s consent, of one or more of the following:

(i) A material reduction of Executive’s authority or responsibilities, relative to Executive’s authority or responsibilities in effect immediately prior to such reduction, or a change in Executive’s reporting position such that Executive no longer reports directly to the Board of Directors of the parent corporation in a group of controlled corporations following a Change in Control to the extent Executive was reporting to the Board prior to the Change in Control, or to the officer position or its functional equivalent to which Executive was reporting immediately prior to such change in reporting position (unless Executive is reporting to the comparable officer position of the parent corporation in a group of controlled corporations following a Change in Control);

(ii) A reduction in Executive’s compensation;

(iii) A material change in the geographic location at which Executive must perform services (in other words, the relocation of Executive to a facility that is more than thirty-five (35)miles from Executive’s current location);

(iv) Any purported termination of Executive’s employment for “Cause” without first satisfying the procedural protections, as applicable, required by the definition of “Cause” set forth in that definition; or

(v) The failure of the Company to obtain the assumption of this Agreement by a successor and/or acquirer and an agreement from such successor and/or acquirer that Executive will retain substantially similar responsibilities in the acquirer or the merged or surviving company as he had prior to the transaction.

Executive will not resign for Good Reason without first providing the Company with written notice within sixty (60) days of the event that Executive believes constitutes “Good Reason” specifically identifying the acts or omissions constituting the grounds for Good Reason and a reasonable cure period of not less than thirty (30) days following the date of such notice.

(e)Section 409A Limit. “Section 409A Limit” will mean the lesser of two (2) times: (i) Executive’s annualized compensation based upon the annual rate of pay paid to Executive during Executive’s taxable year preceding Executive’s taxable year of Executive’s termination of employment as determined under, and with such adjustments as are set forth in, Treasury Regulation 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which Executive’s employment is terminated.

6. Successors.

(a)The Company’s Successors. Any successor (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company’s business and/or assets will assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same

extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" will include any successor to the Company's business and/or assets which executes and delivers the assumption agreement described in this Section 6(a) or which becomes bound by the terms of this Agreement by operation of law.

(b)Executive's Successors. The terms of this Agreement and all rights of Executive hereunder will inure to the benefit of, and be enforceable by, Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

7. Arbitration.

(a) The Company and Executive each agree that any and all disputes arising out of the terms of this Agreement, Executive's employment by the Company, Executive's service as an officer or director of the Company, or Executive's compensation and benefits, their interpretation and any of the matters herein released, will be subject to binding arbitration under the arbitration rules set forth in California Code of Civil Procedure Sections 1280 through 1294.2, including Section 1281.8 (the "Act"), and pursuant to California law. Disputes that the Company and Executive agree to arbitrate, and thereby agree to waive any right to a trial by jury, include any statutory claims under local, state, or federal law, including, but not limited to, claims under Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the Sarbanes-Oxley Act, the Worker Adjustment and Retraining Notification Act, the California Fair Employment and Housing Act, the Family and Medical Leave Act, the California Family Rights Act, the California Labor Code, claims of harassment, discrimination, and wrongful termination, and any statutory or common law claims. The Company and Executive further understand that this Agreement to arbitrate also applies to any disputes that the Company may have with Executive.

(b)Procedure. The Company and Executive agree that any arbitration will be administered by Judicial Arbitration & Mediation Services, Inc. ("JAMS"), pursuant to its Employment Arbitration Rules & Procedures (the "JAMS Rules"). The Arbitrator will have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication, motions to dismiss and demurrers, and motions for class certification, prior to any arbitration hearing. The Arbitrator will have the power to award any remedies available under applicable law, and the Arbitrator will award attorneys' fees and costs to the prevailing party, except as prohibited by law. The Company will pay for any administrative or hearing fees charged by the Arbitrator or JAMS except that Executive will pay any filing fees associated with any arbitration that Executive initiates, but only so much of the filing fees as Executive would have instead paid had he filed a complaint in a court of law. The Arbitrator will administer and conduct any arbitration in accordance with California law, including the California Code of Civil Procedure, and the Arbitrator will apply substantive and procedural California law to any dispute or claim, without reference to rules of conflict of law. To the extent that the JAMS Rules conflict with California law, California law will take precedence. The decision of the Arbitrator will be in writing. Any arbitration under this Agreement will be conducted in San Francisco County, California.

