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F5 NETWORKS INC
 Form 4
 April 04, 2002

 FORM 4

U.S. SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP

[] CHECK THIS BOX IF NO
 LONGER SUBJECT TO
 SECTION 16. FORM 4
 OR FORM 5 OBLIGATIONS
 MAY CONTINUE. SEE
 INSTRUCTION 1(b).

FILED PURSUANT TO SECTION 16(a) OF THE SECURITIES
 EXCHANGE ACT OF 1934, SECTION 17(a) OF THE
 PUBLIC UTILITY HOLDING COMPANY ACT OF 1935
 OR SECTION 30(f) OF THE INVESTMENT COMPANY
 ACT OF 1940

1. NAME AND ADDRESS OF REPORTING PERSON*			2. ISSUER NAME AND TICKER OR TRADING SYMBOL	6. R
Hussey	Jeffrey	S.	F5 NETWORKS, INC. (ffiv)	T
(Last)	(First)	(Middle)		
c/o F5 Networks, Inc. 401 Elliott Avenue West			3. IRS OR SOCIAL SECURITY NUMBER OF REPORTING PERSON (VOLUNTARY)	4. STATEMENT FOR MONTH/YEAR
				March 2002
	(Street)			5. IF AMENDMENT, DATE OF ORIGINAL (MONTH/YEAR)
Seattle	WA	98119		
(City)	(State)	(Zip)		

TABLE 1 -- NON-DERIVATIVE SECURITIES ACQUIRED, DISPOSED OF, OR BENEFICIAL

1. TITLE OF SECURITY (Instr. 3)	2. TRANS- ACTION DATE (Month/ Day/ Year)	3. TRANS- ACTION CODE (Instr. 8)	4. SECURITIES ACQUIRED (A) OR DISPOSED OF (D) (Instr. 3, 4 and 5)	5. AMOUNT OF SECURITIES BENEFICIAL OWNED AT END OF MO (Instr. 3)
		Code	Amount (A) or Price (D)	
Common Stock(1)	3/15/02	S	5,000 D \$25.50	
Common Stock(1)	3/18/02	S	10,000 D \$25.78	
Common Stock(1)	3/22/02	S	5,000 D \$26.13	2,231,1
Common Stock				350,0

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Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.
 *If the form is filed by more than one reporting person, see Instruction 4(b)(v).

Potential persons who are to respond to the collection of information in this form are not required to respond unless the form displays a currently valid OMB Number.

(Print or Type Responses)

FORM 4 (CONTINUED)

TABLE II -- DERIVATIVE SECURITIES ACQUIRED, DISPOSED OF, OR BENEFICIALLY OWNED
 (E.G., PUTS, CALLS, WARRANTS, OPTIONS, CONVERTIBLE SECURITIES)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7.
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Code V (A) (D) Date Exercisable Date Expiration Date

9. Number of Derivative Securities Beneficially Owned at End of Month (Instr. 4)

10. Ownership of Derivative Security: Direct (D) or Indirect (I) (Instr. 4)

11. Nature of Indirect Beneficial Ownership (Instr. 4)

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Explanation of Responses:

(1) Sale as per Rule 10B5-1 Stock Trading Plan.

**Intentional misstatements or omissions of facts constitute Federal Criminal Violations.

See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

/s/ Jeff

**Signature of

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB Number.

----- Herbert A. Cohen 68 Director -----

----- Paul E. Hannesson 61 Director -----

----- David L. Mitchell 71 Director -----

----- Edward L. Palmer 84 Director -----

----- William R. Toller 70 Director -----

----- SHELBY T. BREWER, Ph.D. was appointed Chairman, Chief Executive Officer and President of the Company since January 2001. Since April 2000, Mr. Brewer has served as Chairman and Chief Executive Officer of Solutions, a wholly owned subsidiary of the Company, which oversees Advanced Sciences. From 1996 to March 2000, Dr. Brewer was President of S. Brewer Enterprises, a consulting firm he founded that is engaged in supporting mergers and acquisitions, arranging private and public financing, forming joint ventures abroad, re-positioning established companies, and fostering new technology enterprises. Dr. Brewer served as President and CEO of the nuclear power businesses of ABB Combustion Engineering from 1985 to 1995. From 1981 to 1984, Dr. Brewer served as Assistant Secretary of Energy in the Reagan administration, holding the top nuclear post in the U.S. government. Prior to his appointment by President Reagan, Dr. Brewer achieved positions of increasing line responsibility in private industry, the U.S. Navy, and the Atomic Energy Commission. Dr. Brewer holds Ph.D. and M.S. degrees in nuclear engineering from the Massachusetts Institute of Technology. He holds a B.S. degree in mechanical engineering and a B.A. in humanities from Columbia University. James M. deAngelis was appointed Vice President-Finance and Treasurer of the Company in July 1998 and was promoted to Chief Financial and Administrative Officer and Secretary in December 1998. Mr. DeAngelis has also served as Senior Vice President-Sales & Marketing of Separation since July 1996, after having served as its Vice President-Marketing since November 1995. Mr. DeAngelis has also served as the President of CFC Technologies since September 1994, and served as Vice President-Marketing of Environmental from September 1992 to September 1995. Mr. DeAngelis holds a Masters in International 39 Management degree from the American Graduate School of International Management. Mr. DeAngelis holds B.S. degrees in Biology and Physiology from the University of Connecticut. Bentley J. Blum has served as a director of the Company since March 1996 and served as its Chairman of the Board from March to November 1996. Mr. Blum has served as a director of Environmental since 1984 and served as its Chairman of the Board from 1984 to November 1996. Mr. Blum also currently serves as a director of Separation, Solution and CFC Technologies. For more than 15 years, Mr. Blum has been actively engaged in real estate acquisitions and currently is the sole stockholder and director of a number of corporations that hold real estate interests, oil drilling interests and

other corporate interests. Mr. Blum is a principal stockholder of Environmental. Mr. Blum is the brother-in-law of Paul E. Hannesson, a director of the Company. Herbert A. Cohen has served as a director of the Company and Environmental since July 1996 and served as a director of Separation from March 1998 to March 2000. Mr. Cohen has been a practicing negotiator for the past three decades acting in an advisory capacity in hostage negotiations and crisis management. He has been an advisor to Presidents Carter and Reagan in the Iranian hostage crisis, the government's response to the skyjacking of TWA Flight 847 and the seizure of the Achille Lauro. Mr. Cohen's clients have included large corporations and government agencies such as the Department of State, the Federal Bureau of Investigation, the Conference of Mayors, the Bureau of Land Management, Lands and Natural Resources Division in conjunction with the EPA, and the United States Department of Justice. In addition, Mr. Cohen was an advisor and consultant to the Strategic Arms Reduction Talks negotiating team. Mr. Cohen holds a law degree from New York University School of Law and has lectured at numerous academic institutions. Paul E. Hannesson has served as a director of the Company since March 1996 and served as Chairman of the Board from November 1996 through January 2001. Mr. Hannesson also served as Chief Executive Officer of the Company from March to October 1996 and as President from March to September 1996, and was re-appointed Chief Executive Officer in November 1996 and President in May 1997, all positions he served until January 2001. Mr. Hannesson has been a director of Environmental since February 1993 and was appointed its Chairman of the Board and Chief Executive Officer in November 1996. Mr. Hannesson also served as President of Environmental from February 1993 to July 1996 and was re-appointed President in May 1997. In July 1998 Mr. Hannesson resigned as Director and Officer of Environmental. Mr. Hannesson also currently serves as the Chairman of the Board and Chief Executive Officer of Separation. Mr. Hannesson was a private investor and business consultant from 1990 to 1993. Mr. Hannesson is the brother-in-law of Bentley J. Blum, a director of the Company. David L. Mitchell has served as a director of the Company and Environmental since July 1996 and as a director of Separation from April 1997 to March 2000. Mr. Mitchell has also served as a consultant to the Company from July 1997 to July 1998. For the past sixteen years, Mr. Mitchell has been President and co-founder of Mitchell & Associates, Inc., a banking firm providing financial advisory services in connection with corporate mergers, acquisitions and divestitures. Prior to forming Mitchell & Associates in 1982, Mr. Mitchell was a Managing Director of Shearson/American Express Inc. from 1979 to 1982, a Managing Director of First Boston Corporation from 1976 to 1978, and a Managing Director of the investment-banking firm of S.G. Warburg & Company from 1965 to 1976. Mr. Mitchell holds a bachelor's degree from Yale University. Edward L. Palmer has served as a director of the Company since August 1998. Mr. Palmer currently serves as President of the Mill Neck Consulting 40 Group, founded in 1983. Mr. Palmer retired in September 1982 as Chairman of the Executive Committee and Director of CitiCorp and Citibank, N.A. after 23 years of service. Mr. Palmer served as Vice President of the New York Trust, serving in several executive positions since 1940. Mr. Palmer is Trustee Emeritus of Brown University, New York Philharmonic and The Metropolitan Museum of Art. Mr. Palmer served as Director of Borg-Warner Corp., CitiCorp, Corning Incorp., Del Monte Corp., First Boston Corp., Grindlays Banks, plc Kissinger Associates, Monsanto Co., Mutual Life Ins., Phelps Dodge Corp., Union Pacific Corp., and Washington National Bank Corp. William R. Toller has served as a director of the Company since March 1998. Mr. Toller has also served as a member of the Board of Directors of Separation from April 1997 to March 2000 and has served as a consultant to Environmental since July 1997. Mr. Toller served as the Vice Chairman of Lanxide from July 1997 to February 1998. Mr. Toller also currently serves as Chairman and Chief Executive Officer of Titan Consultants, Inc. (August 1996 - Present). Mr. Toller had been the Chairman and Chief Executive Officer of Witco Corporation since October 1990 and retired in July 1996. Mr. Toller joined Witco in 1984 as an executive officer when it acquired the Continental Carbon Company of Conoco, Inc., of which he had been the President and an officer since 1955. Mr. Toller is a graduate of the University of Arkansas with a Bachelor's degree in Economics, and the Stanford University Graduate School Executive Program. Mr. Toller serves on the Board of Directors of Chase Industries, Inc., Fuseplus, Inc., of which he is also Chairman of the Organization and Compensation Committee, and the United States Chamber of Commerce, of which he is also a member of the Labor Relations and International Policy Committees. Mr. Toller is also a member of the Board of Trustees and the Executive and Finance Committees of the International Center for the Disabled, a member of the Board of Associates of the Whitehead Institute for Biomedical Research, a member of the National Advisory Board of First Commercial Bank in Arkansas, a member of the Dean's Executive Advisory Board and the International Business Committee at the University of Arkansas, College of Business Administration, and a member of the Board of Presidents of the Stamford Symphony Orchestra. Each director is elected to serve for a term

of one year or until his or her successor is duly elected and qualified. The Company's officers are elected by, and serve at the pleasure of, the Board of Directors, subject to the terms of any employment agreements. Messrs. Hannesson and Blum are brothers-in-law. No family relationship exists among any other directors or executive officers of the Company.

KEY EMPLOYEES The names and ages of the key employees of the Company not listed above, and their positions with the Company as of April 15, 2002, are as follows: Name Age Position ---- William J. Russell 51 Chairman and Chief Executive Officer, DRM Tamie P. Speciale 39 President and Chief Operating Officer, DRM O. Mack Jones 61 President of Advanced Sciences 41 WILLIAM J. RUSSELL has served as Chairman and Chief Executive Officer of DRM since December 1996. Mr. Russell served as Managing Director of KPMG Peat Marwick, LLP's Environment Management Alternative Dispute Resolution Group from March 1995 to December 1996. Mr. Russell served as Vice President of Atlantic Environmental Management from March 1994 to March 1995. Mr. Russell served as General Counsel of Pintlar Corporation (formerly the Bunker Hill Company). Mr. Russell served as Vice President to Gulf Resources & Chemical a NYSE resource company located in Washington, D.C., from February 1992 to March 1994 and was responsible for the company's environmental matters with regard to its status as the owner and primary potentially responsible person of one of the nation's largest Superfund sites. Mr. Russell was engaged in the private practice of law at Elam Burke & Boyd from August 1977 to October 1991, and maintained a practice with an emphasis on environmental law and insurance defense representation. Mr. Russell holds a law degree from the University of Denver. Mr. Russell holds a B.A. degree from the University of Kansas. TAMIE P. SPECIALE has served as President and Chief Operating Officer of DRM since December 1996. Ms. Speciale served as a manager of KPMG Peat Marwick, LLP's Environment Management Alternative Dispute Resolution Group from January 1996 to December 1996. Ms. Speciale was engaged in the private practice of law at Watkiss Dunning & Watkiss, P.C., from January 1995 to December 1995, and maintained a practice with a concentration in environmental law and commercial business law. Ms. Speciale is certified as an arbitrator with the National Association of Security Dealers (NASD). Ms. Speciale holds an MBA, a law degree and a B.S. degree from the University of Utah. O. Mack Jones has been serving as Acting President of Advanced Sciences since February 2001. Mr. Jones also has served as Vice President of Field Operations since April 1998, managing its field treatability studies and commercial projects. On February 28, 2001, Mr. Jones was appointed President of Advanced Sciences. Mr. Jones served as a consultant to the Company from June 1996 to April 1998, assisting in the commercialization of the solvated electron technology. From September 1994 to May 1996, he served as a consultant to Environmental assisting in the development of the solvated electron technology. From 1991 to May 1996, Mr. Jones served as the founder and principal executive officer of an environmental consulting company, Florida Vector Services, which provided both consulting and hands-on remediation services primarily in TSCA-related areas. From 1986 to 1991, Mr. Jones was Vice President-Operations with Quadrex Environmental Company, managing the company's field remediation businesses. Mr. Jones is a professional mechanical engineer who held several managerial operating positions in power generation and distribution arenas during his twenty-six years of service to General Electric Company. His experience includes commercial nuclear, fossil, and hydro power construction and maintenance, industrial power delivery systems, and industrial drives and controls.

BOARD COMMITTEES The Company's Board of Directors has (i) an Audit Committee and (ii) a Compensation, Stock Option and Benefits Committee. The Company no longer maintains an Executive and Finance Committee (the "Finance Committee"). On August 30, 2000, the Board of Directors unanimously voted to abolish the Finance Committee and determined that its function would be performed by the entire Board of Directors. 42 As of December 31, 2001, the Audit Committee was composed of David L. Mitchell, as Chairman, Herbert A. Cohen, Edward L. Palmer and William R. Toller. The responsibilities of the Audit Committee include recommending to the Board of Directors the firm of independent accountants to be retained by the Company, reviewing with the Company's independent accountants the scope and results of their audits, reviewing with the independent accountants and management the Company's accounting and reporting principles, policies and practices, as well as the Company's accounting, financial and operating controls and staff, supervising the Company's policies relating to business conduct and dealing with conflicts of interest relating to officers and directors of the Company. As of December 31, 2001, the Compensation, Stock Option and Benefits Committee, was composed of Herbert A. Cohen, as Chairman, David L. Mitchell, Edward L. Palmer and William R. Toller. The Compensation, Stock Option, and Benefits Committee has responsibility for establishing and reviewing employee and consultant/advisor compensation, bonuses and incentive compensation awards, administering and interpreting the Company's 1998 Stock Option Plan, and determining the recipients, amounts and other terms (subject to the requirements of the 1998 Stock

Option Plan) of options which may be granted under the 1998 Stock Option Plan from time to time and providing guidance to management in connection with establishing additional benefit plans. COMPENSATION OF DIRECTORS The Company pays non-management directors a director's fee in the amount of \$375 per meeting for attendance at the meetings of the Board of Directors, and the Company reimburses the directors for actual expenses incurred in respect of such attendance. The Company does not separately compensate employees for serving as directors. COMPLIANCE WITH SECTION 16(a) of the exchange act Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who own more than 10% of the outstanding shares of the Company's common stock, to file initial reports of beneficial ownership and reports of changes in beneficial ownership of shares of common stock with the Commission and the AMEX. Such persons are required by regulations promulgated under the Exchange Act to furnish the Company with copies of all Section 16(a) forms filed with the Commission. Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the Company during the year ended December 31, 2001, and upon a review of Forms 5 and amendments thereto furnished to the Company with respect to the year ended December 31, 2001, or upon written representations received by the Company from certain reporting persons that such persons were not required to file Forms 5, the Company believes that no director, executive officer or holder of more than 10% of the outstanding shares of common stock failed to file on a timely basis the reports required by Section 16(a) of the Exchange Act during, or with respect to, the year ended December 31, 2001. 43 ITEM 11. EXECUTIVE COMPENSATION. ----- SUMMARY

COMPENSATION The following table sets forth the amount of all compensation paid by the Company and/or its affiliates and allocated to the Company's operations for services rendered during each of 2001, 2000 and 1999 to all persons serving as the Company's Chief Executive Officer during 2000, to each of the Company's four most highly compensated executive officers other than the Chief Executive Officer whose total salary and bonus compensation exceeded \$100,000 during any such year. Summary Compensation Table -----
 Annual Compensation Long-Term Compensation -----

Position	Year	Compensation (\$)	LTIP (\$)	Other Securities (\$)	Name and Principal Position	Salary (\$)	Bonus (\$)	Annual Restricted Award(s) (\$)	Options	All Other Pay-outs
		(a)	(b)	(c)	(d)	(e)	(g)	(g)	(h)	(i)
Shelby T. Brewer, Ph.D.	2001	90,317	(2)	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Chief Executive Officer	2000	58,707	(2)	-0-	-0-	-0-	640,000	(3)	-0-	-0-
Paul E. Hannesson	2001	77,242	(4)	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Former Chief Executive Officer	2000	358,934	(4)	-0-	-0-	-0-	-0-	-0-	-0-	-0-
James M. DeAngelis	2001	133,453	(10)	-0-	-0-	-0-	300,000	(11)	-0-	-0-
Senior Vice President & Chief Financial Officer	1999	147,614	(10)	-0-	-0-	-0-	200,000	(11)	-0-	12,225
William E. Ingram	2001	20,645	(13)	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Former Vice President & Controller	2000	143,755	(16)	-0-	-0-	-0-	-0-	-0-	-0-	-0-
O. Mack Jones	2001	134,805	(16)	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Advanced Sciences	1999	152,663	(16)	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Peter E Harrod	2001	49,460	(18)	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Former President	2000	187,036	(18)	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Advanced Sciences	1999	170,501	(18)	-0-	-0-	-0-	200,000	(19)	-0-	-0-

----- 44 (1) Mr. Brewer served as Chief Executive Officer and President of Solutions and a director of the Company since April 2000. Mr. Brewer assumed the positions of Chairman, Chief Executive Officer and President of the Company as of January 15, 2001. (2) Represents the amount of Mr. Brewer's base salary allocated to the Company. Mr. Brewer's base salary for 2001 was \$250,000 of which \$160,000 originally deferred until December 31, 2001, and remains unpaid as of March 25, 2002. Mr. Brewer's base salary for 2000 was \$90,000. (3) Represents shares of common stock underlying stock options granted to Mr. Brewer by the Company in his capacity as an officer and director of the Company. (4) Represents the amount of Mr. Hannesson's base salary allocated to the Company. The Company previously recorded a liability for \$344,000 representing amounts owed to Mr. Hannesson under his employment contract, but deferred per agreement. The deferred salary amount was used by Mr. Hannesson to offset a portion of the exercise price and taxes with respect to Mr. Hannesson's stock option exercise of 830,000 stock options in July 2000. See "Certain Relationships and Related Transactions--Services Agreement." Mr. Hannesson was replaced by Shelby T. Brewer effective January 15, 2001. Mr. Hannesson remains a director of the Company. (5) Represents the amount of Mr.

