

Karen Salmansohn

From: Director - FASB
To: Friday, January 31, 2003 9:28 AM
Subject: Karen Salmansohn
FW: Expensing Sto

Letter of Comment No: 115
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-----Original Message-----

From: Gregory Mossinghoff [mailto:gmossing@inspirepharm.com]
Sent: Friday, January 31, 2003 9:28 AM
To: Director - FASB
Cc: 'Wick Simmons-Chairman and Chief Executive Officer-NASDAQ'; Christy Shaffer; Roger Francis; Leigh Thompson (E-mail); Gerry Mossinghoff (E-mail)
Subject: Expensing Stock Options

Dear Sir:

No doubt you are receiving responses on this issue which are lengthy, well articulated and include voluminous technical and policy arguments. We have followed and studied this issue carefully here at Inspire Pharmaceuticals, Inc. over the past several years, and could certainly produce multi-page arguments on this topic. However, in order to make this task easier on you and your staff, I have decided to boil our comments down to three basic points:

1. A stock option grant is not a current period P&L expense, it is an equity/ balance sheet item, which can potentially, but not necessarily, result in dilution of existing shareholders. It is clearly not an operating cost. Anyone who argues that an option grant is a current period expense is quite simply not adhering to basic accounting theory. This is the fundamental flaw in the proposal to treat option grants as current period P&L expenses, not the fact that the model to determine what the appropriate expense is appears to be deeply flawed, which no one in this debate can seriously dispute.

2. We began operations in 1995. We expect our employee headcount to reach 120 this year. Most of these are highly educated and well paid employees. Our pharmaceutical products in development have the very real potential to improve the health of millions of Americans. We are proud to say that since inception, every single regular employee of Inspire, from the clerical level right up to the CEO, has received option grants, not only at the time of hire but also through additional annual grants. I'm quite sure many of our best people would simply not be here if we had not granted them options. So it is clear to me that in many ways we owe our very existence to option grants.

3. Though our future looks bright, we are still a fragile company from a financial perspective. Every penny counts here. So if FASB decides to treat option grants as current period expenses, I feel it is likely that we will stop granting options to all but the most vital employees, and our option program will cease to be the democratic one we now enjoy. This is the major unintended negative consequence of requiring the expensing of options.

We hope the FASB will take the right path in this situation, which could not be more clear: option grants should not be treated as a P&L expense.

Thank you for your request for comments.

Sincerely,

Gregory J. Mossinghoff
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and Principal Financial Officer and Principal Accounting Officer
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