(c)Remedy. Except as provided by the Act and this Agreement, arbitration will be the sole, exclusive, and final remedy for any dispute between Executive and the Company. Accordingly, except as provided for by the Act and this Agreement, neither Executive nor the Company will be permitted to pursue court action regarding claims that are subject to arbitration.

(d)Administrative Relief. Executive understand that this Agreement does not prohibit him from pursuing any administrative claim with a local, state, or federal administrative body or government agency that is authorized to enforce or administer laws related to employment, including, but not limited to, the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission, the National Labor Relations Board, or the Workers' Compensation Board. This Agreement does, however, preclude Executive from pursuing court action regarding any such claim, except as permitted by law.

(e)Voluntary Nature of Agreement. Each of the Company and Executive acknowledges and agrees that such party is executing this Agreement voluntarily and without any duress or undue influence by anyone. Executive further acknowledges and agrees that he has carefully read this Agreement and has asked any questions needed for him to understand the terms, consequences, and binding effect of this Agreement and fully understand it, including that ***Executive is waiving his right to a jury trial***. Finally, Executive agrees that he has been provided an opportunity to seek the advice of an attorney of his choice before signing this Agreement.

8. Notice.

(a)General. Notices and all other communications contemplated by this Agreement will be in writing and will be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of Executive, mailed notices will be addressed to him at the home address which he most recently communicated to the Company in writing. In the case of the Company, mailed notices will be addressed to its corporate headquarters, and all notices will be directed to the attention of its General Counsel.

(b)Notice of Termination. Any termination by the Company for Cause or by Executive for Good Reason will be communicated by a notice of termination to the other party hereto given in accordance with Section 8(a) of this Agreement. Such notice will indicate the specific termination provision in this Agreement relied upon, will set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and will specify the termination date (which will be not more than thirty (30) days after the giving of such notice). The failure by Executive to include in the notice any fact or circumstance which contributes to a showing of Good Reason will not waive any right of Executive hereunder or preclude Executive from asserting such fact or circumstance in enforcing his rights hereunder.

9. Miscellaneous Provisions.

(a)No Duty to Mitigate. Executive will not be required to mitigate the amount of any payment contemplated by this Agreement, nor will any such payment be reduced by any earnings that Executive may receive from any other source.

(b)Other Requirements. Executive's receipt of any payments or benefits under Section 3 will be subject to Executive continuing to comply with the terms of any confidential information agreement executed by Executive in favor of the Company and the provisions of this Agreement.

(c)Waiver. No provision of this Agreement will be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by Executive and by an authorized officer of the Company (other than Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party will be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(d)Headings. All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.

(e)Entire Agreement. This Agreement constitutes the entire agreement of the parties hereto and supersedes in their entirety all prior representations, understandings, undertakings or agreements (whether oral or written and whether expressed or implied) of the parties with respect to the subject matter hereof. No waiver, alteration, or modification of any of the provisions of this Agreement will be binding unless in writing and signed by duly authorized representatives of the parties hereto and which specifically mention this Agreement.

(f)Choice of Law. The validity, interpretation, construction and performance of this Agreement will be governed by the laws of the State of California (with the exception of its conflict of laws provisions). Any claims or legal actions by one party against the other arising out of the relationship between the parties contemplated herein (whether or not arising under this Agreement) will be commenced or maintained in any state or federal court located in the jurisdiction where Executive resides, and Executive and the Company hereby submit to the jurisdiction and venue of any such court.

(g)Severability. The invalidity or unenforceability of any provision or provisions of this Agreement will not affect the validity or enforceability of any other provision hereof, which will remain in full force and effect.

(h)Withholding. All payments made pursuant to this Agreement will be subject to withholding of applicable income, employment and other taxes.