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Hannesson's automobile allowance allocated to the Company. Mr. Hannesson was replaced by Shelby T. Brewer effective January 15, 2001. Mr. Hannesson remains a director of the Company. (6) Represents shares of common stock underlying stock options granted to Mr. Hannesson by the Company in his capacity as an officer and director of the Company. (7) Represents moving allowances paid to Mr. Hannesson in 1999. (8) Represents amounts paid to Mr. Adelman in 1999 in satisfaction of his employment agreement. Dr. Adelman resigned his management positions effective December 31, 1998. Mr. Adelman concluded his term as a Director of the Company on August 30, 2000. (9) Mr. DeAngelis served as Vice President and Treasurer of the Company from July 1998 to December 1999 and as Sr. Vice President, Chief Financial and Administrative Officer, Treasurer and Secretary from December 1999 to present. (10) Represents the amount of Mr. DeAngelis' base salary allocated to the Company. Mr. DeAngelis' total base salary for 2001 was \$165,000 of which \$33,000 originally deferred until December 31, 2001, and remains unpaid as of March 25, 2002. Mr. DeAngelis' base salary for 2000 and 1999 was \$165,000 and \$145,000 respectively. (11) Represents shares of common stock underlying stock options granted to Mr. DeAngelis by the Company in his capacity as an officer of the Company. (12) Represents moving allowances paid to Mr. DeAngelis in 1999. (13) Represents the amount of Mr. Ingram's base salary allocated to the Company. Mr. Ingram's total base salary for 2001, 2000 and 1999 was \$150,000. Mr. Ingram resigned his management position effective January 12, 2001. (14) Represents shares of common stock underlying stock options granted to Mr. Ingram by the Company in his capacity as an officer of the Company. Mr. Ingram resigned his management position effective January 12, 2001. (15) Mr. Jones served as Vice President and Field Operations Manager of Solutions from April 1998 to January 2001 and as President of Advanced Sciences from February 2001 to present. (16) Represents the amount of Mr. Jones' base salary allocated to the Company. Mr. Jones' total base salary for 2001 was \$165,000 of which \$33,000 originally deferred until December 31, 2001, and remains unpaid as of March 25, 2002. Mr. Jones' base salary for 2000 and 1999 was \$150,000. (17) Represents shares of common stock underlying stock options granted to Mr. Jones the Company in his capacity as an officer of the Company. (18) Represents the amount of Mr. Harrod's base salary allocated to the Company, through its wholly owned subsidiary, Advanced Sciences. Mr. Harrod's total base salary for 1997, 1998 and 1999 was \$150,000, \$170,000, and \$190,000 respectively. Mr. Harrod resigned his management position effective February 28, 2001. (19) Represents shares of common stock underlying stock options granted to Mr. Harrod by the Company in his capacity as an officer of the Company. Mr. Harrod resigned his management position effective February 28, 2001.

45 STOCK OPTIONS The following table sets forth certain information concerning options granted during the year ended December 31, 2001 to the individuals listed in the Summary Compensation Table pursuant to the Company's 1998 Stock Option Plan (the "1998 Plan"). The Company has no outstanding stock appreciation rights and granted no stock appreciation rights during the year ended December 31, 2001. Option Grants in Last Fiscal Year Individual Grants ----- Potential Realizable Value at Assumed Number of Percent of Annual Rates of Securities Total Options Exercise of Stock Price Appreciation Underlying Granted to Base for Option Term(5) Options Employees in Price Expiration ----- Name Granted (#) Fiscal Year(4) (\$/Share) Date 5% (\$) 10% (\$) -----

Name	Granted (#)	Fiscal Year(4)	(\$/Share)	Date	5% (\$)	10% (\$)	-----
Shelby T. Brewer.....	(a)	(b)	(c)	(d)	(e)	(f)	(g)
James M. DeAngelis.....	300,000(2)	32.61%	0.28	12/14/08	-0-	17,156 O.	
Mack Jones.....	100,000(3)	10.87%	0.28	12/14/08	-0-	5,719	(1) Options to purchase 200,000 shares of common stock were issued on March 9, 2001 of which 100% vested upon issuance. (2) Options to purchase 300,000 shares of common stock were issued on March 9, 2001 of which 100% vested upon issuance. (3) Options to purchase 100,000 shares of common stock were issued on March 9, 2001 of which 100% vested upon issuance. (4) Percentages based on 920,000 stock options granted (the 1998 Plan) during the year ended December 31, 2001. (5) The closing price for the Company's common stock on December 31, 2001 was \$0.13. The closing price is used for all the subsequent stock appreciation calculations.

46 The following table sets forth certain information concerning the exercise of options and the value of unexercised options held under the 1998 Plan at December 31, 2001 by the individuals listed in the Summary Compensation Table. Aggregated Option Exercises In Last Fiscal Year and Fiscal Year-End Option Values Number of Securities Underlying Value of Unexercised Unexercised Options In-the-Money Options Shares Value at Fiscal Year-End(#) at Fiscal Year-End(\$)

Name	Exercise (#)	(\$)	(1) Un-exercisable	(2) Un-exercisable
Shelby T. Brewer.....	-0-	-0-	840,000	-0-
Paul E. Hannesson.....	-0-	-0-	1,147,500	1,000,000
James M. DeAngelis.....	-0-	-0-	681,250	-0-

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O. Mack Jones..... -0- -0- 437,500/ -0- -0- / -0- Peter E. Harrod..... -0- -0- 353,000 / 102,000 -0- / -0- (1) Represents the difference between the last reported sale price of the Common Stock on December 31, 2001 (\$0.13), and the exercise price of the option (\$0.28 to \$0.688) multiplied by the applicable number of options exercised. (2) Represents the difference between the exercise price and the closing price on December 31, 2001, multiplied by the applicable number of securities.

EMPLOYMENT AGREEMENTS William J. Russell and Tamie P. Speciale, former owners of DRM, entered into employment agreements with DRM for a term expiring on August 31, 2005. Pursuant to such employment agreement, Mr. Russell and Ms. Speciale agreed to devote their business and professional time and efforts to the business of DRM as senior executive officers. The employment agreements provide that Mr. Russell and Ms. Speciale, each shall receive, among other things, a base salary at an annual rate of \$262,500 through December 31, 2001, and will receive not less than \$275,000 through December 31, 2002 and not less than \$290,000 through December 31, 2003, for services rendered to DRM and certain of its affiliates, including the Company. The Company has no other employment contracts.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION The individuals who served as members of the Compensation, Stock Option and Benefits Committee (the "Compensation Committee") during the year ended 47 December 31, 2001 were Herbert A. Cohen (Chairman), David L. Mitchell, Edward L. Palmer and William R. Toller. Mr. Mitchell served as a consultant to the Company from July 15, 1997 to August 14, 1998, and received compensation in the amount of \$10,000 per month for services rendered to the Company in such capacity.

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION The Compensation Committee was established in November 1996 and is responsible for, among other things, establishing the compensation policies applicable to executive officers of the Company. The Compensation Committee was composed of Herbert A. Cohen (Chairman), David L. Mitchell, Edward L. Palmer and William R. Toller at December 31, 2001, all of whom were non-employee Directors of the Company. All decisions of the Compensation Committee relating to the compensation of the Company's executive officers are reviewed by, and are subject to the final approval of, the full Board of Directors of the Company. Set forth below is a report prepared by Mr. Cohen, Mr. Mitchell and Mr. Toller in their capacities as members of the Compensation Committee at December 31, 2001, addressing the Company's compensation policies for 2001 as they affected the Company's executive officers.

Overview and Philosophy The Company's executive compensation program is designed to be linked to corporate performance and returns to stockholders. Of particular importance to the Company is its ability to grow and enhance its competitiveness for the rest of the decade and beyond. Shorter-term performance, although scrutinized by the Compensation Committee, stands behind the issue of furthering the Company's strategic goals. To this end, the Company has developed an overall compensation strategy and specific compensation plans that tie a significant portion of executive compensation to the Company's success in meeting specified performance goals. The objectives of the Company's executive compensation program are to: o attract, motivate and retain the highest quality executives; o motivate them to achieve tactical and strategic objectives in a manner consistent with the Company's corporate values; and o link executive and stockholder interest through equity-based plans and provide a compensation package that recognizes individual contributions as well as overall business results. To achieve these objectives, the Company's executive compensation program is designed to: o focus participants on high priority goals to increase stockholder value; o encourage behavior that exemplifies the Company's values relating to customers, quality of performance, employees, integrity, teamwork and good citizenship; o assess performance based on results and pre-set goals that link the business activities of each individual to the goals of the Company; and 48 o increase stock ownership to promote a proprietary interest in the success of the Company.

Executive Officer Compensation Each year the Compensation Committee conducts a full review of the Company's executive compensation program. This review includes a comprehensive evaluation of the competitiveness of the Company's compensation program and a comparison of the Company's executive compensation to certain other public companies, which in the view of the Compensation Committee represent the Company's most direct competitors for executive talent. It is the Compensation Committee's policy to target overall compensation for executive officers of the Company taking into account the levels of compensation paid for such positions by such other public companies. A variety of other factors, however, including position and time in position, experience, and both Company performance and individual performance, will have an impact on individual compensation amounts. The key elements of the Company's executive compensation program in 2001 consisted of base salary, annual incentive compensation and long-term incentive compensation in the form of stock options. The Compensation Committee's policies with respect to each of these elements, including the basis for the compensation awarded to the Company's Chief Executive Officer, are discussed

below. Base Salaries. Base salaries for executive officers are established by evaluating, on an annual basis, the performance of such individuals (which evaluation involves management's consideration of such factors as responsibilities of the positions held, contribution toward achievement of the Company's strategic plans, attainment of specific individual objectives and interpersonal managerial skills), and by reference to the marketplace for executive talent, including a comparison to base salaries for comparable positions at other similar public companies. In 2001, total compensation was paid to executives primarily based upon individual performance and the extent to which the business plans for their areas of responsibility were achieved or exceeded. On balance, performance goals were substantially met or exceeded and therefore compensation was paid accordingly. Mr. Brewer, the Chairman of the Board, President and Chief Executive Officer of the Company received annual compensation based upon, among other things, individual performance and the extent to which the business plans for his areas of responsibility were achieved or exceeded. Mr. Brewer received a base salary at an annual rate of \$250,000 in 2001, of which \$160,000 was deferred until December 31, 2001 and remains unpaid as of April 15, 2001, for services rendered to the Company. The members of the Compensation Committee establish the amount actually received by Mr. Brewer each year as base salary for services rendered to the Company and its affiliates. In establishing Mr. Brewer's base salary for 2001, the Compensation Committee took into account the salaries of chief executive Officers at other similar public companies, future objectives and challenges, and Mr. Brewer's individual performance, contributions and leadership. The Compensation Committee reviewed in detail Mr. Brewer's achievement of his 2000 goals and his individual contributions to the Company and its affiliates. The Compensation Committee concluded that he had achieved his 2000 goals and had provided a leadership role in achieving the Company's and its affiliates' strategic priorities for 2000. The Compensation Committee also considered Mr. Brewer's decisive management of operational and strategic issues, his drive to reinforce a culture of innovation and his ability and dedication to enhance the long-term value of the Company and its affiliates for their respective stockholders. In making its salary decisions with respect to Mr. Brewer, the Compensation Committee exercised its discretion and judgment based on the above factors, and no specific formula was applied to determine the weight of each factor. Mr. Brewer's base salary increased from \$90,000 for 2000 to \$250,000 for 2001, representing an increase of approximately 277%. On January 15, 2001, Mr. Brewer agreed to defer a portion of his base salary (64%), reducing his base salary to \$90,000, of which \$160,000 was deferred until December 31, 2001 and remains unpaid as of April 15, 2001. Annual Incentive Bonus. Annual incentive bonuses for executive officers are intended to reflect the Compensation Committee's belief that a significant portion of the annual compensation of each executive officer should be contingent upon the performance of the Company. During 2001, no annual incentive bonuses were paid to the individuals named in the Summary Compensation Table. Stock Options. The Compensation Committee has the power to grant stock options under the 1998 Plan. With respect to executive officers, it has been the Compensation Committee's practice to grant, on an annual basis, stock options that vest at the rate of 20% upon grant and 20% in each calendar year thereafter for four years, and that are exercisable over a ten-year period at exercise prices per share set at the fair market value per share on the date of grant. Generally, the executives must be employed by the Company at the time the options vest in order to exercise the options and, upon announcement of a Change in Control (pursuant to and as defined in the 1998 Plan), such options become immediately exercisable. The Compensation Committee believes that stock option grants provide an incentive that focuses the executives' attention on managing the Company from the perspective of an owner with an equity stake in the business. The Company's stock options are tied to the future performance of the Company's stock and will provide value to the recipient only when the price of the Company's stock increases above the option grant price. A total of 920,000, 2,243,769 and 3,259,323 stock options were granted pursuant to the 1998 Plan in 2001, 2000 and 1999 respectively. 200,000 and 640,000 of such options were granted to Mr. Brewer in 2001 and 2000 respectively, and 400,000, 0, and 3,100,000 of such options were granted (in the aggregate) to other individuals named in the Summary Compensation Table in 2001, 2000 and 1999 respectively. The number of stock options granted in 2001, 2000 and 1999 were determined by reference to the long-term compensation for comparable positions at other similar public companies and based upon an assessment of individual performance. Impact of Section 162(m) of the Internal Revenue Code The Compensation Committee's policy is to structure compensation awards for executive officers that will be consistent with the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). Section 162(m) limits the Company's tax deduction to \$1.0 million per year for certain compensation paid in a given year to the Chief Executive Officer and the four highest compensated executives other than the Chief Executive Officer named in the Summary Compensation Table. According to the Code and corresponding regulations,

compensation that is based on attainment of pre-established, objective performance goals and complies with certain other requirements will be excluded from the \$1.0 million deduction limitation. The Company's policy is to structure compensation awards for covered executives that will be fully deductible where doing so will further the purposes of the Company's executive compensation program. However, the Compensation Committee also considers it important to retain flexibility to design compensation programs that recognize a full range of performance criteria important to the Company's success, even where compensation payable under such programs may not be fully deductible. The 50 Company expects that all compensation payments in 2001 to the individuals listed in the Summary Compensation Table will be fully deductible by the Company. Conclusion The Compensation Committee believes that the quality of executive leadership significantly affects the long-term performance of the Company and that it is in the best interest of the stockholders to compensate fairly executive leadership for achievement meeting or exceeding the high standards set by the Compensation Committee, so long as there is a corresponding risk when performance falls short of such standards. A primary goal of the Compensation Committee is to relate compensation to corporate performance. Based on the Company's performance in 2001, the Compensation Committee believes that the Company's current executive compensation program meets such standards and has contributed, and will continue to contribute, to the Company's and its stockholders' long-term success. COMPENSATION, STOCK OPTION AND BENEFITS COMMITTEE Herbert A. Cohen (Chairman) David L. Mitchell Edward L. Palmer William R. Toller The Report of the Compensation Committee on Executive Compensation shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report into any filing under the Securities Act, or under the Exchange Act, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts. 51

