



Letter of Comment No: 69  
File Reference: 1102-001  
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January 30, 2003

Financial Accounting Standards Board  
MP&T Director – File Reference 1102-001  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Sir or Madam:

ILEX Oncology, Inc. (ILEX) is pleased to respond to the Board's request for comment on the convergence of international accounting standards, as guided by *Accounting for Stock-Based Compensation: A Comparison of FASB Statement No. 123, Accounting for Stock-Based Compensation, and Its Related Interpretations, and IASB Proposed IFRS, Share-Based Payment.* " We do agree with and commend the Board on the importance of establishing financial standards that make financial reporting comparable worldwide; however, we do express herein some concerns with the Proposed IFRS, *Share-Based Payment* that we hope the Board will consider in their deliberations.

In making our recommendation, we recognize the need of investors for significant disclosure of stock option grants and their dilutive effect on stockholders' earnings and stock prices. U.S. FASB has met this need by requiring extensive footnote disclosure on stock options "fair value" under SFAS No. 123 and the inclusion of outstanding stock options in Diluted EPS under SFAS No. 128. We are very concerned that this controversial issue, which was recently resolved with a rational and reasonable solution in the US is now again being addressed.

Our major reasons for recommending against the mandatory expensing of stock options are as follows:

- Stock options are not a cost to the Company. They are however dilution to the shareholders.
  - The effect on shareholders is already considered in the diluted EPS calculation and the required footnote disclosures clearly lay out the stock options' activity. We believe that the investor has the ability to ascertain the effect of stock options on their investment in the company; however, to the extent additional information such as a dilution table in the footnotes would be deemed to be of assistance to the public, we would fully support such additional disclosure

- Advocates of "fair value" accounting for stock options assume that current pricing models accurately reflect the fair value of stock options.
  - There is no evidence that suggests that the "fair value" derived by current pricing models correlate with values that would be derived in an arms-length transaction within the marketplace as current models do not take into consideration the non-transferability of employee stock options, thus overvaluing these options
  - "Fair value" accounting for stock options using current options pricing models is controversial and unproven. The inclusion of the "fair value" of options in the income statement will not improve the quality of financial reporting and will likely result in erratic financials statements, particularly in industries which experience greater stock market volatility
- Stock options are necessary for smaller companies to attract and retain talented employees, especially those smaller companies who are trying to compete with the big boys. Small businesses do not have the resources to attract these employees with lucrative pay and bonus structures. If they are to be innovative and competitive, it's imperative that they not be negatively affected by an arbitrary, "fair value" calculation.

The uniform application of accounting standards relating to employee stock-based compensation is necessary. As current practice for the majority of the nations affected by the proposed IFRS already permits or requires use of the "intrinsic value" method of accounting, measured at the grant date and the U.S. FASB has recently concluded on the proper accounting treatment of stock options (allowing for "intrinsic value" method), the most simple and practical resolution is to continue utilizing SFAS No. 123 and SFAS No. 128 to account for these options. Worldwide quality financial reporting relies on the consistency of the application of standards. Consistency is the basis upon which business and investment decisions can be made. The intrinsic value method allows for such consistency. It is not only the practical solution, but we believe the right solution.

Thank you for allowing us the opportunity to comment and considering our response.

Sincerely,



Mark P. Mellin  
Senior Vice President  
Chief Financial Officer