



Coalesce Corporation

Bringing Science to Market

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Letter of Comment No: 4787
File Reference: 1102-100

June 22, 2004

By email: director@fasb.org

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

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

Dear Sirs and Madams:

I am writing to express Coalesce Corporation'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). Without question, this proposal, if implemented, will have a negative impact on the future of the biotechnology industry in the United States and the ability of my company to attract future capital and provide accurate and meaningful financial information to my shareholders.

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.

Over the past decade, biotechnology has fast become a global industry and Coalesce participates by helping with IP licensing, Codevelopment agreements with tools providers and helping Biotech companies find Pharma partners. The U.S. biotech industry has become the standard other countries aspire to in developing robust, entrepreneurial biotech communities.

The vast majority of companies that comprise Biotechnology in the U.S. do not yet have products in the marketplace. Instead they are engaged in a 10-12 year effort to get their first

product approved. During this period, they use stock options to supplement tight payroll budgets and attract the world's best and brightest scientists and technicians and to retain them through the product development cycle. By targeting stock options as an expense, however, the most talented scientists and researchers are much more likely to depart the U.S. for other nations. The USA will lose it's competitive edge in attracting the world's top scientists.

In addition to the detrimental effect on industry recruitment, the FASB underestimates our ability to accurately value employee stock options. Without a precise and reliable valuation method, mandated expensing will substantially over-inflate the value of employee stock options, resulting in financial statements that do not serve investors, shareholders or employees.

The high stock price volatility in our industry, when combined with other highly subjective assumptions, can yield an unacceptably wide range of results. While it may be useful to disclose a hypothetical charge in the footnotes to the financial statements, the inclusion of employee stock option expense in the statement of operations will result in less clarity consistency and reliability of the financial statements. The sensitivity of the option pricing models to the significant estimates and judgments would permit two similar companies to have significant differences in the reported expenses.

Because it costs hundreds of millions of dollars over the course of a decade to bring a new product to market, biotech companies rely on a steady influx of capital from investors to fund research and development. 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 cause unnecessary distortion in the companies' financial statements. As a result, biotech companies forced to expense the estimated fair value of stock options may well find themselves at a disadvantage versus other types of ventures with shorter product development cycles.

Quite frankly, many of us will drop options completely because of the distortion of the financial sheets and the accounting costs of valuing them. The injury to the USA Biotech industry will become a reality in the next few years and the impact will be clearly traceable to FASB's decision. Therefore, I urge you to delay implementation of these requirements and to consider alternatives that would require enhanced disclosure of employee stock options and their future dilutive effects on the price of shares. Please don't penalize USA entrepreneur companies as a result of corporate reform that had nothing to do with them in the first place.

Regards,



Courtney Anderson, PhD
President & CEO
CA:ps