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Letter of Comment No: 5460
File Reference: 1102-100

From: Joe Tartaglia [jtartaglia@Endotex.com]

Sent: Monday, June 28, 2004 12:21 PM

To: Director - FASB

Subject: File Reference No. 1102-100 - FASB Proposal on Expensing Stock Options

Importance: High

To Director FASB;

As the head of a small, non-public, medical device company, I am writing in response to the FASB proposal which will require that stock options to be expensed at the grant date as well as during the vesting period using either the Black-Scholes or binomial valuation models. In my recent experience this year, the Black-Scholes model was shown to be a misapplication of a valuation methodology more suited to publicly traded companies with a stock price history. It is just not a not a realistic way to establish a valuation of employee options. The same is true for other similar methodologies.

The FASB has specifically disallowed the current "minimum value" standard by which private companies could calculate an option value without the volatility input required for public companies. Now, FASB has determined that if a nonpublic entity decided it could not reasonably estimate the fair value of employee stock options by using Black-Scholes or binomial models, such entity would need to use a modified "intrinsic value" method. Doing so requires the recalculation of the expense every reporting period creating variable accounting treatment as the stock options are marked-to-market.

This proposal will have significant negative impacts on the operational and financial reporting of small non-public firms such as EndoTex. These negative impacts include:

1. Confusing financial statement presentation: Expensing unexercised options can create confusion to the readers as such options may be subject to future expirations and cancellations. Such expense will not only negatively impact the bottom line but also create tremendous confusion to the readers to interpret such expense. Under the intrinsic value method, companies may incur negative compensation expense if the stock price experiences a large decline.

2. Misleading models: Option pricing models are often based on various assumptions and require various adjustments, which could provide less accuracy to the financial statements.

3. Additional cost: With limited resources, private companies may incur costs to hire a consultant to conduct the calculation of option expense on a periodic basis. In addition, the audit cost may also increase due to the additional audit work needed to test such expense.

I trust that as the FASB evaluates the benefits and drawbacks of the proposed rule change, the negative impacts on small, non-public companies such as EndoTex will be given serious consideration. Thank you for considering my comments on this very important issue.

Sincerely

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