



TO: DIRECTOR, FASB

Letter of Comment No: 5565
File Reference: 1102-100

File Reference No. 1102-100

We are writing to express our concerns regarding what we believe will be strong negative consequences of the adoption of the FASB's Share-Based Payment, and Amendment of FASB Statements No. 123 and 95. The FASB proposal generally calls for 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. These models are widely known to be problematic when applied to employee options. We see the following negative impact on companies such as Salmedix.

- The new FASB statements will lead to more confusing financial statements.
 - Comparability of expense to prior periods would be less meaningful since expense is only prospective.
 - The underlying options may be subject to future expirations and cancellations – this would not lead to consistent financial information.
 - Under the intrinsic value method, companies may incur negative compensation expense if the stock price experiences a large decline.
 - Will most financial statement readers understand the limitations of the valuation models? We believe the answer to be “no.”
 - Stock grants from the same Plan are valued differently than options adding more confusion.
 - Stock option vesting impacts expense and whether options are revalued at each reporting period is dependent on variable vesting schedules resulting in inconsistency and possible confusion.

- The models used for option valuation are misleading to investors.
 - Option pricing models are often based on various assumptions and require various adjustments which change from period to period.
 - Different assumptions yield varying responses in these models, thus detract from the accuracy and meaning to the financial statements.
 - Historical option exercise behavior is not necessarily indicative of future exercises leading to difficult estimates and comparisons.
 - Historical volatility is not indicative of future volatility.

- The new FASB statements will impose significant increased costs on small companies.
 - With limited resources, private companies will likely incur costs to hire a consultant or additional employees to calculate option expense on a periodic basis.
 - Audit costs are expected to increase due to the additional audit work needed to test such expense.
 - Each vesting tranche is considered a separate grant so if options vest monthly, it is as if they have been granted monthly and should be valued monthly. Additional costs will be incurred to calculate and track. As an example in our case, with a typical single grant vesting 25% after one year and monthly for 36 months thereafter, it would be accounted for as 37 separate stock option grants, rather than one grant.

- The new FASB policies will diminish the value of options as incentives which are needed to recruit employees.
 - Historically options have been used as a recruiting tool to attract employees to smaller “riskier” companies. The new policies will discourage small companies from offering this attractive benefit and disadvantage these companies in the labor marketplace.

Anita I. Busquets

Anita I. Busquets
Chief Financial and Administrative Officer