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From: Gregg Beloff [gbeloff@archemix.com]
Sent: Monday, May 24, 2004 3:10 PM
To: Director - FASB
Cc: David Greenwood; John Higgins; Tim Lynch; alex@prospectventures.com; jcdowling@nvca.org
Subject: File Reference No. 1102-100

To Whom It May Concern:

Please accept this response on behalf of Archemix, Corp., a development-stage biopharmaceutical company, to the public comment period on whether or not stock options should be expensed.

As a development-stage technology organization we are opposed to the expensing of stock options for several reasons. However, we feel it would be beneficial to first articulate, as context to our opposition, our understanding of FASB's objectives with respect to expensing options. Fundamentally, any change to an accounting treatment and the subsequent presentation of financial statements must endeavor to improve the accuracy and transparency of the financial statements and ensure that they accurately portray a company's financial position. In other words, such a change should provide the reader (e.g., equity investors, creditors, regulators and the public) with relevant, reliable and useful information that they can use in making sound business or investment decisions. FASB has commented that expensing options will do just that; give the readers a more accurate portrayal of a company's financial position. It has also been proposed that expensing options will combat corporate malfeasance and prevent scandals such as those that occurred at Enron and WorldCom.

We feel strongly that neither objective will be achieved by expensing options. Rather, expensing options will only obfuscate our financial statements and impede our ability to attract and retain employees.

Expensing option grants does not provide a more accurate view of a company's financial statements.

The purpose of the statement of operations is to summarize a company's earnings or losses by matching the revenues earned from sales of products or services against the expenses necessary to generate these sales. Option expense is not appropriate in this context given that options require no cash outlay and do not accurately reflect the cost of operation. Further, even if options were to be included in the statement of operations, there is no remotely effective method for valuing these options. Models such as Black-Scholes or the binomial method are wholly inaccurate indicators of value. Finally, under FASB's current proposal, there is no way to credit a company for options that are never exercised either because the employee is terminated or stock is below the option's strike price. In conclusion, putting a miscalculated, non-cash expense in the statement of operations simply devalues it as a viable tool for investors to use in evaluating a company's financial position.

Expensing option grants will not prevent corporate malfeasance.

The accounting scandal at Enron would not have been prevented or foreseen by requiring options to be expensed. Technically, Enron's ability to commit fraud had to do with its balance sheet and certain nonsensical rules that allowed it to transfer assets and liabilities to special purpose entities. If we want to prevent similar behavior there are much more pressing concerns than whether stock options are expensed or not. Ultimately, only ethical management, sensible governance, adequate internal control systems and comprehensive disclosure will prevent another disaster.

Options grants are a key tool in our recruitment.

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Options are a key method of compensation that helps companies like Archemix recruit, retain and motivate high quality employees. Growing, entrepreneurial enterprises like Archemix need options as a tool to bring new innovations to market because they allow us to compete for and lure away top talent. Forcing us to expense options will make us re-evaluate issuing options in the first place given the steep penalties we will now have to pay. Without options we are at a significant competitive disadvantage to larger companies who can afford to expense their options and support the infrastructure cost of option expense.

In conclusion, while we support many of the recent initiatives to clarify and better regulate financial reporting, we categorically oppose the expensing of options. Not only do we not see any benefit to this proposal, if implemented the expensing of stock options will increase significantly administrative and compliance costs; for a development stage company this is daunting. We sincerely hope that this feedback is helpful and we would be pleased to provide further information regarding the contents of this letter.

Best regards,

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