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT -----

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS The following table sets forth certain information, as of December 31, 2001, with respect to the beneficial ownership of common stock by each person known to the Company to be the beneficial owner of more than 5% of the outstanding shares of common stock of the Company. Unless otherwise indicated, the owners have sole voting and investment power with respect to their respective shares. Number of Shares Percentage of Outstanding Name and Address of of Common Stock Shares of Common Stock Beneficial Owner Beneficially Owned(4) Beneficially Owned -----

-----	Commodore Environmental Services, Inc.(1).....	8,382,302(5)	14.54%	Credit Agricole
Deux Sevres(2).....	7,759,048(6)	13.43%	William J. Russell(3).....	7,952,071(7)
Speciale(3).....	7,952,071(8)	13.17%	Bentley J. Blum(1).....	3,742,481(9)
				6.49%

(1) The address of Commodore Environmental Services, Inc., Bentley J. Blum and Paul E. Hannesson is 150 East 58th Street, Suite 3238, New York, New York 10155. Messrs. Blum and Hannesson are brothers-in-law. (2) The address of Credit Agricole Deux Sevres is 4 Boulevard Louis Tardy, 79000 Niort, France. (3) The address of Tamie P. Speciale and William J. Russell is 132 West Pierpoint Avenue, Suite 400, Salt Lake City, Utah 84101. (4) As used herein, the term beneficial ownership with respect to a security is defined by Rule 13d-3 under the Exchange Act as consisting of sole or shared voting power (including the power to vote or direct the disposition of) with respect to the security through any contract, arrangement, understanding, relationship or otherwise, including a right to acquire such power(s) during the next 60 days. Unless otherwise noted, beneficial ownership consists of sole ownership, voting and investment rights. (5) Excludes warrants to purchase an aggregate of 17,901,988 shares of common stock at exercise prices ranging from \$1.24 per share to \$5.49 per share. See "Market for Registrant's Common Equity and Related Stockholder Matters--Recent Sales of Unregistered Securities" and "Certain Relationships and Related Transactions." (6) Consists of (i) 6,000,000 shares of common stock pledged to Credit Agricole Deux Sevres from Environmental in connection with Environmental's default on \$4.0 million of convertible bonds on February 06, 2001; and (ii) Credit Agricole Deux Sevres' indirect beneficial ownership of common stock based upon their ownership of 16,800,000 shares of Environmental's common stock pledged to Credit Agricole Deux Sevres from Environmental in connection with Environmental's default on \$4.0 million of convertible bonds on February 06, 2001. (7) Consists of (i) 6,960,000 shares of our common stock issued to Mr. William J. Russell and Nancy E. Russell with joint tenancy and rights of survivorship, by the company in connection with our acquisition of 81.0% of DRM; (ii) 300,000 shares of our common stock underlying currently exercisable employee stock options granted to Mr. Russell at an exercise price of \$1.125 per share; and (iii) 340,000 shares of our common stock underlying a currently exercisable five year warrant at an exercise price of \$2.00 per share granted to Mr. William J. Russell and Nancy E. 52 Russell with joint tenancy and

rights of survivorship, by the Company in connection with our acquisition of 81.0% of DRM. (8) Consists of (i) 6,960,000 shares of our common stock issued to Tamie P. Speciale and George H. Speciale with joint tenancy and rights of survivorship, by the Company in connection with our acquisition of 81.0% of DRM; (ii) 300,000 shares of our common stock underlying currently exercisable employee stock options granted to Ms. Speciale at an exercise price of \$1.125 per share; and (iii) 340,000 shares of our common stock underlying a currently exercisable five year warrant at an exercise price of \$2.00 per share granted to Ms. Tamie P. Speciale and George H. Speciale with joint tenancy and rights of survivorship, by the Company in connection with our acquisition of 81.0% of DRM. (9) Consists of: (i) 105,000 shares of the Company common stock underlying currently exercisable options granted to Mr. Blum by the Company under the Plan; and (ii) Mr. Blum's indirect beneficial ownership of common stock based upon his beneficial ownership of 28,479,737 shares and his spouse's ownership of 2,000,000 shares of Environmental common stock, representing together 37.74% of the outstanding shares of Environmental common stock at March 15, 2001, and 4,500,000 shares of Environmental common stock underlying currently exercisable stock options, representing together 41.02% of the outstanding shares of Environmental. Does not include 450,400 shares of Environmental common stock owned by Simone Blum, the mother of Mr. Blum, and 385,000 shares of Environmental common stock owned by Samuel Blum, the father of Mr. Blum. Mr. Blum disclaims any beneficial interest in the shares of Environmental common stock owned by his spouse, mother and father. 53 SECURITY OWNERSHIP OF MANAGEMENT The following table sets forth certain information with respect to the beneficial ownership of common stock as of April 15, 2002 by (i) each person known to the Company to be the beneficial owner of more than 5% of the outstanding shares of common stock of the Company, (ii) each Director, (iii) each individual listed in the Summary Compensation Table herein, and (iv) all executive officers and Directors of the Company as a group, as reported by such persons. Unless otherwise indicated, the owners have sole voting and investment power with respect to their respective shares. Percentage of Outstanding Name and Address of Number of Shares Shares of Common Stock Beneficial Owner(1) Beneficially Owned(4) Beneficially Owned -----

Commodore Environmental Services, Inc.....			
8,456,677(5)	14.54%	Credit Agricole(2)	7,759,048(6) 13.43%
7,600,000(7)	13.17%	Tamie P. Speciale(3).....	7,600,000(8) 13.17%
3,742,481(9)	6.55%	Shelby T. Brewer, PhD.....	1,985,167(11) 3.42%
1,491,978(10)	2.59%	James M. DeAngelis.....	734,679(12) 1.30%
141,000(16)	*	David L. Mitchell.....	140,000(17) *
140,000(19)	*	All executive officers and Directors as a 10,196,025 17.62% group (10 persons).....	* Percentage ownership is less than 1%. (1) Unless otherwise noted the address of each beneficial owner is 150 East 58th Street, Suite 3238, New York, New York 10155. Messrs. Blum and Hannesson are brothers-in-law. (2) The address of Credit Agricole Deux Sevres is 4 Boulevard Louis Tardy, 79000 Niort, France. (3) The address of Tamie P. Speciale and William J. Russell is 132 West Pierpoint Avenue, Suite 400, Salt Lake City, Utah 84101. (4) As used herein, the term "beneficial ownership" with respect to a security is defined by Rule 13d-3 under the Exchange Act as consisting of sole or shared voting power (including the power to vote or direct the disposition of) with respect to the security through any contract, arrangement, understanding, relationship or otherwise, including a right to acquire such power(s) during the next 60 days. Unless otherwise noted, beneficial ownership consists of sole ownership, voting and investment rights. (5) Excludes warrants to purchase an aggregate of 19,185,171 shares of common stock at exercise prices ranging from \$1.17 per share to \$5.11 per share. See "Market for Registrant's Common Equity and Related Stockholder Matters--Recent Sales of Unregistered Securities" and "Certain Relationships and Related Transactions." 54 (6) Consists of (i) 6,000,000 shares of our common stock pledged to Credit Agricole Deux Sevres from Environmental in connection with Environmental's default on \$4.0 million of convertible bonds on February 06, 2001; and (ii) Credit Agricole Deux Sevres' indirect beneficial ownership of our common stock based upon its ownership of 16,800,000 shares of Environmental's common stock pledged to Credit Agricole Deux Sevres from Environmental in connection with Environmental's default on \$4.0 million of convertible bonds on February 06, 2001. (Verify calculation - See table) (7) Consists of (i) 6,960,000 shares of our common stock issued to Mr. William J. Russell and Nancy E. Russell with joint tenancy and rights of survivorship, by the Company in connection with our acquisition of 81.0% of DRM; (ii) 300,000 shares of our common stock underlying currently exercisable employee stock options granted to Mr. Russell at an exercise price of \$1.125 per share; and (iii) 340,000 shares of our common stock underlying a currently exercisable five year warrant at

an exercise price of \$2.00 per share granted to Mr. William J. Russell and Nancy E. Russell with joint tenancy and rights of survivorship, by the Company in connection with our acquisition of 81.0% of DRM. (8) Consists of (i) 6,960,000 shares of our common stock issued to Tamie P. Speciale and George H. Speciale with joint tenancy and rights of survivorship, by the Company in connection with our acquisition of 81.0% of DRM; (ii) 300,000 shares of our common stock underlying currently exercisable employee stock options granted to Ms. Speciale at an exercise price of \$1.125 per share; and (iii) 340,000 shares of our common stock underlying a currently exercisable five year warrant at an exercise price of \$2.00 per share granted to Ms. Tamie P. Speciale and George H. Speciale with joint tenancy and rights of survivorship, by the Company in connection with our acquisition of 81.0% of DRM. (9) Consists of: (i) 140,000 shares of the Company's common stock underlying currently exercisable options granted to Mr. Blum by the Company under the Plan; and (ii) Mr. Blum's indirect beneficial ownership of common stock based upon his beneficial ownership of 28,479,737 shares and his spouse's ownership of 2,000,000 shares of Environmental common stock, representing together 37.74% of the outstanding shares of Environmental common stock at March 15, 2002, and 4,500,000 shares of Environmental common stock underlying currently exercisable stock options, representing together 41.02% of the outstanding shares of Environmental. Does not include 450,400 shares of Environmental common stock owned by Simone Blum, the mother of Mr. Blum, and 385,000 shares of Environmental common stock owned by Samuel Blum, the father of Mr. Blum. Mr. Blum disclaims any beneficial interest in the shares of Environmental common stock owned by his spouse, mother and father. (10) Consists of: (i) 830,000 shares of common stock; (ii) Mr. Hannesson's indirect beneficial ownership of common stock based upon his ownership of an aggregate of (a) 2,650,000 shares of Environmental common stock owned by Suzanne Hannesson, the spouse of Mr. Hannesson, (b) 2,650,000 shares of Environmental common stock owned by the Hannesson Family Trust (Suzanne Hannesson and John D. Hannesson, trustees) for the benefit of Mr. Hannesson's spouse and (c) 500,000 shares of Environmental common stock in exchange for options to purchase 950,000 shares of Environmental common stock, issued to Hannesson Family Trust, representing together 7.18% of the outstanding shares of Environmental common stock as of March 15, 2001, and (d) currently exercisable options to purchase 525,705 shares of Environmental common stock, representing together 7.78% of the outstanding shares of Environmental common stock. Does not include 1,000,000 shares of Environmental common stock owned by each of Jon Paul and Krista Hannesson, the adult children of Mr. Hannesson. Mr. Hannesson disclaims any beneficial interest in the shares of Environmental common stock owned by or for the benefit of his spouse and children. It also does not include 1,000,000 shares of common stock underlying stock options granted to Mr. Hannesson by the Company that are not currently exercisable. (11) Consists of: (i) 3,500 shares of common stock; (ii) 840,000 shares of common stock underlying currently exercisable stock options granted to Mr. Brewer by the Company under the 1998 Plan; (iii) 100,000 shares of common stock underlying a currently exercisable 2-year warrant at an exercise price of \$1.06 per share granted to SB Enterprises by the Company in connection with the Brewer Note; and (iv) 1,041,667 shares of our common stock issued pursuant to the Restated Brewer Note, dated as of March 15, 2001, between the Company and SB Enterprises and a subsequent conversion notice for 50% of the outstanding principal dated as of April 9, 2001. (12) Consists of (i) 16,500 shares of common stock; (ii) 681,250 shares of common stock underlying currently exercisable stock options granted to Mr. DeAngelis by the Company under the Company's 1998 Plan; and (iii) Mr. DeAngelis' indirect beneficial ownership of common stock based upon his ownership of 580,000 shares of Environmental. 55 (13) Consists of 353,000 shares of common stock underlying currently exercisable stock options granted to Mr. Harrod by the Company under the Company's 1998 Plan. (Disclose on Table) (14) Consists of (i) 90,000 shares of common stock; and (ii) 100,000 of common stock underlying currently exercisable stock options granted to Mr. Ingram by the Company under the Company's 1998 Plan. (Disclose on Table) (15) All stock options granted to Mr. Adelman by the Company under the Company's 1998 Plan have expired by their terms and conditions. (16) Consists of (i) 1,000 shares of common stock; and (ii) 140,000 shares of common stock underlying currently exercisable stock options granted to Mr. Cohen by the Company under the Company's 1998 Plan. (17) Consists of 140,000 shares of common stock underlying currently exercisable stock options granted to Mr. Mitchell by the Company under the Company's 1998 Plan. (18) Consists of 140,000 shares of common stock underlying currently exercisable stock options granted to Mr. Palmer by the Company under the Company's 1998 Plan. (19) Consists of 140,000 shares of common stock underlying currently exercisable stock options granted to Mr. Toller by the Company under the Company's 1998 Plan. Messrs. Blum and Hannesson are brothers-in-law. ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS. -----
----- ORGANIZATION AND CAPITALIZATION OF THE COMPANY Since its

acquisition of the capital stock of Commodore Laboratories, Inc. (the Company's predecessor) in 1993, Environmental has advanced an aggregate of \$8,925,426 to the Company, which has been used to finance the development of SET, including salaries of personnel, equipment, facilities and patent prosecution. These cash advances by Environmental were evidenced by successive unsecured 8% promissory notes of the Company's predecessor, and, at December 31, 1995, by the Environmental Funding Note. Kraft Capital Corporation ("Kraft"), a corporation wholly owned by Bentley J. Blum, a principal stockholder of Environmental and a director of the Company and of Environmental, provided approximately \$656,000 of such financing to Environmental. Environmental provided additional advances to the Company of \$978,896 for the first fiscal quarter of 1996, which were repaid by the Company subsequent to its obtaining a line of credit from a commercial bank in April 1996. See "Management's Discussion and Analysis of Financial Condition and Results of Operations --Liquidity and Capital Resources." In March 1996, the Company was formed as a wholly owned subsidiary of Environmental. Prior to its IPO, in exchange for the issuance of 15,000,000 shares of common stock, Environmental contributed to the Company (i) all of the assets and properties (including joint working proposals, quotations and bids in respect to projects and contracts awarded for feasibility studies), subject to all of the liabilities, of its operating divisions relating to SET and the exploitation of the SET technology and processes in all commercial and governmental applications; (ii) all of the outstanding shares of the capital stock of each of Commodore Laboratories, Inc., Commodore Remediation Technologies, Inc., Commodore Government Environmental Technologies, Inc., Commodore Technologies, Inc. and Sandpiper Properties, Inc. (except for a 9.95% 56 minority interest in Commodore Laboratories, Inc. which at the time was held by Albert E. Abel); and (iii) a portion of the Environmental Funding Note in the amount of \$3.0 million. In April 1996, Bentley J. Blum personally guaranteed a \$2.0 million line of credit for the Company from a commercial bank. The initial borrowings under the line of credit, in the approximate amount of \$1.0 million, were utilized to repay advances made by Environmental to the Company in 1996, and Environmental, in turn, utilized such funds to repay Kraft the funds provided by Kraft to Environmental for purposes of the advances to the Company. The Company applied \$2.0 million of the net proceeds of its IPO to repay the line of credit, and Mr. Blum's guarantee was released at such time. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources." Upon completion of the IPO in June 1996, Environmental acquired from Albert E. Abel the remaining 9.95% of the outstanding shares of common stock of Commodore Laboratories, Inc. and contributed such shares to the Company for no additional consideration. To acquire the remaining shares of Commodore Laboratories, Inc., Environmental paid Mr. Abel the sum of \$750,000 in cash, and issued a ten-year, 8% promissory note to Mr. Abel in the principal amount of \$2,250,000, payable as to interest only until the maturity of the note on the tenth anniversary of the date of issuance. Simultaneously, the Company settled all outstanding obligations for accrued compensation payable to Mr. Abel and for amounts receivable by the Company from Mr. Abel, and the net payment to Mr. Abel arising therefrom approximated \$120,000. The Company paid such amount to Mr. Abel from the proceeds of its IPO. In October 1996, the Company acquired all of the outstanding shares of capital stock of Advanced Sciences. Advanced Sciences, together with its subsidiaries, provides a full range of environmental and technical services, including identification, investigation, remediation and management of hazardous and mixed waste sites, to government agencies, including the DOD and DOE, and to private companies located in the United States and abroad. In consideration for all of the outstanding shares of capital stock of Advanced Sciences, the former shareholders of Advanced Sciences received an aggregate of 450,000 shares of common stock. Simultaneously, the Company also acquired all of the outstanding shares of capital stock of ASE. ASE, a newly formed entity with no history of operations, had an option to purchase all of the outstanding capital stock of Advanced Sciences and was acquired by the Company for the purpose of enabling the Company to effect its acquisition of Advanced Sciences. The former shareholders of ASE received, in consideration for all of the outstanding shares of capital stock of ASE, an aggregate of 450,000 shares of Company's common stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources." In December 1996, the Company transferred certain of its operating assets related to its SET technology to Solution, subject to certain liabilities related to such assets, in exchange for 100 shares of common stock of Solution, representing all of the issued and outstanding shares of capital stock of Solution. Solution agreed to assume all of the net assets of the Company relating to its SET technology at December 1, 1996, which assets had an aggregate value of approximately \$4.0 million at such date, and all known or unknown contingent or un-liquidated liabilities of and claims against the Company and its subsidiaries to the extent they relate to or arise out of the transferred assets. The Company retained, among other things, (a) all temporary cash investments of the