(i)Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

[Signature Page to Follow]

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year set forth below.

COMPANY

RIVERBED TECHNOLOGY, INC.

By: /s/ Jerry M. Kennelly
Title: CEO
Date: 12-19-08

EXECUTED

By: /s/ Randy S. Gottfried
Date: 12/18/08

-11-

RIVERBED TECHNOLOGY, INC.

CODE OF BUSINESS CONDUCT

(AS ADOPTED BY THE BOARD OF DIRECTORS ON APRIL 12, 2006)

1. Introduction

This Code of Business Conduct (the “Code”) covers a wide range of business practices and procedures. It does not cover every issue that may arise, but it sets out basic principles to guide all directors, officers and employees of Riverbed Technology, Inc. and its subsidiaries (collectively, “Riverbed”). All directors, officers and employees of Riverbed must conduct themselves accordingly and seek to avoid even the appearance of improper behavior. The Code should also be provided to and followed by Riverbed’s agents and representatives, including consultants.

If you violate the standards in the Code, you may be subject to disciplinary action, up to and including immediate termination of employment. ***If you are in a situation that you believe may violate or lead to a violation of the Code, contact your manager or the Company’s General Counsel.***

If a law conflicts with a policy in the Code, you must comply with the law. If you have any questions about these conflicts, ask your manager or Riverbed’s General Counsel how to handle the situation. The Code supersedes all other codes of conduct, policies, procedures, instructions, practices, rules or written or verbal representations to the extent that they are inconsistent with the Code. We are committed to continuously reviewing and updating our policies and procedures. The Code, therefore, is subject to modification.

Nothing in the Code modifies Riverbed’s at-will employment relationship with its employees, which may only be modified in an express written agreement signed by the employee and Riverbed’s Chief Executive Officer.

2. Purpose

The Code seeks to deter wrongdoing and to promote:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- Full, fair, accurate, timely and understandable disclosure in reports and documents that Riverbed files with, or submits to, the Securities and Exchange Commission (the “SEC”) and in other public communications made by Riverbed;
- Compliance with applicable governmental laws, rules and regulations;

-
- The prompt internal reporting to an appropriate person or persons identified in the Code of violations of the Code; and
 - Accountability for adherence to the Code.

3. Compliance With Applicable Laws, Rules and Regulations

Obeying the law is the foundation on which Riverbed's ethical standards are built. You must comply with applicable laws, rules and regulations. Although you are not expected to know the details of these laws, it is important to know enough to determine when to seek advice from managers or other appropriate personnel.

4. Conflicts of Interest

A "conflict of interest" exists when a person's private interests interfere or conflict in any way with the interests of Riverbed. Examples of when a conflict of interest may arise include, but are not limited to:

- When a director, officer or employee takes actions or has interests that may make it difficult to perform his or her work objectively and effectively.
- When a director, officer or employee, or a member of his or her family, receives improper personal benefits as a result of his or her position with Riverbed.
- Almost always, when an employee works simultaneously for a competitor or, except on our behalf, a customer or supplier. You are not allowed to work for a competitor in any capacity.
- When a director, officer or employee serves as a director of any company that competes with Riverbed.
- When a director, officer or employee has a business or financial interest in a customer, supplier, developer or competitor of Riverbed. In deciding whether to make such an investment, you should consider the size and nature of the investment, your ability to influence decisions of Riverbed or of the other company, your access to confidential information of Riverbed or of the other company, and the nature of the relationship between Riverbed and the other company.
- When a director, officer or employee conducts Riverbed business with a relative or significant other, or with a business with which a relative or significant other is associated in any significant role. Relatives include spouse, sister, brother, daughter, son, mother, father, grandparents, aunts, uncles, nieces, nephews, cousins, step relationships and in-laws. Significant others include persons living in a spousal or familial fashion (including same sex) with an employee.

