

Karen Salmansohn

Letter of Comment No: 142
File Reference: 1102-001
Date Received: 2-1-03

From: Director - FASB
Sent: Monday, February 03, 2003 11:31 AM
To: Karen Salmansohn
Subject: FW: File Reference No. 1102-001

-----Original Message-----

From: Larry Bloch [mailto:lbloch@amevolution.com]
Sent: Saturday, February 01, 2003 2:54 PM
To: Director - FASB
Cc: 'Wick Simmons-Chairman and Chief Executive Officer-NASDAQ'
Subject: RE: File Reference No. 1102-001

Dear Sirs:

I am writing in response to your Invitation to Comment on Accounting for Stock-Based Compensation. As an officer of a Nasdaq-listed small cap biotech company, I urge you NOT to promulgate changes to the U.S. accounting standards on stock-based compensation that would require recognizing stock options as an expense in the income statement.

Stock options are not a current period cost. There is no cost to the corporation due to stock-based compensation, therefore it would be inappropriate to recognize stock-based compensation as an expense on the income statement of the company. There is a real cost associated with stock options, but it is born by the shareholders of the corporation in the form of dilution upon the vesting and exercise of the stock options. Any attempt to incorporate some measure of stock-based compensation an an expense in the income statement of the corporation will therefore not facilitate transparency.

Because stock-based compensation has its fundamental effect on dilution rather than expense, it should be reflected in earnings per share and perhaps also broken out in additional tables such as the potential dilution caused by the issuance of options by the corporation assuming that all of the option grants eventually vest and are exercised, a summary of all options issued by the corporation over the previous five years, and the percentage of options that were granted to the officers of the corporation and/or its five highest-paid employees.

On the public policy level, preferable ways to curb potential abuses related to stock option-based compensation is to prohibit officers of publicly traded companies from selling more than a fixed percentage of their shares in any given quarter and/or year, and also requiring officers of publicly traded companies to hold shares purchased through the exercise of stock options for a number of years after their exercise.

Thank you for considering my comments in your deliberations on this important issue.

Respectfully,

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