Company at December 1, 1996, aggregating approximately \$14.1 million, and (b) the principal executive offices and related assets of the Company that, at the time, were located in McLean, Virginia. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources." 57 In December 1996, as part of a corporate restructuring to consolidate all of its current environmental technology businesses within the Company, Environmental transferred to the Company all of the capital stock of Separation and CFC Technologies. In addition, Environmental assigned to the Company notes aggregating \$976,200 at December 2, 1996, representing advances previously made by Environmental to Separation. Such advances have been capitalized by the Company as its capital contribution to Separation. In consideration for such transfers, the Company paid Environmental \$3.0 million in cash and issued to Environmental a warrant expiring December 2, 2003 to purchase 7,500,000 shares of the Company's common stock at an exercise price of \$15.00 per share, valued at \$2.4 million. Such warrant was subsequently amended to, among other things, reduce the exercise price thereof to \$10.00 per share. See "--February 1998 Intercompany Note" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources." On August 30, 2000, the Company entered into a stock purchase agreement with DRM and its two shareholders, William J. Russell and Tamie P. Speciale. Under terms of the agreement, the Company purchased 81% of the issued and outstanding capital stock of DRM from the two shareholders. The consideration to these shareholders (and their designees) consisted of: a) 10,500,000 shares of common stock, of which 9,500,000 subject to a one-year option to repurchase any or all shares, which expired on August 30, 2001. b) 5 million shares of common stock in exchange for an option to purchase the remaining 19% interest in DRM at the end of five years. The option price will be based upon the relative appraised values of DRM and the Company at the end of the five-year period. c) Five-year warrants to purchase up to an aggregate of 1,000,000 shares of the Company's common stock at an exercise price of \$2.00 per share. d) Quarterly earn-out distributions equal to 35% of the cash flow of DRM over an earn-out period commencing as of September 1, 2000 and ending December 31, 2005. The Company has agreed that if DRM has not distributed to these shareholders a total of \$10.0 million in cash in earn-out payments by December 31, 2003, the Company will pay to the two shareholders the difference between \$10.0 million and the actual cash distributed. The Company may, in its sole discretion, pay such difference by issuing shares of its common stock. The Company has an irrevocable obligation to repurchase from the former shareholders of DRM, by May 16, 2002, that number of 9.5 million shares of the Company's common stock (at a per share price equal to the greater of \$1.50 or the closing price of our common stock as of 30 days prior to purchase) as shall be necessary to provide the holders of such shares with a total of \$14.5 million. The original repurchase obligation deadline of August 30, 2001, subsequently extended through May 16, 2002 by a series of extensions (initially extended to September 29, 2001, further extended to October 29, 2001, further extended to January 16, 2002 and subsequently extended until May 16, 2002). As partial security for the payment of such obligation, all of the shares of DRM common stock owned by the Company have been pledged to Messrs. William J. Russell and Tamie P. Speciale, the former sole stockholders of DRM. In the event 58 the Company is unable to make such \$14.5 million payment when due, the pledgees may foreclose on the DRM stock, and the Company would lose its entire equity ownership in the DRM subsidiary. In September 2000, the Company completed \$500,000 in financing in the form of a loan (the "Brewer Note") from S. Brewer Enterprises, Inc. ("SB Enterprises"), which is owned by one of its officers and directors, Shelby T. Brewer, Chairman of the Board and Chief Executive Officer of the Company. The Brewer Note bears a 9.75% interest rate, payable monthly, with a balloon principal payment at the end of the term. The note was due and payable on March 15, 2001 and was extended under the same terms and conditions until December 31, 2001. The Brewer Note is convertible into common stock at the market price up through December 31, 2001. On March 15, 2001, SB Enterprises executed an Amended and Restated Promissory Note (the "Restated Brewer Note"), which extended the maturity date of the note until December 31, 2001. Additionally, the conversion feature of the Restated Brewer Note was changed to the 5-day average closing price of the Company's common stock prior to a conversion notice. On April 9, 2001, SB Enterprises issued a conversion notice for \$250,000 of the outstanding principal of the Brewer Restated Note. The conversion price was calculated by the previous 5-day average of the closing price of the Company's common stock and was converted into 1,041,667 shares. The remaining principal balance of \$250,000 is outstanding as of April 15, 2002. The Company has not been notified of the holder's intent to declare a default on the Restated Brewer Note. In November 2000, the Company completed \$500,000 in financing in the form of a loan (the "Weiss Group Note") from a group of four investors; \$75,000 of which was borrowed from the son of Paul E. Hannesson, our former President and Chief Executive Officer, and \$25,000 of which was borrowed

from Stephen A. Weiss, a shareholder of Greenberg Traurig, LLP, our former corporate and securities counsel. The Weiss Group Note bears interest at 12% per annum, was due and payable on February 12, 2001, and is secured by the first \$500,000 of loans or dividends that the Company may receive from DRM. . As consideration for such loan, Environmental, one of the Company's principal stockholders owning approximately 16.58% of the common stock, transferred to the investors a total of 1,000,000 shares of the Company's common stock. All holders of the Weiss Group Note have granted payment extensions until May 31, 2002. Effective April 5, 2001, the Company issued warrants to purchase 500,000 shares of its common stock at an exercise price of \$0.22 per share (the closing price of our common stock on the AMEX on such date) to all holders of the Weiss Group Note in consideration of the extension of the due date of such loans by such persons from February 12, 2001 to June 30, 2001. Effective January 24, 2002, the Company issued warrants to purchase 500,000 shares of its common stock at an exercise price of \$0.15 per share (the closing price of our common stock on the AMEX on such date) to all holders of the Weiss Group Note in consideration of the extension of the due date of such loans by such persons from June 30, 2001 to May 31, 2002. On May 23, 2001, a private investor purchased \$250,000 of the Company's common stock at the market price. The Company issued to the private investor 1,923,077 shares of common stock of the Company as a result of the equity purchase. In connection with the purchase of the shares of the Company's common stock, the Company issued to the private investor a 2-year warrant for 500,000 shares of the Company's common stock at an exercise price of \$0.22 per share. On June 13, 2001, the Company issued and sold to Milford Capital Management, Inc. and the Shaar Fund, Ltd. (hereinafter known as "Milford/Shaar") one-year, 15% Senior Secured Promissory Notes (the "Milford/Shaar Bridge Loan Notes") in the aggregate principal amount of \$1,000,000. In connection with the 59 Milford/Shaar Bridge Loan Notes, the Company issued to Milford/Shaar a five-year warrant for 333,333 shares of the Company's common stock at an exercise price of \$0.22 per share. The Company pledged its equipment and SET related intellectual property as collateral for the Milford/Shaar Bridge Loan Notes. The Company shall pay Milford/Shaar principal and interest on a monthly basis in arrears. The Milford/Shaar Bridge Loan Notes may be prepaid at any time without penalty. The Company made all payments on the Milford/Shaar Bridge Loan Notes until November 13, 2001. The Company asked for and received a forbearance of payments on the Milford/Shaar Bridge Loan Notes from November 13, 2001 until May 13, 2002. SERVICES AGREEMENT In September 1997, the Company, Environmental, Separation, Advanced Sciences, and certain other affiliates of the Company (the "Affiliated Parties") entered into a services agreement, dated as of September 1, 1997 (the "Services Agreement"), whereby the Company and the Affiliated Parties agreed to cooperate in sharing, where appropriate, costs related to accounting services, financial management, human resources and personnel management and administration, information systems, executive management, sales and marketing, research and development, engineering, technical assistance, patenting, and other areas of service as are appropriately and necessarily required in the operations of the Company and the Affiliated Parties (collectively, the "Services"). Pursuant to the Services Agreement, services provided by professional employees of the Company and the Affiliated Parties to one another are charged on the basis of time actually worked as a percentage of salary (including cost of benefits) attributable to that professional. In addition, charges for rent, utilities, office services and other routine charges regularly incurred in the normal course of business are apportioned to the professionals working in the office on the basis of salary, and then charged to any party in respect of whom the professional devoted such time based upon time actually worked. Furthermore, charges from third parties, including, without limitation, consultants, attorneys and accountants, are levied against the party actually receiving the benefit of such services. Pursuant to the Services Agreement, the Company acts as the coordinator of billings and payments for Services on behalf of itself and the other Affiliated Parties. There was no sharing of services in 1999 and 2000, although, insurance costs were allocated between Affiliated Parties when it was beneficial to insure the family of companies under one policy. SALE OF COMPANY COMMON STOCK BY ENVIRONMENTAL In February 1998, Environmental sold (i) 1,381,692 shares of common stock of the Company and (ii) three-year warrants to purchase an aggregate of 150,000 shares of Company common stock at an exercise price equal to \$6.00 per share, for an aggregate purchase price of \$6.0 million (the "First Tranche Sale") in a private placement (the "Environmental Private Placement") to certain "accredited investors" as defined in Rule 501 of the Securities Act. After deduction of fees and transaction costs associated with the First Tranche Sale totaling approximately \$550,000, Environmental received aggregate net proceeds of approximately \$5,450,000 from the First Tranche Sale. The shares of the Company's common stock issued and to be issued to the investors in connection with the Environmental Private Placement have been and will be issued from the account of Environmental, which, immediately prior to the First Tranche Sale, owned approximately 52% of the

outstanding shares of the Company's common stock. 60 As of March 31, 1999, Environmental owned approximately 35% of the outstanding shares of Company common stock. [Update] Pursuant to the terms of the Environmental Private Placement, Environmental was required to issue up to a maximum of 1,618,308 additional shares of the Company's common stock to the investors, for no additional consideration, in the event that 90% of the average closing bid price of the common stock for a certain period of time is less than the \$4.3425 per share purchase price of the common stock sold in the First Tranche Sale. Environmental was required to issue an additional 1,400,981 shares of the Company's stock in satisfaction of the price-reset provisions. (Verify whether these shares have been issued and any effect or beneficial ownership calculations) Environmental will, for a certain period of time, have the right and option (but not the obligation) to require the investors to purchase (i) an aggregate amount of additional shares of the Company's common stock equal to 4,000,000 divided by 90% of the average closing price per share of the common stock for the five trading days immediately prior to the closing date of such sale and (ii) warrants to purchase an aggregate of 100,000 shares of the Company's common stock at an exercise price per share equal to the greater of \$6.00 or 125% of the per share purchase price of the shares of the Company's common stock sold pursuant to (i) above, for an aggregate purchase price of \$4.0 million (the "Second Tranche Sale"). As in the case of the First Tranche Sale, Environmental may be required to issue additional shares of the Company's common stock to the investors in connection with the Second Tranche Sale, for no additional consideration, in the event that 90% of the average closing bid price of the common stock for a certain period of time is less than the per share purchase price of the common stock sold in the Second Tranche Sale. Pursuant to the terms of the Environmental Private Placement, if during a certain period of time Environmental sells, or the Company issues, any shares of common stock ("First Future Shares") at a price per share that is less than the per share purchase price of the common stock sold in the First Tranche Sale or Environmental sells, or the Company issues, any shares of common stock ("Second Future Shares") at a price per share that is less than the per share purchase price of the common stock sold in the Second Tranche Sale, Environmental will issue to the investors, for no additional consideration, a number of additional shares of the Company's common stock equal to (a) with respect to First Future Shares, an amount equal to the difference between (i) 6,000,000 divided by the price at which the First Future Shares were sold or issued and (ii) 1,381,692, and (b) with respect to Second Future Shares, an amount equal to the difference between (i) 4,000,000 divided by the price at which the Second Future Shares were sold or issued and (ii) the amount equal to the number of shares of common stock sold in the Second Tranche Sale. Notwithstanding the foregoing, the terms "First Future Shares" and "Second Future Shares" do not include any shares of common stock which may be issued in the future upon conversion or exercise of, or pursuant to the terms of any agreement entered into by the Company or Environmental in respect of, securities of the Company and/or Environmental which have been issued prior to February 9, 1998. The Company has agreed to file registration statements (the "Registration Statements") on Form S-3, or other applicable form of registration statement, under the Securities Act covering all of the shares of common stock that have been and may be issued to the investors in the Environmental Private Placement, and to keep such Registration Statements continuously effective under the Securities Act for a period of two years after their respective effective dates or such earlier date when all shares covered by the Registration Statements have been sold or may be sold without volume restrictions under the Securities Act (the "Effective Period"). 61 FEBRUARY 1998 INTERCOMPANY NOTE Upon receipt of the net proceeds of the Environmental Private Placement, Environmental provided a \$5,450,000 uncollateralized loan to the Company, evidenced by a promissory note (the "Intercompany Note"). Pursuant to the terms of the Intercompany Note, interest on the unpaid principal balance of the Intercompany Note was payable at the rate of 8% per annum semi-annually in cash. The unpaid principal amount of the Intercompany Note was due and payable, together with accrued and unpaid interest, on the earlier to occur of (a) December 31, 1999 or (b) the consummation of any public offering or private placement (other than the Environmental Private Placement) of securities of the Company with net proceeds aggregating in excess of \$6.0 million, other than in respect of working capital financing or secured financing of assets received by the Company in the ordinary course of business from any bank or other lending institution, provided that if such funds are raised in a private placement during the period commencing on February 9, 1998 and ending on the last day of the Effective Period, then the Intercompany Note was not payable unless a Registration Statement has been effective for 75 consecutive days and is effective on the date of such repayment. The Company used the net proceeds of the loan solely for working capital and general corporate purposes and not for the satisfaction of any portion of Company debt or to redeem any Company equity or equity-equivalent securities. The Intercompany Note was fully paid off effective September 28, 1998. See "Market for Registrant's

Common Equity and Related Stockholder Matters--Recent Sales of Unregistered Securities--February 1998 Intercompany Note" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources." In connection with the loan, the Company amended and restated in its entirety a five-year warrant to purchase 7,500,000 shares of common stock issued to Environmental on December 2, 1996 to, among other things, reduce the exercise price of the warrant from \$15.00 per share to \$10.00 per share. In addition, the Company issued to Environmental an additional five-year warrant to purchase 1,500,000 shares of common stock at an exercise price of \$10.00 per share. See "Market for Registrant's Common Equity and Related Stockholder Matters--Recent Sales of Unregistered Securities--February 1998 Intercompany Note." SEPTEMBER 1997 INTERCOMPANY CONVERTIBLE NOTE In September 1997, Environmental provided a \$4.0 million uncollateralized loan to the Company, evidenced by a convertible promissory note (the "Convertible Note"). Pursuant to the terms of the Convertible Note, the Company is obligated to pay Environmental interest only at the rate of 8% per annum, payable quarterly. Unless converted into the Company's common stock at any time, the unpaid principal amount of the Convertible Note is due and payable, together with accrued and unpaid interest, on August 31, 2002. Payment of principal and accrued interest under the Convertible Note is subordinated to all other indebtedness for money borrowed of the Company. Environmental has the right to convert the Convertible Note into shares of the Company's common stock at a conversion price of \$3.89 per share. Such conversion price was fixed at approximately 85% of the five-day average closing bid price of the Company's common stock (\$4.575 per share) prior to August 22, 1997, the date on which the executive committees of the respective Boards of Directors of the Company and Environmental authorized such loan. In connection with the \$4.0 million loan, the Company issued the Environmental a five-year warrant to purchase 1,000,000 shares of the Company's common stock at an exercise price of \$5.0325 per share (approximately 110% of the \$4.575 five day average closing bid price of the Company's common stock prior to August 22, 1997). 62 In March 1998, the Company prepaid \$2.0 million of the Convertible Note by (i) paying Environmental the sum of \$500,000 in cash and (ii) transferring to Environmental the LPM Note. (?) To induce Environmental to accept the Company's prepayment of \$2.0 million of the Convertible Note (and thereby give up the right to convert \$2.0 million of the Convertible Note into the Company's common stock), the Company issued to Environmental an additional warrant to purchase up to 514,000 shares of the Company's common stock at an exercise price of \$4.50 per share. Such exercise price was fixed at approximately 110% of the closing sale price of the Company's common stock on February 20, 1998, the trading day immediately prior to the date the Board of Directors of the Company approved such prepayment. The estimated fair value of such warrant is approximately \$340,000. The remaining balance of this Intercompany Convertible Note was paid off effective September 28, 1998. See "Transactions with Lanxide," "Market for Registrant's Common Equity and Related Stockholder Matters--Recent Sales of Unregistered Securities--September 1997 Intercompany Convertible Note" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources." SALE OF SERIES D PREFERRED STOCK BY ENVIRONMENTAL (Did Environmental convert or sell these shares? See p. 27) In May and August 1997, Environmental sold an aggregate of 88,000 shares of its 7% Series D Convertible Preferred Stock, par value \$0.01 per share, with a liquidation preference of \$100 per share (the "Series D Preferred Stock"), for an aggregate purchase price of approximately \$7.8 million. The Series D Preferred Stock is convertible into shares of the Company's common stock held by Environmental, at a conversion price equal to 85% of the lower of (a) the average of the low prices, or (b) the average of the closing bid prices of the common stock of the Company for the previous five business days ending on the day prior to conversion (the "Average Closing Bid Price"). The conversion price of the Series D Preferred Stock will be equal to certain amounts set forth in the Certificate of Designation, Rights and Preferences for the Series D Preferred Stock if the Average Closing Bid Price of the common stock for any consecutive 30 days is equal to or less than \$2.00, provided that in no event will the conversion price of the Series D Preferred Stock be less than \$1.50. As of December 31, 1998, the 88,000 shares of Series D Preferred Stock have been converted into an aggregate 4,019,210 shares of the Company's common stock. The purchasers of the Series D Preferred Stock also received five-year warrants to purchase an aggregate of 1,175,000 shares of the Company's common stock held by Environmental at exercise prices ranging from \$5.15 per share to \$7.14 per share. Such exercise prices were reset on August 18, 1998 to an exercise price of \$0.825. In addition, if the common stock trades at less than 50% of the August 17, 1998 closing bid price for any 10 consecutive trading days, the exercise price is subject to further reset (on one occasion only) to 50% of such August 17, 1998 closing bid price. In addition, affiliates of the finder received warrants to purchase an aggregate of 85,000 shares of common stock from Environmental at

exercise prices ranging from \$5.15 per share to \$7.14 per share. The Company has an effective registration statement on file with the Commission covering the shares of common stock into which the Series D Preferred Stock are convertible, as well as the 1,260,000 shares of common stock transferable by Environmental upon exercise of the foregoing warrants. LICENSE OF SET TECHNOLOGY As a result of its acquisition of the capital stock of Commodore Labs, the Company acquired all patents, discoveries, technology and other intellectual property in connection with the SET process, which it later transferred to Solution effective December 1, 1996. Environmental licenses from Solution the 63 exclusive worldwide right with the right to sublicense, to make, use, sell and exploit, itself or jointly with other third parties, for the life of all patents now or hereafter owned by Solution, the SET process and all related technology underlying such patents and intellectual property in all domestic and international commercial and industrial applications, in connection with the destruction of CFCs and other ozone-depleting substances (the "CFC Business"); provided that such license expressly limits the rights of the licensee(s) and others who may be sub-licensees or users of the Company's patents and technologies to the CFC Business. FUTURE TRANSACTIONS In June 1996, the Company's Board of Directors adopted a policy whereby any future transactions between the Company and any of its subsidiaries, affiliates, officers, directors and principal stockholders, or any affiliates of the foregoing, will be on terms no less favorable to the Company than could reasonably be obtained in "arm's-length" transactions with independent third-parties, and any such transactions will also be approved by a majority of the Company's disinterested non-management Directors. 64 PART IV ----- ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON -----

