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From: Todd Simpson [simsont@targen.com]
Sent: Tuesday, June 08, 2004 10:52 AM
To: Director - FASB
Cc: jcdowling@nvca.org
Subject: File No. 1102-100

I am writing in opposition to the proposed accounting change requiring the expensing of stock options based on the following considerations.

1) Lack of consistency in approach - The objective of financial statements prepared in accordance with Generally Accepted Accounting Principles applied on a consistent basis, is to not only ensure timely and accurate reporting of financial results for a specific entity, but to provide such financial statement in a consistent manner with other peer companies so that comparative financial analysis can be performed. As currently prescribed, option valuation models are subject to a number of subjective factors causing reported results to vary widely from company to company. Efforts have been made to standardize the assumptions in the proxy statement of public companies where assumed 5% and 10% annual stock appreciation assumptions are made. Even with this standardization, the results reported are arbitrary, baseless and provide users of the financial statements with limited benefit. While the debate over an appropriate option valuation model continues, there has yet to a model established that can be consistently applied and appropriately considers the relevant and important factors that are unique to employee stock options. These factors include recognition of the early termination provisions of employee based stock options upon termination of employment and trading black out restrictions, to name a few, that are uniquely applicable to employee held stock options as compared to non-employee third party held options.

2) Lack of practical use - nearly every investor and investment banker that I have discussed the concept of stock option expensing with has stated that it will be necessary to eliminate stock option based expense from operating results in order to compare peer companies against each other and to evaluate historical operating results. The reason for this is the lack of consistency in approach and the impact that such a non-cash charge has on operating results, that in essence masks the true operating performance of the company. This strongly suggests the lack of need, and in fact the complication to financial analysis of financial statements, that the proposed accounting changes will cause.

3) Impact on our business - as a pre-product approval small biotechnology company, our work force consists largely of highly skilled professionals and scientists that are focused on the development of novel first in-their-class pharmaceutical products. As with many small biotechnology companies, stock options are awarded to every employee in the organization and are intended to balance cash compensation with long-term incentive compensation. In my experience, in spite of the significant intrinsic value generated by current valuation models, often times these stock options do not generate recognizable value to the holder due to the several unique characteristics of employee held stock options compared to warrants or other similar instruments held by non-employees. As stated, these characteristics are not appropriately considered by the current valuation models. The proposed regulations, if implemented, will have an adverse affect on our company's ability to grant employee based options and will require a shift towards a more traditional, cash based approach, to compensation. Due to the capital intensive nature of our business, we would be unable to invest these additional cash resources to employee compensation, the impact of which would be to slow the rate of work force growth, or to potentially reduce the size of the work force, either of which will slow the progress of our product development programs.

The implementation of the proposed accounting rule changes for employee-based stock options will not improve quality of financial reporting for public companies beyond that which is already provided under SFAS No. 123. Given the multitude of inconsistencies with the proposed changes, the lack of increased reporting quality that would result

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from it's implementation, and the impact that such a change may have on the ability of small-cap technology companies to hire and retain employees, I strongly support the initiative to repeal the proposed implementation of the FASB exposure draft.

Best Regards,

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