Conflicts of interest are prohibited as a matter of Riverbed policy, except in the case of any director, executive officer or member of Riverbed's management committee, with the informed written consent of the Board of Directors of Riverbed (the "Board") or pursuant to guidelines approved by the Board, or in the case of any other employees, with the informed written consent of Riverbed's Chief Executive Officer or Chief Financial Officer or pursuant to guidelines approved by Riverbed's Chief Executive Officer or Chief Financial Officer. Conflicts of interest may not always be clear-cut, so if you have a question, you should consult with higher levels of management or Riverbed's Chief Executive Officer or Chief Financial Officer. If you become aware of a conflict or potential conflict, you should bring it to the attention of a manager or other appropriate personnel or consult the procedures described in Section 18 of the Code.

5. Public Disclosure of Information

The federal securities laws require Riverbed to disclose certain information in various reports that Riverbed must file with or submit to the SEC. In addition, from time to time, Riverbed makes other public communications, such as issuing press releases.

Riverbed expects all directors, officers and employees who are involved in the preparation of SEC reports or other public documents to ensure that the information disclosed in those documents is full, fair, accurate, timely and understandable.

To the extent that you reasonably believe that questionable accounting or auditing conduct or practices have occurred or are occurring, report those concerns to Riverbed's Chief Executive Officer or Chief Financial Officer or in accordance with Riverbed's Whistleblower policy.

6. Insider Trading

You are not permitted to use or share confidential information for stock trading purposes or for any other purpose, except the conduct of our business. All non-public information about Riverbed should be considered confidential information. To use "material non-public information" about the Company or the market for the Company's securities for personal financial benefit or to "tip" others who might make an investment decision on the basis of this information is not only unethical, but also illegal, and could result in criminal prosecution in addition to the termination of your employment. "Material non-public information" includes information that is not available to the public at large that could affect the market price of the Company's or another company's securities and that a reasonable investor would consider important in deciding whether to buy, sell or hold the securities. In order to assist with compliance with laws against insider trading, Riverbed has adopted an Insider Trading Policy. A copy of that policy, which has been distributed to every employee, is available on Riverbed's internal website. If you have any questions, please consult Riverbed's Chief Financial Officer or General Counsel.

7. Corporate Opportunities

You are prohibited from taking for yourself opportunities that are discovered through the use of corporate property, information or position without the informed prior consent of the Board. You may not use corporate property or information obtained through your position with Riverbed for improper personal gain, and you may not compete with Riverbed directly or indirectly. Furthermore, you owe a duty to Riverbed to advance its legitimate interests when such an opportunity arises.

8. Competition and Fair Dealing

Riverbed seeks to outperform its competition fairly and honestly. Using or disclosing, or encouraging others to use or disclose, other companies' proprietary, confidential or trade secret information, without the owner's prior consent, and any theft or misappropriation of such information is strictly prohibited. You should endeavor to respect the rights of and deal fairly with Riverbed's customers, suppliers, competitors and employees.

9. Gifts

The purpose of business entertainment and gifts in a commercial setting is to create good will and sound working relationships, not to gain unfair advantage with customers. No gift or entertainment should ever be offered, given, provided or accepted by you unless it:

- is not a cash gift,
- is consistent with customary business practices,
- is not excessive in value,
- cannot be construed as a bribe or payoff, and
- does not violate any laws or regulations.

Please discuss with your manager any gifts or proposed gifts that you are not certain are appropriate.

10. Discrimination, Harassment and Retaliation

The diversity of Riverbed's employees is a tremendous asset. Riverbed is firmly committed to providing equal opportunity in all aspects of employment and will not tolerate any illegal discrimination, harassment or retaliation of any kind. Examples of such behavior include derogatory comments based on racial or ethnic characteristics and unwelcome sexual advances. Please consult Riverbed's employee handbook for more information on the Company's policy against such conduct.

11. Health and Safety

Riverbed strives to provide its employees with a safe and healthy work environment. You are responsible for helping to maintain a safe and healthy workplace for all employees by following safety and health rules and immediately reporting accidents, injuries and unsafe equipment, practices or conditions.

Violence and threatening behavior are not permitted. Employees must report to work in condition to perform their duties, free from the influence of illegal drugs or alcohol. The abuse of alcohol or illegal drugs in the workplace will not be tolerated.