FORM 10-K ----- The following documents are filed as part of this Annual Report: Page No. Financial Statements. Commodore Applied Technologies, Inc. Independent Auditor's Report..... F-1 Consolidated Balance Sheet as of December 31, 2001 and 2000..... F-2 Consolidated Statements of Operations for the years ended December 31, 2002, 2000 and 1999..... F-4 Consolidated Statements of Stockholders' Equity for the years ended December 31, 2001, 2000 and 1999 F-5 Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999..... F-7 Notes to Consolidated Financial Statements..... F-11 All financial statement schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and, therefore, have been omitted. 65 Exhibits. Exhibit No. Description ----- 1.1 Form of Underwriting Agreement between the Company and National Securities Corporation, as Representative of the several Underwriters listed therein (the "Representative"). (1) 3.1 Certificate of Incorporation of the Company. (1) 3.2 By-Laws of the Company. (1) 4.1 Specimen common stock Certificate. (3) 4.2 Form of Warrant Agreement between the Company and The Bank of New York. (1) 4.3 Specimen Warrant Certificate. (1) 4.4 Form of Representative's Warrant Agreement between the Company and the Representative, including form of Representative's Warrant therein. (1) 4.5 Registration Rights Agreement dated September 27, 1996, among the Company, CXI-ASI Acquisition Corp., and certain stockholders. (5) 4.6 Registration Rights Agreement, dated September 27, 1996, among the Company, CXI-ASE Acquisition Corp., and certain stockholders. (5) 4.7 Series A Convertible Preferred Stock Purchase Agreement, dated as of August 15, 1997, among the Company and the Series A Preferred Stock purchasers listed therein. (9) 4.8 Certificate of Designations, Rights and Preferences of Series A Preferred Stock. (9) 4.9 Registration Rights Agreement between the Company and the Series A Preferred Stock purchasers. (9) 4.10 Warrant to purchase 1,000,000 shares of common stock issued to Environmental. (9) 4.11 Common Stock Purchase Agreements, dated as of September 26, 1997, by and between the Company and each of certain private investors listed therein. (9) 4.12 Warrant to purchase 7,500,000 shares of common stock issued to Environmental. (10) 4.13 Warrant to purchase 1,500,000 shares of common stock issued to Environmental. (10) 4.14 Registration Rights Agreement, dated as of February 9, 1998, among the Company, Environmental and certain private investors listed therein. (10) 4.15 Amended Warrant to purchase 1,500,000 shares of common stock issued to Environmental. (15) 4.16 Certificate of Designation of 6% Series B Convertible Preferred Stock of the Company. (15) 4.17 Certificate of Designation of 6% Series C Convertible Preferred Stock of the Company. (15) 4.18 Certificate of Designation of 6% Series D Convertible Preferred Stock of the Company. (15) 4.19 Warrant to purchase shares of common stock of Commodore Applied Technologies, Inc. issued to The Shaar Fund Ltd. (16) 4.20 Certificate of Designation of Series E Preferred Stock. (16) 4.21 Warrant to purchase shares of common stock of Commodore Applied Technologies, Inc. issued to Avalon Research Group, Inc. (16) 66 10.1 Employment Agreement, dated June 1, 1995, between Environmental and Neil L.

Drobny, and conditional assignment thereof by Environmental to the Company, dated March 29, 1996. (1) 10.2 Employment Agreement, dated August 31, 1995, between Environmental and Carl O. Magnell, and conditional assignment thereof by Environmental to the Company, dated March 29, 1996. (1) 10.3 Form of Employment Agreement, dated July 28, 1993, between Commodore Laboratories, Inc. and Albert E. Abel, with conditional assignment thereof by Commodore Labs to the Company, dated March 29, 1996. (1) 10.4 Employment Agreement, dated October 3, 1994, between Environmental and Vincent Valeri, and conditional assignment thereof by Environmental to the Company, dated March 29, 1996. (1) 10.5 Non-Competition, Non-Disclosure and Intellectual Property Agreement, dated March 29, 1996, between the Company and Gerry D. Getman. (1) 10.6 Employment Agreement, dated as of March 29, 1996. between the Company and Paul E. Hannesson. (2) 10.7 1996 Stock Option Plan of the Company. (1) 10.8 Executive Bonus Plan of the Company. (1) 10.9 Nationwide Permit for PCB Disposal issued by the EPA to Commodore Remediation Technologies, Inc. (1) 10.10 Memorandum of Understanding, dated April 9, 1996, between Teledyne Brown Engineering (a Division of Teledyne Industries, Inc.) and Commodore Government Environmental Technologies, Inc. (1) 10.11 Memorandum of Understanding. dated March 28, 1996, between Sharp Associates, Inc. and the Company. (1) 10.12 Memorandum of Understanding, dated April 12, 1996, between Sverdrup Environmental, Inc. and the Company. (1) 10.13 Credit Facility Agreement and Promissory Note, dated April 5, 1996, between the Company and Chemical Bank, and Guaranty and General Loan and Collateral Agreement, each dated April 5, 1996, between Bentley J. Blum and Chemical Bank. (1) 10.14 Demand Promissory Note, dated December 31, 1995, in the principal amount of \$8,925,426, issued by Commodore Labs to Environmental. (1) 10.15 Form of \$4,000,000 Promissory Note issued by the Company to Environmental, in partial replacement of the \$8,925,426 Demand Promissory Note, dated December 31, 1995, issued by Commodore Labs to Environmental. (1) 10.16 Bond Purchase Agreement, dated December 3, 1993, by and between Environmental and Credit Agricole Deux Sevres. (1) 10.17 License Agreement, dated as of March 29, 1996, by and between the Company and Environmental, relating to the use of SET in the CFC Business. (2) 10.18 Form of Technology and Technical Services Agreement entered into between the Company and CFC Technologies.(2) 10.19 Voting Agreement, dated June 28, 1996, among Environmental, Bentley J. Blum, the Company and National Securities Corporation. (4) 10.20 Agreement and Plan of Merger, dated September 27, 1996, by and between the Company, CXI-ASI Acquisition Corp. and Advanced Sciences, Inc. (5) 67 10.21 Agreement and Plan of Merger, dated September 27, 1996, by and between the Company CXI-ASE Acquisition Corp. and A.S. Environmental, Inc. (5) 10.22 Agreement of Transfer, dated as of December 1, 1996 by and between the Company and Advanced Sciences. (11) 10.23 Bill of Sale, dated as of December 1, 1996, by and between the Company and Commodore Advanced Sciences, Inc. (11) 10.24 Stock Purchase Agreement, dated as of December 2, 1996, between the Company and Environmental. (6) 10.25 Employment Agreement, dated as of October 31, 1996, between Environmental and Edwin L. Harper. (7) 10.26 Employment Agreement, dated as of October 1, 1996, between the Company and Thomas E. Noel. (5) 10.27 Form of Employment Agreement between Environmental and Paul E. Hannesson. (8) 10.28 8% convertible note for \$4.0 million from the Company to Environmental. (9) 10.29 8% non-convertible note for \$5,450,000 from the Company to Environmental. (10) 10.30 Teaming Agreement, dated March 18, 1997, by and between ICF Kaiser Engineers, Inc. and Advanced Sciences. 10.31 Memorandum of Understanding between Lockheed Martin Advanced Environmental Systems, Inc. and Advanced Sciences. 10.32 Services Agreement, dated as of September 1, 1997, by and among the Company, Environmental, Separation, Advanced Sciences and other affiliated companies named therein. (14) 10.33 Amended and Restated 1996 Stock Option Plan. (13) 10.34 Securities Purchase Agreement, dated November 4, 1999, between Commodore Applied Technologies, Inc. and The Shaar Fund Ltd. (16) 10.35 Registration Rights Agreement, dated November 4, 1999, between Commodore Applied Technologies, Inc. and the Shaar Fund Ltd. (16) 10.36 Finder's Agreement, dated August 17, 1999, between Commodore Applied Technologies, Inc. and Avalon Research Group, Inc. (16) 10.37 Securities Purchase Agreement, dated March 15, 2000, between Commodore Applied Technologies, Inc. and The Shaar Fund Ltd. (16) 10.38 Registration Rights Agreement, dated March 15, 2000, between Commodore Applied Technologies, Inc. and the Shaar Fund Ltd. (16) 10.39 Warrant to purchase 340,000 shares of common stock of Commodore Applied Technologies, Inc. issued to William J. Russell. (20) 10.40 Warrant to purchase 340,000 shares of common stock of Commodore Applied Technologies, Inc. issued to Tamie P. Speciale. (20) 10.41 Warrant to purchase 300,000 shares of common stock of Commodore Applied Technologies, Inc. issued to Diane Archangeli. (20) 10.42 Warrant to purchase 20,000 shares of common stock of Commodore Applied Technologies, Inc. issued to Arthur Berry & Company, Inc. (20) 10.43 Specimen Form of Common Stock Certificate. (1) 10.44 Promissory Note,

dated September 15, 2000, issued to Shelby T. Brewer in the principal amount of \$500,000. (20) 68 10.45 Registration Rights Agreement, dated September 15, 2000 issued to Shelby T. Brewer. (20) 10.46 Stock Pledge Agreement, dated September 15, 2000 between Commodore Environmental Technologies, Inc., and Shelby T. Brewer. (20) 10.47 Warrant to purchase 100,000 shares of common stock of Commodore Applied Technologies, Inc. issued to Shelby T. Brewer. (20) 10.48 Amended and Restated Promissory Note, dated September 15, 2000, issued to Shelby T. Brewer in the principal amount of \$500,000. (20) 10.49 Registration Rights Agreement, dated March 15, 2001 issued to Shelby T. Brewer. (20) 10.50 Secured Promissory Note, dated November 13, 2000, issued to Klass Partners Ltd. in the principal amount of \$250,000. (20) 10.51 Secured Promissory Note, dated November 13, 2000, issued to Mathers Associates in the principal amount of \$150,000. (20) 10.52 Secured Promissory Note, dated November 13, 2000, issued to Jon Paul Hannesson in the principal amount of \$75,000. (20) 10.53 Secured Promissory Note, dated November 13, 2000, issued to Stephen A. Weiss in the principal amount of \$25,000. (20) 10.54 Amended and Restated Stock Purchase Agreement, dated August 30, 2000, by and among Commodore Applied Technologies, Inc., Dispute Resolution Management, Inc., William J. Russell and Tamie P. Speciale. (18) 10.55 Securities Purchase Agreement, dated November 13, 2000, by and among Commodore Applied Technologies, Inc., Commodore Environmental Services, Inc., Mathers Associates, Klass Partners, Ltd., Jon Paul Hannesson and Stephen A. Weiss. (20) 10.56 Security Agreement, dated November 13, 2000 by and among Mathers Associates, Klass Partners, Ltd., Jon Paul Hannesson, Stephen A. Weiss and Commodore Applied Technologies, Inc. (20) 10.57 Registration Rights Agreement, dated November 13, 2000, among Mathers Associates, Klass Partners, Ltd., Jon Paul Hannesson, Stephen A. Weiss and Commodore Applied Technologies, Inc. (20) 10.58 Dispute Resolution Management, Inc. Undertaking Letter, dated November 13, 2000. (20) 10.59 Nationwide Permit Extension for PCB Disposal issued by the EPA to Commodore Remediation Technologies, Inc. (20) 10.60 Contract between Commodore Solutions and Waste Control Specialists dated February 12, 2000. (20) 10.70 Conversion Notice, dated April 9, 2001 between S. Brewer Enterprises, Inc. and the Company for the conversion of \$250,000 of the Restated Brewer Note. (20) 10.71 Memorandum of Understanding for Amendment of \$500,000 CXI Bridge Loan Documents, dated April 16, 2001, by and among the Company, Commodore Environmental Services, Inc., Mathers Associates, Jon Paul Hannesson and Stephen A. Weiss. (20) 10.72 Klass Partners Ltd. Agreement for Amendment of CXI Bridge Loan Documents, dated April 16, 2001, by the Company and Klass Partners, Ltd. (20) 10.73 Warrant to purchase 300,000 shares of common stock of the Company issued to Mathers Associates. (20) 10.74 Warrant to purchase 75,000 shares of common stock of the Company issued to Jon Paul Hannesson. (20) 10.75 Warrant to purchase 75,000 shares of common stock of the Company issued to Krista S. Hannesson. (20) 10.76 Warrant to purchase 50,000 shares of common stock of the Company issued to Stephen A. Weiss. (20) *10.77 Memorandum of Understanding for Amendment of \$500,000 CXI Bridge Loan Documents, dated April 16, 2001, by and among the Company, Commodore Environmental Services, Inc., Mathers Associates, Klass Partners, Jon Paul Hannesson and Stephen A. Weiss. 69 *10.78 Warrant to purchase 222,222 shares of common stock of the Company issued to Klass Partners. *10.79 Warrant to purchase 166,667 shares of common stock of the Company issued to Mathers Associates. *10.80 Warrant to purchase 41,666 shares of common stock of the Company issued to Jon Paul Hannesson. *10.81 Warrant to purchase 41,666 shares of common stock of the Company issued to Krista S. Hannesson. *10.82 Warrant to purchase 27,778 shares of common stock of the Company issued to Stephen A. Weiss. *10.83 Securities Purchase Agreement dated May 22, 2001, between Commodore Applied Technologies, Inc., and Dr. Marion Dana. *10.84 Registration Rights Agreement dated May 22, 2001, between Commodore Applied Technologies, Inc., and Dr. Marion Dana. *10.85 Warrant to purchase 500,000 shares of common stock of the Company issued to Dr. Marion Dana. *10.86 Secured Promissory Note, dated June 13, 2001, issued to Milford Capital & Management in the principal amount of \$500,000. *10.87 Secured Promissory Note, dated June 13, 2001, issued to the Shaar Fund, Ltd. in the principal amount of \$500,000. *10.88 Registration Rights Agreement dated June 13, 2001, between Commodore Applied Technologies, Inc., and Milford Capital & Management. *10.89 Registration Rights Agreement dated June 13, 2001, between Commodore Applied Technologies, Inc., and the Shaar Fund, Ltd. *10.90 Warrant to purchase 166,667 shares of common stock of the Company issued to Milford Capital & Management. *10.91 Warrant to purchase 166,667 shares of common stock of the Company issued to the Shaar Fund, Ltd. 10.92 Amended and Restated Stock Purchase Agreement, dated September 21, 2001, by and among Commodore Applied Technologies, Inc., Dispute Resolution Management, Inc., William J. Russell and Tamie P. Speciale. (21) 10.93 Amended and Restated Stock Purchase Agreement, dated October 31, 2001, by and among Commodore Applied Technologies, Inc., Dispute Resolution Management, Inc.,

