Letter of Comment No: 34
File Reference: 1102-001
Date Received: 1-21-03

MP&T Director-File Reference 1102-(
Financial Accounting Standards Board
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We are writing in response to FASB's Invitation to Comment on Accounting for Stock-Based Compensation. As a general matter, we are concerned that mandatory expensing of stock options will depress US stock prices harm the economic recovery. Mandatory expensing of stock options also undermines the culture of entrepreneurship and innovation which has made the technology industry, of which F5 Networks is a part, renowned throughout the world.

Much of the stock option debate has confused the value of a stock option to the employee with the cost to the corporation for issuing that option. Because the accounts that are being affected under option expensing proposals are the corporation's accounts, the value of an option to the employee is and should be irrelevant.

A great deal has been written about the shortcomings of current models in valuing employee stock options. We will not go into detail of all the inadequacies of these models, other than to note that the Black-Sholes model, which we understand was originally developed to value publicly traded options, not employee stock options, creates huge swings and illogical results for companies like ours with a volatile stock.

It is also interesting to note that PWC, our outside audit firm, described the inadequacies of current valuation models in F5's last audit committee meeting. Treating an incorrect and misleading number developed by these models as an expense in the income statement would not increase financial statement reliability, transparency or comparability, but would have quite the reverse effect. We do not believe that investors would not be helped by a rule that mandates the inclusion of misleading numbers in the financial statement.

The issuance of stock options does not result in a corporate level cost that impacts net income. To the extent options are exercised by the employee, corporate assets are increased by the amount of cash that the employee must pay to exercise the option. It might be arguable from an economic standpoint that the corporation incurs an opportunity cost in issuing the stock options, but FASB has traditionally not required the recognition of opportunity costs or benefits.

The only "cost" to issuing employee stock options is borne the existing shareholders in the form of potential dilution. This should be fully and completely disclosed. We support full disclosure of all stock options that have been issued by the company, and all stock that has been reserved for issuance by the company under its stock option plans. The actual dilutive effect, or cost to existing shareholders, of stock options, is captured in the earnings per share calculation when the options are exercised. If a company incurs an expense for options before they are exercised, each option that gets exercised is accounted for twice in the earnings per share calculation. Although we do not understand how this sort of double accounting for stock options would be useful in analyzing an investment, we do understand that some investors wish to know the value of employee stock options. We believe that FASB has already addressed this issue by requiring quarterly disclosure of the value of these options.

We can't emphasize enough the value stock options have added to the technology industry as a whole and F5 Networks in particular. As with so many other technology companies, the last three years have been extremely difficult for us. We had to completely change our customer base and business model in order to survive the post tech bubble economy. We have achieved profitability for the first time since the September 11 debacle, and are committed to not only survive these hard times but to thrive and continue to build a great, enduring company. F5 employee stock options play a key role in fostering the spirit it takes to take a company through the challenging times we have just been through, and to continue to drive toward growth and greater levels of achievement. We are very concerned about anything that would upset such a fundamental part of our corporate culture and success. We are also concerned about losing our hard won profitability due to an unnecessary if not misleading accounting mandate, and the devastating effect this would have on our company.

Thank you for considering our thoughts on this matter. Please let us know if you have any questions on this letter.

Sincerely,

F5 Networks, Inc.

John Rodriguez
Corporate Controller

Joann Reiter
Vice President and General Counsel