12. Record-Keeping

Riverbed requires honest and accurate recording and reporting of information in order to make responsible business decisions and to comply with the law. For example, employees who must report their hours worked must only report the true and actual number of hours worked (whether for purposes of individual pay or for purposes of reporting such information to customers). Riverbed also requires each director and employee to disclose any transaction or arrangement among such individual or any family member or affiliated entity of such individual, on the one hand, and any other director, employee or any family member or affiliated entity of such other individual, on the other hand, that in any way relates to or arises out of such individual's professional relationship with Riverbed.

Many employees regularly use business expense accounts, which must be documented and recorded accurately in accordance with Riverbed's policies. If you are not sure whether you may seek reimbursement for a certain expense, ask your manager or the Chief Financial Officer.

All of Riverbed's books, records, accounts and financial statements must be maintained in reasonable detail, must appropriately reflect Riverbed's transactions and must conform both to applicable legal requirements and to Riverbed's system of internal controls. Unrecorded or "off the books" funds or assets should not be maintained unless permitted by applicable law or regulation.

Business records and communications often become public, and you should avoid exaggeration, derogatory remarks, guesswork or inappropriate characterizations of people and companies that can be misunderstood. This policy applies equally to e-mail, internal memos and formal reports. Records should always be retained or destroyed according to Riverbed's records retention policies. In accordance with those policies, in the event of litigation or governmental investigation, please consult Riverbed's Chief Financial Officer or General Counsel.

13. Confidentiality

You must maintain the confidentiality of confidential information entrusted to you by Riverbed or its customers, except when disclosure is authorized by Riverbed's established written policies or its Chief Financial Officer or General Counsel or required

by laws or regulations. Confidential information includes all non-public information that might be of use to competitors, or harmful to Riverbed or its customers, if disclosed, and information that suppliers and customers have entrusted to us. The obligation to preserve confidential information continues even after employment ends. In connection with this obligation, every employee is required to sign a confidentiality and proprietary information agreement when he or she began his or her employment with Riverbed.

14. Protection and Proper Use of Riverbed Assets

You should endeavor to protect Riverbed's assets and ensure their efficient use. Any suspected incident of fraud or theft must immediately be reported for investigation. Riverbed equipment may not be used for non-Riverbed business, though limited incidental personal use is permitted if such use does not interfere with an employee's job duties or performance and it does not put Riverbed or its property at risk.

Your obligation to protect Riverbed's assets includes protecting its proprietary information. Proprietary information includes intellectual property such as trade secrets, patents, trademarks and copyrights, as well as business, marketing and service plans, engineering and manufacturing ideas, designs, databases, records, salary information and any unpublished financial data and reports. Unauthorized use or distribution of such information would violate Riverbed policy and could also be illegal and result in civil or even criminal penalties.

15. Payments to Government Personnel

The U.S. Foreign Corrupt Practices Act prohibits giving anything of value, directly or indirectly, to officials of foreign governments or foreign political candidates in order to obtain or retain business. It is strictly prohibited to make illegal payments to government officials of any country.

In addition, the U.S. government has a number of laws and regulations regarding business gratuities that may be accepted by U.S. government personnel. The promise, offer or delivery to an official or employee of the U.S. government of a gift, favor or other gratuity in violation of these rules would not only violate Riverbed policy, but could also be a criminal offense. State and local governments, as well as foreign governments, may have similar rules. Riverbed's Chief Financial Officer or General Counsel can provide guidance to you in this area.

16. Waivers of the Code

Waivers of the Code may only be granted by Riverbed's Chief Executive Officer or Chief Financial Officer; provided, however, that any waiver of the Code for executive officers or directors may be granted only by the Board or a Board committee. Any such waiver of the Code for executive officers or directors, and the reasons for such waiver, will be disclosed in Riverbed's public filings, as required by law or securities market regulations.

17. Reporting Illegal or Unethical Behavior

You are encouraged to talk to managers or other appropriate personnel about observed illegal or unethical behavior or when in doubt about the best course of action in a particular situation. It is the policy of Riverbed not to allow retaliation for reports of misconduct by others made in good faith by employees. You are expected to cooperate in internal investigations of misconduct.