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William J. Russell and Tamie P. Speciale. (22) *10.94 Forbearance Agreement dated January 11, 2002, between Commodore Applied Technologies, Inc., and Milford Capital & Management. *10.95 Forbearance Agreement dated January 11, 2002, between Commodore Applied Technologies, Inc., and the Shaar Fund, Ltd. *10.96 Forbearance Agreement dated February 13, 2002, between Commodore Applied Technologies, Inc., and Milford Capital & Management. *10.97 Forbearance Agreement dated February 13, 2002, between Commodore Applied Technologies, Inc., and the Shaar Fund, Ltd. *10.98 Forbearance Agreement dated March 13, 2002, between Commodore Applied Technologies, Inc., and Milford Capital & Management. 70 *10.99 Forbearance Agreement dated March 13, 2002, between Commodore Applied Technologies, Inc., and the Shaar Fund, Ltd. *10.100 LLC Agreement, dated April 2, 2002, between Technical Resources, Inc. (a wholly owned subsidiary of Nuvotec, Inc.) and Commodore Government Environmental Technologies, Inc. 16.1 Letter regarding change in certifying accountant. (12) 16.2 Letter regarding change in certifying accountant. (17) *22.1 Subsidiaries of the Company. 99.1 Debt Repayment Agreement, dated September 28, 1998, between the Company and Environmental. (15) 99.2 Registration Rights Agreement, dated September 28, 1998, between the Company and Environmental. (15) * Filed herewith. (1) Incorporated by reference and filed as Exhibit to Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on May 2, 1996 (File No. 333-4396). (2) Incorporated by reference and filed as Exhibit to Registrant's Amendment No. 1 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on June 11, 1996 (File No. 333-4396). (3) Incorporated by reference and filed as Exhibit to Registrant's Amendment No. 2 to Registration Amendment No.2 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on June 25, 1996 (File No. 333-4396). (4) Incorporated by reference and filed as Exhibit to Registrant's Post-Effective Amendment No. 1 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 1, 1996 (File No. 333-4396). (5) Incorporated by reference and filed as Exhibit to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 15, 1996 (File No. 1-11871). (6) Incorporated by reference and filed as Exhibit to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 27, 1997 (File No. 1-11871). (7) Incorporated by reference and filed as Exhibit to Amendment No. 3 to Registration Statement on Form S-1 of Separation filed with the Securities and Exchange Commission on January 23, 1997 (File No. 333-11813). (8) Incorporated by reference and filed as Exhibit to Annual Report on Form 10-K for the fiscal year ended December 31, 1996 of Environmental filed with the Securities and Exchange Commission on April 15, 1997 (File No. 0-10054). (9) Incorporated by reference and filed as an Exhibit to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 3, 1997 (File No. 1-11871). (10) Incorporated by reference and filed as an Exhibit to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 23, 1998 (File No. 1-11871). (11) Incorporated by reference and filed as an Exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 filed with the Securities and Exchange Commission on April 15, 1997 (File No. 1-11871). (12) Incorporated by reference and filed as an Exhibit to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 24, 1996 (File No. 1-11871). (13) Incorporated by reference and filed as an Exhibit to the Registrant's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on December 5, 1997 (File No. 333-41643). 71 (14) Incorporated by reference and filed as an Exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 filed with the Securities and Exchange Commission on March 31, 1998 (File No. 1-11871). (15) Incorporated by reference and filed as an Exhibit to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 5, 1999 (File No. 1-11871). (16) Incorporated by reference and filed as an Exhibit to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 5, 1999 (File No. 1-11871). (17) Incorporated by reference and filed as Exhibit to Amendment No. 5 to Registrant's Registration Statement on Form S-3 filed with the Securities and Exchange Commission on September 12, 1999 (File No. 333-95445). (18) Incorporated by reference and filed as an Exhibit to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 23, 1999 (File No. 1-11871). (19) Incorporated by reference and filed as an Exhibit to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 13, 2000 (File No. 1-11871). (20) Incorporated by reference and filed as an Exhibit to Registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2000 filed with the Securities and Exchange Commission on May 04, 2001 (File No. 1-11871). (21) Incorporated by reference and filed as an Exhibit to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 26, 2001 (File No. 1-11871). (22)

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Incorporated by reference and filed as an Exhibit to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 31, 2001 (File No. 1-11871). Reports on Form 8-K: ----- 1. The Company filed a Current Report on Form 8-K, dated January 18, 2001, with respect to a press release regarding the appointment of Shelby T. Brewer as our new President and Chief Executive Officer and the resignation of Paul E. Hannesson as President and Chief Executive Officer. 2. The Company filed a Current Report on Form 8-K, dated September 26, 2001, regarding a 30-day extension to its repurchase obligation under the Stock Purchase Agreement with Dispute Resolution Management, Inc., until October 29, 2001. 3. The Company filed a Current Report on Form 8-K, dated October 31, 2001, regarding an 80-day extension to its repurchase obligation under the Stock Purchase Agreement with Dispute Resolution Management, Inc., until January 16, 2002. 4. The Company filed a Current Report on Form 8-K, dated January 16, 2002, regarding a 120-day extension to its repurchase obligation under the Stock Purchase Agreement with Dispute Resolution Management, Inc., until May 16, 2002. 72 SIGNATURES Pursuant to the requirements to 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. Date: April 15, 2002

COMMODORE APPLIED TECHNOLOGIES, INC. By: /s/ James M. DeAngelis ----- James M. DeAngelis, Senior Vice President and 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. /s/ Shelby T. Brewer Chairman of the Board and Chief April 15, 2002 ----- Executive Officer (principal Shelby T. Brewer executive officer) /s/ James M. DeAngelis Senior Vice President and Chief April 15, 2002 ----- Financial Officer (principal James M. DeAngelis financial officer) /s/ Bentley J. Blum Director April 15, 2002 ----- Bentley J. Blum /s/ Herbert A. Cohen Director April 15, 2002 ----- Herbert A. Cohen /s/ Paul E. Hannesson Director April 15, 2002 ----- Paul E. Hannesson /s/ David L. Mitchell Director April 15, 2002 ----- David L. Mitchell /s/ Edward L. Palmer Director April 15, 2002 ----- Edward L. Palmer /s/ William R. Toller Director April 15, 2002 ----- William R. Toller 73 SUPPLEMENTAL INFORMATION TO BE

FURNISHED WITH REPORTS FILED PURSUANT TO SECTION 15(d) OF THE ACT BY REGISTRANTS WHICH HAVE NOT REGISTERED SECURITIES PURSUANT TO SECTION 12 OF THE ACT The Company has not sent to its security holders any annual report or proxy material during the 2001 fiscal year. 74 COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES Consolidated Financial Statements December 31, 2001 and 2000 COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES Index

----- Page ---- Commodore Applied Technologies, Inc. Independent Auditors' Report F-1 Consolidated Balance Sheet as of December 31, 2001 and 2000 F-2 Consolidated Statements of Operations for the years ended December 31, 2001, 2000 and 1999 F-3 Consolidated Statements of Stockholders' Equity for the years ended December 31, 2001, 2000 and 1999 F-4 Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999 F-6 Notes to Consolidated Financial Statements F-9 INDEPENDENT AUDITORS' REPORT To the Board of Directors and Stockholders of Commodore Applied Technologies, Inc. and Subsidiaries We have audited the consolidated balance sheet of Commodore Applied Technologies, Inc. and Subsidiaries as of December 31, 2001 and 2000 and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2001, 2000, and 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Commodore Applied Technologies, Inc. and Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the years ended December 31, 2001, 2000, and 1999, in conformity with accounting principles generally accepted in the United States of America. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has a

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51,489 \$ - 23,702,263 \$ 24 \$ 55,147 \$ (43,263) Conversion of series B, C, and D preferred stock into common stock (51,489) - 7,258,533 7 (7) - Issuance of Series E Convertible preferred stock at redemption value 335,000 - - - 2,030 - Warrants issued in connection with Series E convertible preferred stock - - - - 60 - Preferred stock dividends - - - - (63) - Exercise of stock options - - 2,142 - 1 - Net loss - - - - - (3,985)

----- Balance, December 31, 1999 335,000 - 30,962,938
31 57,168 (47,248) Issuance of Series F convertible preferred stock at redemption value 266,700 1 - - 1,770 - Conversion of series E and F preferred stock into common stock (45,000) - 440,581 - - - Warrants issued in compensation with short term note payable to affiliated party - - - 89 - Issuance of common stock for private placement fee - - 100,000 - - - Issuance of common stock and warrants in acquisition - - 15,500,000 16 7,506 - Preferred stock dividends - - - - (634) -

----- The accompanying notes are an integral part of the consolidated financial statements. F-4 COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES Consolidated Statement of Stockholders' Equity Continued

----- Preferred Stock
Common Stock Additional ----- Paid-In Accumulated Shares Amount Shares
Amount Capital Deficit ----- Exercise of stock options -
- 1,326,866 1 596 - Net loss - - - - - (11,441) -----

Balance, December 31, 2000 556,700 1 48,330,385 48 66,495 (58,689) Conversion of Series E and F Preferred Stock into common stock (146,500) (1) 4,072,225 4 (3) - Sale of common stock for cash - - 1,973,077 2 146 - Sale of warrants for cash - - - - 105 - Conversion of debt to common stock - - 1,041,667 1 249 - Issuance of warrants in financing agreements - - - - 175 - Preferred stock dividends - - - - (408) - Net loss - - - - - (6,554)

----- Balance, December 31, 2001 410,200 \$ -
55,417,354 \$ 55 \$ 66,759 \$ (65,243) -----

----- The accompanying notes are an integral part of the consolidated financial statements. F-5 COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES Consolidated Statement of Cash Flows Years Ended December 31, 2001, 2000, and 1999 (Amounts in thousands, except shares and per share data)

----- 2001 2000 1999
----- Cash flows from operating activities: Net loss \$ (6,554) \$ (11,441) \$ (3,985)
Adjustments to reconcile net loss to net cash used in operating activities: Depreciation, amortization and impairment 2,491 1,471 696 Loss on disposition of property and equipment - 12 - Interest expense from common stock 167 333 - Impairment of goodwill - 6,586 - Impairment of machinery 776 - - Impairment of patents 627 - - Loss from unconsolidated subsidiary 295 - - Provision for related party bad debt - 109 - Minority interest in subsidiary income 203 341 - Amortization of debt discount 1,903 718 - Changes in assets and liabilities: Accounts receivable, net 3,719 (827) (410) Restricted cash - 21 - Prepaid assets 208 414 (95) Accounts payable and accrued liabilities (1,928) 261 889 ----- Net cash provided by (used in) operating activities 1,907 (2,002) (2,905)
----- Cash flows from investing activities: Equipment purchased or constructed (51) (114) (353) Patents acquired - (36) (113) Purchase of Dispute Resolution Management, Inc., net of cash acquired - 508 - Contribution from minority interest in DRM - 78 - Advances to related parties, net (87) (97) (135) Contributions to affiliate - (325) - ----- Net cash (used in) provided by investing activities (138) 14 (601)
----- Cash flows from financing activities: Proceeds from sale of common stock and warrants 253 597 1 Proceeds from sale of preferred stock - 1,771 2,090 Preferred stock dividends - (214) (63) (Repayments)/borrowings under line of credit (1,351) (256) 587 Borrowings on debt and warrants 1,000 1,000 1,000 Payments on long term debt and notes payable (2,380) (727) (89) ----- Net cash (used in) provided by financing activities (2,478) 2,171 3,526 ----- (Decrease) increase in cash and cash equivalents (709) 183 20 Cash and cash equivalents, beginning of year 1,980 1,797 1,777
----- Cash and cash equivalents, end of year \$ 1,271 \$ 1,980 \$ 1,797

----- The accompanying notes are an integral part of the consolidated financial statements. F-6 COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES Consolidated Statement of Cash Flows Continued

----- Supplemental disclosure of
 cash flow information: Cash paid during the year for: Interest \$ 281 \$ 158 \$ 166 -----
 Income taxes \$ - \$ - \$ - ----- Non-Cash Investing and Financing Activities: 2001 ---- o
 A debtholder converted \$250 of debt to 1,041,667 shares of common stock o The Company recorded \$408 of unpaid
 dividends to holders of preferred stock o The Company financed prepaid assets with notes payable of \$123 o The
 Company issued warrants valued at \$70 with a debt issuance o The Company received equipment with book value of
 \$30 from an unconsolidated subsidiary 2000 ---- Effective August 31, 2000, the Company acquired an 81% interest in
 Dispute Resolution Management, Inc. (DRM) (see Note 6). Consideration consists of the following: 9.5 million option
 shares of common stock \$ 13,122 6.0 million shares of common stock 6,563 Warrants to purchase 1 million shares of
 common stock 959 Future payment guarantee 7,412 ----- Total consideration \$ 28,056 -----

----- The accompanying notes are an integral part of the
 consolidated financial statements. F-7 COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES
 Consolidated Statement of Cash Flows Continued -----

2000 - Continued ---- Assets and liabilities acquired: Accounts receivable \$ 157 Property and equipment 124 Prepaids
 and other current assets 47 Goodwill 25,095 Covenant not to compete 2,625 Other assets 36 Accounts payable (61)
 Accrued expenses (5) Note payable (470) ----- \$ 27,548 ----- Cash received \$ 508 ----- o A
 shareholder of the Company transferred 100,000 shares of its common stock in the Company to holders of notes
 payable from the Company. The common stock was valued at \$500 with \$167 considered prepaid and \$333 expensed
 as interest. o The Company issued a warrant valued at \$89 in connection with a debt issuance. o The Company
 converted 45,000 shares of Series E & F Preferred Stock to 440,581 shares of common stock. o The Company
 financed equipment and prepaid assets with notes payable and long-term debt of \$459. o The Company accrued \$420
 of unpaid dividends to holders of Preferred Stock. 1999 ---- In 1999, 51,489 shares of Series B, C and D Preferred
 Stock held by Commodore with an aggregate value of \$2,001 were converted into common stock (Note 12).

----- The accompanying notes are an integral part of the
 consolidated financial statements. F-8 COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES
 Notes to Consolidated Financial Statements December 31, 2001 and 2000 (In thousands except share and per share
 data) -----

1. Summary of Background Significant
 Commodore Applied Technologies, Inc. and subsidiaries Accounting ("Applied"), is engaged in the destruction and
 Policies neutralization of hazardous waste from other materials. Applied owns technologies related to the separation
 and destruction of polychlorinated biphenyls (PCBs) and chlorofluorocarbons (CFCs). Applied is currently working
 on the commercialization of these technologies through development efforts, licensing arrangements and joint
 ventures. Through Commodore Advanced Sciences, Inc. ("CASI"), formerly Advanced Sciences, Inc., a subsidiary
 acquired on October 1, 1996, Applied has contracts with various government agencies and private companies in the
 United States and abroad. As some government contracts are funded in one year increments, there is a possibility for
 cutbacks as these contracts constitute a major portion of CASI's revenues, and such a reduction would materially
 affect the operations. However, management believes the subsidiary's existing client relationships will allow Applied
 to obtain new contracts in the future. Through Dispute Resolution Management, Inc. (DRM), a subsidiary acquired
 August 30, 2000, Applied provides a package of services to help companies recover financial settlements from
 insurance policies to defray costs associated with environmental liabilities. Principles of Consolidation The
 consolidated financial statements include the accounts of Applied and its majority-owned subsidiaries. Dispute
 Resolution Management, Inc. is included in the consolidated operations from August 30, 2000 (date of acquisition)
 (see Note 6). All significant intercompany balances and transactions have been eliminated. The investment in
 Teledyne-Commodore, LLC, a 50% owned joint venture with Teledyne Environmental, Inc., was accounted for under
 the lower of cost or market at December 31, 2000. During the year ended December 31, 2001, the joint venture was
 dissolved, and the Company's share of the related loss was included in losses of unconsolidated subsidiaries.

----- F-9 COMMODORE APPLIED
 TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued -----

1. Summary of Cash and Cash Equivalents
 Significant Applied considers cash and highly liquid debt Accounting instruments with original maturities of three
 months or Policies less at the date of purchase to be cash equivalents. Continued Concentration of Credit Risk and
 Significant Customers Applied maintains its cash in bank deposit accounts which, at times, may exceed federally

insured limits. Applied has not experienced any losses in such accounts. With respect to trade receivables, Applied generally does not require collateral as the majority of Applied's services are performed for the U.S. Government and prime contractors that serve the U.S. Government. Applied believes it is not exposed to any significant credit risk on cash, cash equivalents and trade receivables. Sales to major customers which exceeded 10 percent of revenues are as follows: Years Ended December 31, ----- 2001 2000 1999 -----
 ----- Customer A \$ 3,252 \$ 1,476 \$ 3,692 Customer B \$ 1,148 \$ 742 \$ 1,006 Customer C \$ - \$ 11,618 \$ 12,287 The contract with Customer C ended on December 31, 2000. Risk and Uncertainty Applied's operations involving the separation and destruction of PCBs requires a permit from the EPA. Applied had a valid nationwide permit related to the treatment of PCBs in certain substances. The permit expired September 15, 2001. Applied is currently in the process of applying for a renewal of the permit. Until the permit is reviewed, Applied is not permitted to service any contracts which utilize Applied's separation and destruction technology related to the treatment of PCB's. Presently, there is no information to suggest that the EPA will not renew Applied's permit or grant them the requested revision. ----- F-10 COMMODORE

APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued
 ----- 1. Summary of Property and Equipment Significant
 Property and equipment are recorded at cost. Accounting Improvements which substantially increase the useful Policies lives of assets are capitalized. Maintenance and repairs Continued are expensed as incurred. Upon retirement or disposal, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss is recorded in the Statement of Operations. Provisions for depreciation are computed on the straight-line method based on the estimated useful lives of the assets which range from 3-5 years. Intangible Assets Goodwill represents the fair value of securities issued plus the fair value of net liabilities assumed in connection with the acquisition of DRM (see Note 6). Goodwill is being amortized on a straight-line basis over its estimated 20 year life. Completed technology represents certain technology and related patents acquired in connection with the purchase of third-party interests in Commodore Laboratories, Inc. ("Labs"). Completed technology and patents are being amortized on a straight-line basis over their estimated 7 and 17 year lives, respectively. Covenants to compete are amortized over 5 years which is the life of the covenant (see Note 6). Impairment of Long-Lived Assets Applied reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through undiscounted future cash flows. If it is determined that an impairment loss has occurred based on expected cash flows, such loss is recognized in the Statement of Operations. During the year ended December 31, 2001 the Company recorded an impairment on its equipment and related patents of completed technology of \$776 and \$627, respectively. During the year ended December 31, 2000 the unamortized goodwill associated with the purchase of CASI was determined to be impaired and was written off in the amount of \$6,586.

