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**From:** Ian Howes [ihowes@serenex.com]  
**Sent:** Wednesday, May 26, 2004 12:39 PM  
**To:** Director - FASB  
**Subject:** File Reference 1102-100

Dear Members of the FASB,

I am the Chief Financial Officer of Serenex, Inc., a biotechnology company located in North Carolina. Previously, I was a Chartered Accountant with Coopers & Lybrand in London and hold a MBA. Since 1985 I have been the CFO of 5 privately held U.S. biotechnology companies, 2 of which I have taken public.

I am very troubled at what will certainly be the adverse effects on smaller biotechnology companies if the FASB's Exposure Draft on the expensing of stock options is consummated. I have several concerns:

1. The proposed methods of valuing stock options, whilst a noble goal, assign a cost which will be unpredictable, uncontrollable (unless options are no longer used as an employee incentive), complex and theoretical. Deferred compensation expense and other non-cash charges are confusing to the majority of investors and certainly to all unsophisticated investors. The proposed option value methodologies will only add to investors' confusion and "earnings" which is the number you are trying to better quantify will ultimately be discounted and deemed an irrelevant yardstick by which performance should be measured. This is already being seen by many equity analysts who value emerging technology companies using cash flows and development milestones. In your quest to quantify an expense which is at best unknown, you are adding another level of confusion and complexity that will not help the majority of investors. This reminds me of the ill-fated SSAP 16, Accounting for Inflation, which was quickly withdrawn in the U.K. because it failed to provide a clearer picture of financial performance and financial condition to the average reader of financial statements.
2. The complexity of calculating the stock option expense is significant. With auditors being conflicted this will entail most small companies having to retain consultants to determine the expense. This is a cost and level of bureaucracy that smaller companies can ill-afford and is simply not an area in which valuable and scarce resources in emerging companies should be spent.
3. There is a very real risk that smaller companies will simply abandon the use of stock options as an incentive tool for employees. In the biotechnology world, stock options are the key tool used in competing with larger companies for skilled employees. In an environment in which cash is scarce, expensive and valuable this will undoubtedly place a drag on innovation and job creation. You will be adding a significant burden to one of the few areas in which this country still holds a lead.

I urge you to reconsider this exposure draft, particularly as it applies to smaller, venture capital backed companies.

Yours sincerely,

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