You may, on an anonymous basis, submit a good-faith concern regarding observed illegal or unethical behavior (including relating to human resources matters) or questionable accounting or auditing matters without fear of dismissal or retaliation of any kind by either calling the telephone number or logging on to the web address set forth in Riverbed's Whistleblower Policy or by writing to the following address: General Counsel, Riverbed Technology, Inc., 199 Fremont Street, San Francisco, CA 94105, Subject: Code of Business Conduct Matter.

18. Compliance Procedures

We must all work to ensure prompt and consistent action against violations of the Code. However, in some situations it is difficult to know if a violation has occurred. Since we cannot anticipate every situation that will arise, it is important that we have a way to approach a new question or problem. These are the steps to keep in mind:

- Make sure you have all the facts. In order to reach the right solutions, we must be as fully informed as possible.
- Ask yourself: What specifically am I being asked to do? Does it seem unethical or improper? These questions will enable you to focus on the specific question you are faced with and the alternatives you have. Use your judgment and common sense; if something seems unethical or improper, it probably is.
- Clarify your responsibility and role. In most situations, there is shared responsibility. Are your colleagues informed? It may help to get others involved and discuss the problem.
- Discuss the problem with your manager. This is the basic guidance for all situations. In many cases, your manager will be more knowledgeable about the question and will appreciate being brought into the decision-making process. Remember that it is your manager's responsibility to help solve problems.
- Seek help from Riverbed resources. In the rare case where it may not be appropriate to discuss an issue with your manager or where you do not feel comfortable approaching your manager with your question, discuss it with Riverbed's Chief Financial Officer, General Counsel or head of Human Resources.

-
- You may report ethical violations in confidence and without fear of retaliation. If your situation requires that your identity be kept secret, your anonymity will be protected to the greatest extent possible. Riverbed does not permit retaliation of any kind against employees for good-faith reports of ethical violations.
 - Always ask first, act later. If you are unsure of what to do in any situation, seek guidance.

RIVERBED TECHNOLOGY, INC.

CODE OF ETHICS FOR
CHIEF EXECUTIVE OFFICER AND SENIOR FINANCIAL OFFICERS

(AS ADOPTED BY THE BOARD OF DIRECTORS ON APRIL 12, 2006)

Riverbed Technology, Inc. (the "Company") has a Code of Business Conduct applicable to all directors and employees of the Company. The Company's Chief Executive Officer (the "CEO") and all senior financial officers of the Company, including the Chief Financial Officer and the principal accounting officer, are bound by the provisions of the Code of Business Conduct relating to ethical conduct, conflicts of interest and compliance with the law. In addition, the CEO and the senior financial officers are subject to the following additional policies and procedures (this "Code"):

1. The CEO and all senior financial officers must adhere to honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.
2. The CEO and all senior financial officers are responsible for full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission, and in other public communications made by the Company. Accordingly, the CEO and each senior financial officer must (a) promptly bring to the attention of the Audit Committee of the Company's Board of Directors any material information of which he or she becomes aware that affects the disclosures made by the Company in its public filings and (b) otherwise assist the Audit Committee in fulfilling its responsibilities.
3. The CEO and each senior financial officer must promptly bring to the attention of the Audit Committee any information that he or she may have concerning (a) significant deficiencies in the design or operation of internal controls that could adversely affect the Company's ability to record, process, summarize and report financial data or (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's financial reporting, disclosures or internal controls.
4. The CEO and each senior financial officer must promptly bring to the attention of the CEO and to the Audit Committee any information that he or she may have concerning any violation of this Code or the Company's Code of Business Conduct, including any actual or apparent conflicts of interest between personal and professional relationships, involving any management or other employees who have a significant role in the Company's financial reporting, disclosures or internal controls.
5. The CEO and each senior financial officer must promptly bring to the attention of the CEO and to the Audit Committee any information that he or she may have concerning evidence of a material violation, by the Company or any agent of the Company, of the securities or other laws, rules or regulations applicable to the Company and the operation of its business.