----- F-11 COMMODORE APPLIED
 TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued
 ----- 1. Summary of Revenue Recognition Significant
 Substantially all of Applied's revenues are generated by Accounting its subsidiaries, CASI and DRM. CASI revenues consist of Policies engineering and scientific services performed for the Continued U.S. Government and prime contractors that serve the U.S. Government under a variety of contracts, most of which provide for unit prices. Revenue under unit price contracts are recorded when the services are provided. Prior to 2001, most of CASI's contracts provided for reimbursement of costs plus fixed fees. Direct and indirect contract costs incurred in reimbursement plus cost contracts are subject to audit by the Defense Contract Audit Agency ("DCAA"). Management does not expect these audits to materially affect the financial statements and have established appropriate allowances to cover potential audit disallowances. Contract revenues have been recorded in amounts which are expected to be realized upon final settlement. The DCAA has audited CASI's contracts through 1996. An allowance for doubtful accounts and potential disallowances has been established based upon the portion of billed and unbilled receivables that management believes may be uncollectible. DRM revenue is recognized on retainers according to the terms of each contract. Revenue is recognized on contingent success fees as each dispute with each insurer is resolved and a binding settlement agreement has been executed by all parties. Research and Development Research and development expenditures are charged to operations as incurred. Income Taxes Income taxes are determined in accordance with Statement of Financial Accounting Standards ("SFAS") 109, which requires recognition of deferred income tax liabilities and assets for the expected future tax consequences of events that have been included in the

financial statements or tax returns. Under this method, deferred income tax liabilities and assets are determined based on the difference between financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. SFAS 109 also provides for the recognition of deferred tax assets if it is more likely than not that the assets will be realized in future years.

----- F-12 COMMODORE APPLIED
 TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued

----- 1. Summary of Stock-Based Compensation
 Significant Compensation costs attributable to stock option and Accounting similar plans are recognized based on any difference Policies between the quoted market price of the stock on the date Continued of the grant over the amount the employee is required to pay to acquire the stock (in the intrinsic value method under Accounting Principles Board Opinion 25). SFAS 123, "Accounting for Stock-Based Compensation," requires companies electing to continue to use the intrinsic value method to make pro forma disclosures of net income and earnings per share as if the fair value based method of accounting had been applied. Applied has adopted the disclosure only provisions of SFAS 123. Fair Value of Financial Instruments The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. Accounts receivable, notes receivable, cash equivalents, long term debt and the line of credit are financial instruments that are subject to possible material market variations from the recorded book value. The Company has reflected in the financial statements debt discounts which are being amortized over the estimated lives of the obligations. The debt discounts bring the obligations to a market rate of interest. The fair value of these financial instruments approximate the recorded book value as of December 31, 2001 and 2000. Use of Estimates The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reclassifications Certain amounts in prior years have been reclassified to conform with the current year presentation. ----- F-13

COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued ----- 2. Going Concern The accompanying consolidated financial statements have Concern been prepared under the assumption that Applied will continue as a going concern. Such assumption contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the consolidated financial statements, Applied incurred losses for the years ended December 31, 2001, 2000 and 1999. Applied also has a working capital deficit at December 31, 2001. The consolidated financial statements do not include any adjustments that might be necessary should Applied be unable to continue as a going concern. Applied's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing as may be required, and ultimately to attain profitability. Potential sources of cash include new contracts, external debt, the sale of new shares of Company stock or alternative methods such as mergers or sale transactions. No assurances can be given, however, that the Company will be able to obtain any of these potential sources of cash. 3. Receivables The components of Applied's trade receivables are as follows as of December 31, 2001 and 2000: 2001 2000 -----
 Contract receivables: Amounts billed \$ 1,202 \$ 4,807 Retainages 26 25 ----- 1,228 4,832 Less: Allowance for doubtful accounts and potential disallowances (411) (296) ----- Total receivables, net \$ 817 \$ 4,536 ----- F-14

COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued ----- 3. Receivables The balances billed but not paid by customers pursuant Continued to retainage provisions are due upon completion and acceptance of the contracts. Substantially all of CASI trade receivables are pledged to collateralize its line of credit (see Note 8). 4. Property Property and equipment consist of the following: and Equipment Average December 31 Useful Life 2001 2000 ----- Machinery and equipment 3 \$ 599 \$ 2,386 Furniture and fixtures 5 469 417 Computer equipment 4 882 944 Leasehold improvements 5 19 19 ----- 1,969 3,766 Less: accumulated depreciation and amortization (1,245) (1,783) ----- Total property and equipment \$ 724 \$ 1,983 ----- During the year ended December 31, 2001 an impairment loss of \$776 was recorded against the machinery equipment. 5. Other Assets Applied had an investment in a joint venture with Teledyne Environmental,

Inc. (LLC). Applied did not record its equity in the losses of the LLC in 2000 and 1999 as the LLC agreement states that members of the LLC can only be asked to fund approved capital calls and Applied has no obligation to fund these 2000 and 1999 losses. During the year ended December 31, 2001, the joint venture was dissolved, and the Company's share of the related loss to dissolve the joint venture was included in losses of unconsolidated subsidiaries. The Company recorded a loss of \$295, for the year ended December 31, 2001, from its investment in the joint venture.

----- F-15 COMMODORE APPLIED

TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued

----- 5. Other Assets The Company received its

equipment back as a Continued distribution in dissolving the joint venture. The Company recorded the equipment at the net book value of the joint venture which is the lower of cost or market. 6. Acquisition On August 30, 2000, Applied completed a stock purchase of Dispute agreement with Dispute Resolution Management, Inc. (DRM) Resolution and its two shareholders. This agreement amended and Management restated in its entirety the terms of an agreement and plan of merger, dated August 30, 2000, which Applied had previously entered into with DRM and its shareholders. Under terms of the current agreement, Applied purchased 81% of the issued and outstanding capital stock of DRM from the two existing shareholders. The consideration to these shareholders (and their designees) consisted of: a) 10.5 million shares of Applied common stock. Of these 10.5 million shares, 9.5 million shares are subject to a one-year option to repurchase any or all shares. The option has been extended and currently expires May 16, 2002. b) 5 million shares of Applied common stock in exchange for an option to purchase the remaining 19% interest in DRM. The option expires after five years and the option price will be based upon the relative appraised values of DRM and Applied at the time of purchase. c) Five-year warrants to purchase up to an aggregate of 1.0 million shares of Applied common stock at an exercise price of \$2.00 per share. d) Quarterly earn-out distributions equal to 35% of the cash flow of DRM over an earn-out period commencing as of September 1, 2000 and ending December 31, 2005. Applied has agreed that if DRM has not distributed to these shareholders a total of \$10.0 million in cash in earn-out payments by December 31, 2003, Applied will make up the difference between \$10.0 million and the actual cash distributed. This difference can be paid in cash or Applied common shares at Applied's sole discretion.

----- F-16 COMMODORE APPLIED

TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued

----- 6. Acquisition Applied has an absolute and

irrevocable obligation to of Dispute repurchase, by the end of the option period, that number Resolution of 9.5 million shares of Applied common stock necessary Management to provide the holders of those shares with a total of Continued \$14.5 million. It is Applied's intention to exercise its option to reacquire these shares during the period and sell these shares to generate the cash necessary to meet the \$14.5 million obligation. The obligation was recorded as a note payable and interest has been imputed on the note payable to record debt at the time of acquisition of \$13,122.

The former owners of DRM have entered into five-year employment agreement with DRM providing for starting salaries of \$262 per year, with annual increases of not more than 5%. In addition, these individuals have entered into five-year non-competition agreements with DRM. Applied has valued the consideration given as follows: 9.5 million option common shares \$ 13,122 5.0 million common shares 5,469 1.0 million common shares 1,094 Warrants to purchase 1.0 million shares 959 Future payment guarantee 10,000 Imputed interest on future payment guarantee (2,588) ----- Total \$ 28,056 ----- DRM's equity at the date of acquisition was \$414. Applied's 81% share of this equity was \$336. Applied recorded the difference between the consideration given of \$28,056 and its ownership in DRM equity of \$336 as follows: Covenants not to compete \$ 2,625 Goodwill 25,095 ----- Total \$ 27,720 -----

----- F-17 COMMODORE

APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued

----- 6. Acquisition Covenants not to compete are amortized over their 5 of Dispute year life. Goodwill is amortized over 20 years. Resolution Management Continued

7. Other Other accrued liabilities consist of the following: Accrued Liabilities 2001 2000 -----
Dividend payable \$ 816 \$ 408 Compensation and employee benefits 658 652 Loss reserve 200 357 Related parties 185 185 Accrued consulting - 185 Severance payments - 76 Other 178 626 ----- \$ 2,037 \$ 2,489

----- 8. Line of At December 31, 2001 and 2000, CASI had a \$108 and Credit \$1,459 outstanding

balance, respectively, on a revolving line of credit. The line of credit is not to exceed 85% of eligible receivables or \$2,500 and is due October 2002 with interest payable monthly at prime plus 2.0 percent (6.75% at December 31,

2001). The credit line is collateralized by the assets of CASI and is guaranteed by Applied. The line of credit contains certain financial covenants and restrictions including minimum ratios that CASI must satisfy.

----- F-18 COMMODORE APPLIED
 TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued

----- 9. Notes Payable Notes payable consist of the following at December 31: 2001 2000 ----- Obligation to minority shareholders of DRM wherein the minority shareholders are to receive \$14,500 cash from the Company through the repurchase of the 9.5 million option common shares issued to the minority shareholders' (see note 6). The Company has imputed an interest rate of 10.5% on the obligation which is secured by Commodore's ownership of DRM. The obligation was originally due in August 2001 and has been extended through May 2002 \$ 14,500 \$ 14,500 Unamortized discount for imputed interest rate through original maturity date of August 2001. - (919) Notes payable to individuals with interest at 15%, due in aggregate monthly installments, beginning in July 2001, of \$83,33 plus interest, maturing through June 2002. In connection with the notes, Applied issued warrants to purchase 333,334 shares of stock which were valued at \$70,000 and recorded as a discount on the notes to be amortized over their respective terms 583 - Unamortized discount for warrants (18) - ----- F-19 COMMODORE APPLIED

TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued

----- 9. Notes Payable Continued Notes payable to individuals with interest at 12%, originally due February 13, 2001 and extended until May 31, 2002, secured by DRM accounts receivable. In connection with this note, one of the majority shareholders of the Company sold 1 million shares of the Company's common stock it owned to the note holders at a discount. The discounted amount of \$500,000 was recorded as interest expense over the original term of the loan 216 500 Note payable to an officer of the Company with interest at 9.75%. The note is unsecured and is convertible into common stock of the Company at the market rate of the common stock. During 2001 the officer converted \$250,000 of the note for 1,041,667 shares of common stock. The note was originally due March 15, 2001 but has been extended until December 31, 2001. The Company also has imputed a discount for warrants issued for \$89 in connection with the note which is being amortized over the original term of the note 250 500 Unamortized discount imputed for warrants - (29) Notes payable to an insurance company with interest at 8.18%, secured by an insurance contract and due December 2001. 124 130 ----- \$ 15,655 \$ 14,682 ----- F-20

COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued ----- 10. Long-Term The

Company has the following long-term debt at December Debt 31: 2001 2000 ----- Obligation to the minority shareholders of DRM wherein the Company has guaranteed to distribute 35% of the cash flows of DRM to the 19% minority shareholders in amounts not less than \$10,000 by December 31, 2003 (see note 6). The Company has imputed interest on the obligation at 10.5%, and the obligation is secured by the Company's ownership of DRM. The Company has also estimated the current and long-term portions of the obligation \$ 8,583 \$ 10,000 Unamortized discount for imputed interest rate (1,592) (2,389) Notes payable to an entity requiring monthly payments of \$11, plus interest at 8.5% secured by an insurance contract 89 221 ----- 7,080 7,832 Less current maturities (2,650) (2,650) ----- \$ 4,430 \$ 5,182 ----- Future maturities on long-term debt are as follows: Year ---- 2002 \$ 2,650 2003 4,430 ----- Total \$ 7,080 -----

----- F-21 COMMODORE APPLIED
 TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued

----- 11. Income Taxes Applied provides for deferred income taxes on temporary differences which represent tax effects of transactions reported for tax purposes in periods different than for book purposes. The provision for income taxes for the years ended December 31 results in an effective tax rate which differs from federal income tax rates as follows: 2001 2000 1999

----- Expected tax benefit at federal statutory rate \$ (2,228) \$ (3,890) \$ (1,355) State income tax benefit, net of federal income tax benefit (393) (686) (239) Interest accretion 753 333 - Other 226 453 - Change in valuation allowance 1,642 3,790 1,594 ----- Income tax benefit \$ - \$ - \$ -

----- The components of the net deferred tax as of December 31, are as follows 2001 2000 ----- Reserve for uncollectable receivables and potential disallowances \$ 226 \$ 242 Depreciation and Amortization (41) 88 Net operating loss carryforward 11,500 10,192 Impairment charges 2,480

2,034 Other 99 66 ----- 14,264 12,622 Valuation allowance (14,264) (12,622)

----- Net deferred taxes \$ - \$ - ----- Applied conducts a periodic examination of its valuation allowance. Factors considered in the evaluation include recent and expected future earnings and Applied's liquidity and equity positions. As of December 2001, 2000 and 1999, Applied has established a valuation allowance for the entire amount of net deferred tax assets. -----

F-22 COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued ----- 11. Income Taxes Applied

has net operating loss ("NOL") carryforwards at Continued December 31, 2001 of approximately \$31,000 which expire in years 2010 through 2021. The NOL carryforwards are limited to use against future taxable income due to changes in ownership and control. 12. Stockholders' Series B, C & D Convertible Preferred Stock Equity Effective September 28, 1998, Applied authorized and issued three new series of Preferred Stock. Series B, C and D Preferred Stock were authorized up to 25,000, 15,000 and 25,000 shares, respectively, all at \$.001 par value. Each of the Series B, C and D Preferred Stock is convertible into common shares of Applied; each has a par value of \$.001 and a stated value of \$100 per share; each carries a dividend rate of \$6.00 per share per annum from the date of issuance, payable quarterly commencing December 31, 1998, when, and if declared by the Board of Directors; and each has non-cumulative dividends. During 1998 the Company issued 20,909 shares of Series B, 10,189 shares of Series C, and 20,391 shares of Series D Convertible Preferred Stock for an aggregate amount of \$2,001 (see Note 15). Applied did not declare any dividend payment as of December 31, 1998. The Series B, C and D Convertible Preferred Stock is convertible into Common Stock at any time prior to redemption at a conversion rate of 142.9 shares of Common Stock for each share of Series B and D Convertible Preferred Stock and 133.3 shares of Common Stock for each share of Series C Convertible Preferred Stock (an effective conversion price of \$.70 and \$.75 per share of Common Stock, respectively). The conversion price is subject to adjustment under certain circumstances, including Applied taking action to change the number of Common Shares outstanding, such as declaring a stock dividend. In November 1999, all of the outstanding shares of Series B, C and D Convertible Preferred Stock was converted into 7,258,533 shares of common stock. Series E Convertible Preferred Stock Effective November 4, 1999, Applied issued 335,000 shares of Series E Convertible Preferred Stock with a stated value of \$10 per share.

----- F-23 COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued -----

12. Stockholders' Series E Convertible Preferred Stock - Continued Equity This stock has a dividend rate of 12% per annum through Continued April 30, 2000 and thereafter 5% per annum paid quarterly. In addition the stock has a special dividend at the rate of 7.5% per annum which began to accrue on May 1, 2000, payable on May 1, 2001. The special dividend will not be paid on any stock converted to common stock on or before April 30, 2001. The Series E Convertible Preferred Stock has a liquidation preference of \$10 per share. In connection with the issuance of the Series E Convertible Preferred Stock, the Company issued warrants to purchase 572,500 shares of common stock at a purchase price equal to 110% of the market price on the date of closing (\$1.20). These warrants were valued at \$60 and expire on November 4, 2004. The Series E Convertible Preferred Stock is convertible into common stock at any time on or after April 30, 2000 at a conversion price equal to the arithmetic mean of the closing prices of common stock as reported in the American Stock Exchange for the ten trading days immediately preceding the date of conversion. During the years ended December 31, 2001 and 2000, 70,000 shares and 35,000 shares of Series E Convertible Preferred Stock were converted into 2,000,000 shares and 330,992 shares of common stock, respectively. As of December 31, 2001 there are 230,000 shares of Series E preferred stock outstanding. Series F Convertible Preferred Stock In March 2000, Applied issued 266,700 shares of Series F Convertible Preferred Stock with a stated value of \$10 per share. Transaction costs on the issuance totaled \$230 resulting in net proceeds to the Company of \$1,770. The stock has a dividend rate of 12% per annum through September 30, 2000 and thereafter 5% per annum paid quarterly. In addition the stock has a special dividend at the rate of 7.5% per annum which began to accrue October 1, 2000, payable on October 1, 2001. The special dividend will not be paid on stock converted to common stock on or before September 30, 2001.

