



Genencor International®

925 Page Mill Road · Palo Alto, CA 94304 USA · +1.650.846.5809 tel · +1.650.845.6507 fax · www.genencor.com

June 21, 2004

Financial Accounting Standards Board  
Director of Major Projects  
File Reference No. 1102-100  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Letter of Comment No: 5011  
File Reference: 1102-100

Re: **Share-Based Payment, an amendment of FASB Statements No. 123 and 95**

Dear Sirs and Madams:

I am writing to express my company's grave concerns with the stock-option expensing requirements described in Proposed Statement of Financial Accounting Standards, Share-Based Payment, an amendment of FASB Statements No. 123 and 95 (the Exposure Draft). Implementation of this proposal risks the future of the biotechnology industry by undermining its ability to provide accurate information to investors and raise capital. I urge you to delay implementation of these requirements and to consider alternatives that would require enhanced disclosure of employee stock options and their dilutive effects on the price of shares.

As you know, the biotechnology industry has become a global force for human advancement. No industry matches biotech's limitless potential for developing clean methods of industrial production, curing diseases, and expanding the limits of the human imagination. Furthermore, the United States biotech industry has achieved the pole position in the global biotech race. The current proposal threatens that leadership position, just as it threatens the ability of the American people to capitalize on biotechnology's many promises.

Most companies in the U.S. biotech industry pursue long-term research efforts, plying the frontiers of science, and have not yet gotten products or processes approved for commercialization. In order to attract top scientific talent as they work to bring their revolutionary products to the market, biotech companies offer stock options to make the most of tight payrolls. Thus a proposal that targets stock options as an expense drives top researchers overseas. Like the U.S. itself, the biotech industry relies on innovation for economic growth. It is absolutely imperative that the biotech industry, and the country, nourish and expand our scientific elite, and stock options are a critical tool in that effort.

In addition to the detrimental effect on industry recruitment, the FASB completely disregarded widespread concerns about the inability to accurately value employee stock options. The dangerous lack of accuracy will result in cost reporting that inflates the value of options, misleading investors, stockholders and employees. Unlike more stagnant industries that do not rely so heavily on research and development to generate value, the biotech industry faces high stock price volatility. When combined with other highly subjective assumptions, can yield an unacceptably wide range of results. As the proposal stands now, the valuation method could easily result in two very similar companies reporting vast differences in expenses.

The specter of inaccuracy that haunts the proposed valuations methods would have grave implications for the biotech industry. The innovation that fuels the biotech industry requires both scientific talent and the consistent support of investors. As investors weigh competing opportunities, they look to financial statements for clear, accurate information about each company's performance.

Mandatory expensing under the FASB's proposed approach, however, will unnecessarily distort companies' financial statements. As a result, biotech companies forced to expense the estimated fair value of stock options will find themselves competing at a disadvantage with other types of ventures that have shorter product development cycles and fail to offer the unique opportunities for human gain that the biotech industry does.

Once again, I urge you to delay implementation of these requirements and to consider alternatives that would require enhanced disclosure of employee stock options and their dilutive effects on the price of shares without undermining the accuracy of financial statements. I completely understand the need for corporate reform, since intentionally misleading corporate reporting is the fastest way to undermine investor confidence and slow the pace of innovation. However, instituting reforms that add new inaccuracies and new uncertainties penalize the entrepreneurial companies that were not the targets of these reform efforts.

Sincerely,

Handwritten signature of Jean-Jacques Bienaimé in cursive script.

Jean-Jacques Bienaimé  
Chairman, CEO and President  
Genencor International

JJB:cw