-
6. In the event of violations of the Code of Business Conduct or of these additional policies and procedures by the CEO or by one of the Company's senior financial officers, the Company's Board of Directors will determine, or designate appropriate persons to determine, appropriate actions to be taken. Such actions will be reasonably designed to deter wrongdoing and to promote accountability for adherence to the Code of Business Conduct and to these additional procedures and may include written notices to the individual involved that the Board of Directors has determined that there has been a violation, censure by the Board of Directors, demotion or re-assignment of the individual involved, suspension with or without pay or benefits (as determined by the Board of Directors), or termination of the individual's employment. In determining what action is appropriate in a particular case, the Board of Directors or its designee will take into account all relevant information, including the nature and severity of the violation, whether the violation was a single occurrence or repeated occurrences, whether the violation appears to have been intentional or inadvertent, whether the individual in question had been advised prior to the violation as to the proper course of action and whether or not the individual in question had committed other violations in the past.

Subsidiaries of the Company

Riverbed Technology Limited (UK)
Riverbed Technology Sarl (France)
Riverbed Technology Pte. Ltd. (Singapore)
Riverbed Technology GmbH (Germany)
Riverbed Technology Pty Ltd. (Australia)
Riverbed Technology Korea, Inc. (Korea)
Riverbed Technology Limited (Hong Kong)
Riverbed Technology K.K. (Japan)
Riverbed Technology B.V. (Netherlands)
Riverbed Technology India Private Limited (India)
Riverbed Technology International, Inc. (Delaware)
Riverbed Technology AG (Switzerland)
Riverbed Technology SL (Spain)
Riverbed Technology Canada LTD (Canada)
Riverbed Technology South Africa (Proprietary) Limited (South Africa)
Riverbed Technology S.r.l. (Italy)
Riverbed Technology Limited (New Zealand)
Riverbed Technology AB (Sweden)
Riverbed Technology Sdn. Bhd. (Malaysia)
Riverbed Technology S. de R.L. de C.V. (Mexico)
Riverbed Technology FZ-LLC (Dubai)
Riverbed Tecnologia De Informacao Ltda (Brazil)
Riverbed Technology Sp. z o.o. (Poland)
Riverbed Technology Ltd. (Thailand)
Riverbed Technology Ltd. (Israel)
Riverbed Technology LLC (Russia)
Riverbed Technology S.R.L. (Argentina)
Riverbed Technology GmbH (Austria)

**Consent of Ernst & Young LLP
Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-149602, 333-137502 and 333-141260) pertaining to the 2006 Equity Incentive Plan, 2006 Director Option Plan and 2006 Employee Stock Purchase Plan of Riverbed Technology, Inc. of our reports dated February 20, 2009, with respect to the consolidated financial statements and schedule of Riverbed Technology, Inc., and the effectiveness of internal control over financial reporting of Riverbed Technology, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2008.

/s/ Ernst & Young LLP

San Francisco, California
February 20, 2009

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jerry M. Kennelly, certify that:

1. I have reviewed this annual report on Form 10-K of Riverbed Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2009

/s/ JERRY M. KENNELLY

Jerry M. Kennelly
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Randy S. Gottfried, certify that:

1. I have reviewed this annual report on Form 10-K of Riverbed Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2009

/s/ RANDY S. GOTTFRIED

Randy S. Gottfried
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Riverbed Technology, Inc. for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof, Jerry M. Kennelly, as President, and Chief Executive Officer, and Randy S. Gottfried, as Chief Financial Officer, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Annual Report on Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Riverbed Technology, Inc.

Date: February 23, 2009

/s/ JERRY M. KENNELLY

Jerry M. Kennelly
President and Chief Executive Officer
(Principal Executive Officer)

Date: February 23, 2009

/s/ RANDY S. GOTTFRIED

Randy S. Gottfried
Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Riverbed Technology, Inc. and will be retained by Riverbed Technology, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Created by 10K Wizard www.10KWizard.com