----- F-24 COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued -----

12. Stockholders' Series F Convertible Preferred Stock - Continued Equity The Series F Convertible Preferred Stock has a Continued liquidation preference of \$10 per

share. In connection with the issuance of Series F Convertible Preferred Stock, the Company issued warrants to purchase 363,475 shares of common stock at \$1.93875 per share. These warrants expire on March 16, 2005. The Series F Convertible Preferred Stock is convertible into common stock at any time on or after September 30, 2000. On conversion, the investor will receive for each converted preferred share the greater number of common stock as determined by (1) the face value per share (\$10) plus accrued dividends divided by the average of the closing prices over a ten consecutive trading day period ending on the trading day immediately preceding the conversion date, or (2) \$7.50 (the cash invested for each preferred share) divided by \$1.93875. During the years ended December 31, 2001 and 2000, 76,500 shares and 10,000 shares of Series F Convertible Preferred Stock were converted to 2,072,225 shares and 109,589 shares of common stock, respectively. The Company has 180,200 shares of Series F convertible stock outstanding at December 31, 2001. The holders of all series of convertible preferred stock have the right, voting as a class, to approve or disapprove of the issuance of any class or series of stock ranking senior to or on a parity with the convertible preferred stock with respect to declaration and payment of dividends or the distribution of assets on liquidation, dissolution or winding-up. Upon liquidation, dissolution or winding up of Applied, holders of Series E and Series F Convertible Preferred Stock are entitled to receive liquidation distributions equivalent to \$10.00 per share before any distribution to holders of the Common Stock or any capital stock ranking junior to the Series E Convertible Preferred Stock. Cumulative unpaid dividends on Preferred Stock is \$816 and \$408 at December 31, 2001 and 2000.

F-25 COMMODORE APPLIED

TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued

13. Stock Options Applied has adopted the intrinsic value method of and Stock accounting for stock options and warrants under APB 25 Warrants with footnote disclosures of the pro forma effects as if the FAS 123 fair value method had been adopted. Had compensation expense for Applied's employee stock options been determined based on the fair value at the grant date for awards in 2001, 2000 and 1999 consistent with the provisions of FAS 123, Applied's net loss per share would have been increased to the pro forma amounts indicated below:

	2001	2000	1999
Net loss - as reported	\$ (6,554)	\$ (11,441)	\$ (3,985)
Net loss - pro forma	\$ (6,810)	\$ (12,619)	\$ (6,335)
Loss per share - as reported	\$.13	\$.34	\$.16
Loss per share - pro forma	\$.14	\$.37	\$.26

FAS 123 requires stock options to be valued using an approach such as the Black-Scholes option pricing model. The Black-Scholes model calculates the fair value of the grant based upon the following assumptions about the underlying stock: The expected dividend yield of the stock is zero, the assumed volatility is 212%, the expected risk-free rate of return is 4.6 - 6.5 percent, calculated as the rate offered on U.S. Government securities with the same term as the expected life of the options, and the expected term is the maximum possible term under the option. Stock Options In December 1998, Applied adopted its 1998 Stock Option Plan pursuant to which officers, directors, key employees and/or consultants of Applied can receive non-qualified stock options to purchase up to an aggregate 5,000,000 shares of Applied's Common Stock. During 1999 and 2000 Applied increased the number of shares authorized by 5,000,000 shares each year resulting in 15,000,000 shares currently available under the 1998 stock option plan. Exercise prices applicable to stock options issued under this Plan represent no less than 100% of the fair value of the underlying common stock as of the date of grant. Stock options granted under the plan may vest immediately or for any period up to five years.

F-26 COMMODORE APPLIED

TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued

13. Stock Options A summary of the status of options granted under the and Stock Plan as of December 31, 2001, 2000 and 1999 and changes Warrants during the periods then ended is presented below Continued 2001 2000 1999

	2001	2000	1999
Options outstanding - beginning of year	7,529,056	7,169,747	4,155,012
Granted	920,000	0.28	2,243,769
Exercised	(1,326,866)	.46	(2,142)
Forfeited	(3,329,648)	0.49	(557,594)
Options outstanding - end of year	5,119,408	0.99	7,529,056

The following table summarizes information about employee stock options outstanding at December 31, 2001: Options Outstanding

Options Exercisable	Weighted Average	Weighted	Weighted
Range of Remaining Average	Average	Exercisable	Number
Contractual	Exercise	Number	Exercise
Prices			

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Outstanding Life Price Exercisable Price ----- \$0.25 -
 \$0.44 2,257,200 7.00 years \$0.37 2,384,765 \$ 0.38 \$0.63 - \$1.44 2,504,833 7.00 years \$0.99 1,289,827 \$ 0.89 \$2.00 -
 \$6.00 357,375 4.10 years \$4.86 357,375 \$ 4.86 ----- 5,119,408 6.80
 years \$0.99 4,031,937 \$ 0.94 -----

----- F-27 COMMODORE APPLIED
 TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued

----- 13. Stock Stock Warrants Options Outstanding
 warrants (vested and not vested) at December and Stock 31, 2001 are as follows: Warrants Continued Granted Number
 of Current 1998 and Granted Granted Granted Warrants Exercise Expiration Prior 1999 2000 2001 2001 Price Date
 ----- 7,500,000 3,405,444 2,764,141 - 13,669,585 \$ 5.50
 December 2003 19,407 - - 19,407 5.80 August 2002 60,000 - - 60,000 3.68 September 2002 1,000,000 356,092
 270,568 - 1,626,660 3.09 August 2002 514,000 148,267 127,596 - 789,863 2.93 March 2003 1,500,000 266,861
 49,020 - 1,815,881 1.24 February 2004 - 312,500 - - 312,500 1.20 November 2004 - 250,000 - - 250,000 1.20
 November 2004 - - 25,000 - 25,000 1.94 March 2005 - - 250,000 - 250,000 1.94 March 2005 - - 113,475 - 113,475
 1.94 March 2005 - - 100,000 - 100,000 1.06 September 2002 - - 1,000,000 - 1,000,000 2.00 August 2005 - - -
 1,000,000 1,000,000 0.22 May 2003 - - - 333,334 333,334 0.22 June 2006

----- 10,593,407 4,739,164 4,699,800 1,333,334 21,365,705
 ----- There were no warrants exercised in 2001, 2000 or 1999. As of
 December 31, 2001 all warrants are exercisable. 14. Earnings Per All earnings per share amounts reflect the Share
 implementation of SFAS 128 "Earnings per Share". Basic earnings per share are computed by dividing net income
 available to common shareholders by the weighted average number of shares outstanding during the period. Diluted
 earnings per share are computed using the weighted average number of shares determined for the basic computations
 plus the number of shares that would be issued assuming all contingently issuable shares having a dilutive effect on
 earnings per share were outstanding for the period. -----

F-28 COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial
 Statements Continued ----- 14. Earnings Per Share

Continued Years Ended December 31, ----- 2001 2000 1999
 ----- Net loss \$ (6,554) \$ (11,441) \$ (3,985) Preferred stock dividends (408) (634)
 (63) ----- Net loss available to common shareholders \$ (6,962) \$ (12,075) \$ (4,048)
 ----- Weighted average common shares outstanding (basic) 53,241,000 35,866,000
 24,819,000 Series E Convertible Preferred Stock (*) (*) (*) Series F Convertible Preferred Stock (*) (*) - Employee
 Stock Options (*) (*) (*) Warrants issued in connection with various transactions (*) (*) (*) -----
 ----- Weighted average common shares outstanding (diluted) 53,241,000 35,866,000 24,819,000 -----
 ----- Net loss per share - basic and diluted \$ (.13) \$ (.34) \$ (.16) -----

(*) Due to Applied's loss from continuing operations in 2001, 2000 and 1999, the incremental shares issuable in
 connection with these instruments are anti-dilutive and accordingly not considered in the calculation.

----- F-29 COMMODORE APPLIED
 TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued

----- 15. Related Party The Company had the following
 material related party Transactions transactions: Effective September 20, 2000, Applied received a \$500 loan from an
 affiliated individual. This loan matures on December 31, 2001 and bears interest at 9.75%, payable monthly. The note
 can be converted into Applied common shares at an exchange rate of one share for every \$1.0625 of loan value. In
 addition, the Company issued a warrant to purchase 100,000 Applied common shares at \$1.0625. The warrant expires
 September 20, 2002 and was valued at \$89, which will be amortized to interest expense over the life of the related
 debt. During 2001 the individual converted \$250 of debt to 1,041,667 shares of common stock leaving a note payable
 of \$250 to the individual at December 31, 2001. The Company at December 31, 2001 and 2000 has obligations
 relating to the purchase of 81% of DRM (see Notes 6, 9 and 10). During the year ended December 31, 2000 a
 shareholder of the Company sold, at a discount, 1,000,000 common shares that it owned of Applied to individuals
 who loaned \$500 to Applied. The discount amount of \$500 was used to offset receivables from related parties and
 result in a net related party payable of \$160 and \$247 as of December 31, 2001 and 2000, respectively. In addition, the
 Company has payables to related parties of \$185 at December 31, 2001 and 2000 recorded in accrued liabilities. The

Company expensed as bad debt \$109 of related party receivables during the year ended December 31, 2000. The Company has notes payable and long-term debt to officers and shareholders of the Company. See Notes 9 and 10.

----- F-30 COMMODORE APPLIED

TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued

----- 16. Commitments Operating Leases and Applied and its subsidiaries are committed under Contingencies non-cancelable operating leases for office space and other equipment. Future obligations under the leases are as follows: 2002 \$ 216 2003 147 2004 116 2005 11 ----- \$ 490 ----- Rent expense approximated \$429, \$403 and \$332 in 2001, 2000 and 1999, respectively. Executive Bonus Plan Applied has a five-year Executive Bonus Plan (the "Bonus Plan") under which a number of executives and employees of Applied are entitled to formula bonuses. No bonuses are accrued at December 31, 2001 and 2000. Employment Agreements The Company has entered into employment agreements with the two former owners of DRM which provide for salaries of not less than \$275 each through December 31, 2002 and not less than \$290 each through December 31, 2003. Litigation Applied has matters of litigation arising in the ordinary course of business which in the opinion of management will not have a material adverse effect on its financial condition or results of operations. Guarantee The Company, along with several other entities, in a prior year guaranteed a performance bond of Separation relating to the Port of Baltimore contract. The Company was notified on June 28, 2000 that the performance bond is being called. It is not known, at this time, the amount, if any, the Company's share will be. The maximum exposure is approximately \$390. 17. 401(K) The Company has adopted a 401(K) savings plan for all Savings Plan employees who qualify as to age and service. Contributions by the Company are discretionary. The Company made annual contributions to the plan of approximately \$0, \$48 and \$91 during the years ended December 31, 2001, 2000 and 1999, respectively. ----- F-31

COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued -----

18. Segment Using the guidelines set forth in SFAS No. 131, Information "Disclosures About Segments of an Enterprise and Related Information," Applied has identified three reportable segments as follows: 1. CASI, which primarily provides various engineering, legal, sampling and public relations services to Government agencies on a cost plus basis. 2. Solution, which, through CASI, has equipment to treat mixed and hazardous waste through a patented process using sodium and anhydrous ammonia. 3. DRM from August 30, 2000 (date of acquisition) to December 31, 2000, which provides a package of services to help companies recover financial settlements from insurance policies to defray costs associated with environmental liabilities. Common overhead costs are allocated between segments based on a record of time spent by executives. Applied evaluates segment performance based on the segment's net income (loss). The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Applied's foreign and export sales and assets located outside of the United States are not significant. Summarized financial information concerning Applied's reportable segments is shown in the following tables.

----- F-32 COMMODORE APPLIED

TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued

	2001	----	Corporate
Overhead Total CASI Solution DRM & Other -----			Revenue \$
10,551 \$ 4,409 \$ 181 \$ 5,961 \$ -			Costs and expenses: Cost of sales 3,369 3,080 289 - -
			Research and development 423
			- 423 - - General and administrative 6,643 1,219 313 4,223 888
			Depreciation and amortization 2,491 - 515 41 1,935
			Impairment of machinery 776 - - - 776
			Impairment of patents 627 - - - 627
			Minority interest 203 - - - 203
			Total costs and expenses 14,532 4,299 1,540 4,264 4,429
			Income (loss) from operations (3,981) 110 (1,359) 1,697
			(4,429) Interest income 76 38 - 38 -
			Interest expense (2,354) - (86) - (2,268)
			Equity in losses of unconsolidated subsidiary (295) - - - (295) -----
			Net (loss) income \$ (6,554) \$ 148 \$
			(1,445) \$ 1,735 \$ (6,992) -----
			Total assets \$ 28,655 \$ 1,277 \$ 600 \$
			3,995 \$ 22,783 -----
			Expenditures for long-lived assets \$ 51 \$ - \$ - \$
			51 \$ - -----

----- F-33 COMMODORE

APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued

----- 2000 ---- Corporate Overhead

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Total CASI Solution DRM & Other ----- Revenue \$ 20,631 \$
 16,786 \$ 271 \$ 3,574 \$ - Costs and expenses: Cost of sales 14,452 13,962 490 - - Research and development 993 - 993
 - - General and administrative 6,989 2,355 504 1,761 2,369 Depreciation and amortization 1,471 - 378 12 1,081
 Impairment of goodwill 6,586 - - 6,586 Minority interest 341 - - 341
 ----- Total costs and expenses 30,832 16,317 2,365 1,773 10,377
 ----- Income (loss) from operations (10,201) 469 (2,094) 1,801
 (10,377) Interest income 67 - - 10 57 Interest expense (1,307) (123) (86) (12) (1,086) Income taxes - - - -
 ----- Net income (loss) \$ (11,441) \$ 346 \$ (2,180) \$ 1,799 \$
 (11,406) ----- Total assets \$ 37,473 \$ 4,255 \$ 1,724 \$ 2,562 \$
 28,932 ----- Expenditures for long-lived assets \$ 302 \$ 40 \$ 132 \$
 130 \$ - -----

F-34 COMMODORE

APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued

1999 Corporate ----

Overhead Total CASI Solution & Other ----- Revenue \$ 18,147 \$
 17,973 \$ 174 \$ - Costs and expenses: Cost of sales 16,127 15,865 262 - Research and development 1,145 - 1,145 -
 General and administrative 4,037 1,428 175 2,434 Depreciation and amortization 696 64 247 385 Minority interest - -
 ----- Total costs and expenses 22,005 17,357 1,829 2,819
 ----- Income (loss) from operations (3,858) 616 (1,655) (2,819)
 Interest income 39 - - 39 Interest expense (166) (103) (63) - Income taxes - - - -
 ----- Net income (loss) \$ (3,985) \$ 513 \$ (1,718) \$ (2,780)
 ----- Total assets \$ 16,047 \$ 4,108 \$ 2,035 \$ 11,713
 ----- Expenditures for long-lived assets \$ 353 \$ 12 \$ 337 \$ 4

F-35 COMMODORE

APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements Continued

----- 19. Recent In June 2001, the Financial Accounting
 Standards Board Accounting ("FASB") issued SFAS No. 141, "Business Combinations," Pronounce- and SFAS No.
 142, "Goodwill and Other Intangible ments Assets." SFAS No. 141 requires the purchase method of accounting for all
 business combinations initiated after June 30, 2001 and that certain acquired intangible assets in a business
 combination be recognized as assets separate from goodwill. SFAS No. 142 requires that goodwill and other
 intangibles determined to have an indefinite life are no longer to be amortized but are to be tested for impairment at
 least annually. SFAS No. 142 requires that an impairment test related to the carrying values of existing goodwill be
 completed within the first six months of 2002. Impairment losses on existing goodwill, if any, would be recorded as
 the cumulative effect of a change in accounting principle as of the beginning of 2002. The adoption of this accounting
 standard may have a significant impact on the Company's future results of operations and financial condition. In June
 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires an
 asset retirement obligation to be recorded at fair value during the period incurred and an equal amount recorded as an
 increase in the value of the related long-lived asset. The capitalized cost is depreciated over the useful life of the asset
 and the obligation is accreted to its present value each period. SFAS No. 143 is effective for the Company beginning
 January 1, 2003 with earlier adoption encouraged. The Company is currently evaluating the impact the standard will
 have on its future results of operations and financial condition. In August 2001, the FASB issued SFAS No. 144
 "Accounting for the Impairment or Disposal of Long-Lived Assets", effective beginning January 1, 2002. SFAS No.
 144 retains the requirement to recognize an impairment loss only where the carrying value of a long-lived asset is not
 recoverable from its undiscounted cash flows and to measure such loss as the difference between the carrying amount
 and fair value of the asset. SFAS No. 144, among other things, changes the criteria that have to be met to classify an
 asset as held-for-sale and requires that operating losses from discontinued operations be recognized in the period that
 the losses are incurred rather than as of the measurement date. The Company adopted the accounting standard
 effective January 1, 2002 which may have a significant impact on the Company's financial condition or results of
 operations. ----- F-36