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October 18, 2002

Letter of Comment No: 7  
File Reference: 1101-001  
Date Received: 10/23/02

Financial Accounting Standards Board  
of the Financial Accounting Foundation  
401 Merritt 7  
P. O. Box 5116  
Norwalk, CT 06856-5116

Attention: MP&T Director - File Reference 1101-001

RE: ACCOUNTING FOR EMPLOYEE STOCK OPTIONS

Gentlemen:

An enormous amount of time and money was spent by numerous well-intended individuals, mostly professionals, to determine:

- are stock options compensation, and, if yes
- how do you fair-value them?

I have been a senior financial executive for a number of years. During the last seven years, I have been the Chief Financial Officer of a small-cap, NASDAQ-listed, specialty pharmaceutical company. Our policy has been, since we became a public company in December 1999, to grant stock options to all of our employees, not only to management, as some of the largest Fortune 500 companies do.

To me and to my colleagues, stock options are an incentive for people to join our company as employees, and to retain them on an on-going basis. Their incentive does not become compensation until it is exercised. Since our stock price ranged from \$1 to \$17 over the last five years, therefore being extremely volatile, it makes the valuation of the stock option grants quite unreasonable.

Our company wisely adopted the SFAS 123 with the footnote disclosure clause rather than expensing the stock options. Analysts, investors, shareholders, etc., can review our SFAS 123 footnote and recognize easily the impact of the stock options granted on the company's earnings and EPS.

In order to make the accounting for employees' stock options acceptable as well as simpler, both by companies and the investment community, I would like to suggest the following two methods:

Method A

- (a) Expense stock options when exercised. The amount to be expensed is the difference between the exercise share price and the market share price at time of exercise, multiplied by the number of options exercised.
- (b) The footnote disclosure is still applicable, but adjusted by the number of options expensed.

This approach is simple, logical, and easily understood by the investor community.

Method B

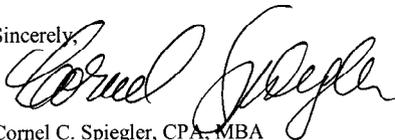
Keep the SFAS 123 as it is, but add a line on the face of the Statement of Operations with the description: **Net Income Per Share (After Stock Options)** following the **Net Income Per Share (Basic and Diluted)**.

The information listed here would be exactly the same information which is disclosed in the footnote. The reason I suggest this method is to make it easier for the "lazy" analysts and investors to read and understand stock options' impact on EPS.

Please seriously consider, primarily, the first method proposed. Obviously, I will leave the technical details and the appropriate write-up of numerous pages to the professionals of the FASB.

Thank you for your consideration.

Sincerely,



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bt

cc: Robert H. Herz, Chairman FASB