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From: kurt_kneip@inter-tel.com
Sent: Monday, May 24, 2004 8:31 PM
To: Director - FASB
Subject: File Reference No. 1102-100, Comment on FASB Stock Option Proposal



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Dear Mr. Robert Herz:

I am writing in reference to FASB's invitation to comment on its exposure draft, "Share-Based Payment," an amendment of Statements No. 123 and 95. The Financial Accounting Standards Board (FASB) has proposed changes to accounting standards that are misguided and clearly damaging to our company and the United States economy.

As an employee who receives stock options from my company and as a stock option and employee stock purchase plan administrator, I am writing to support the Broad-Based Stock Option Plan Transparency Act (S. 979 and HR 1372) and the Stock Option Accounting Reform Act (S. 1890 and HR 3574). I am asking you to add your name as a cosponsor of these important bi-partisan bills, and to encourage your colleagues to do the same.

These bills seek to delay the implementation of mandatory stock option expensing for broad-based employee stock plans, as proposed by FASB. This additional time will allow Congress, the SEC, and FASB to better understand if there are indeed benefits from this significant change and the true extent of the economic impact that this new policy will have on companies like ours our employees.

I appreciate the fact that my company offers stock options to a broad base of employees and not just senior executives. Stock options are important to my family and me and are a significant benefit that gives me ownership in my company. They provide a great incentive to all employees by giving us an important stake in the company. The economic contribution that high-tech companies have created flow in large measure from the role stock options have played in establishing an entrepreneurial risk-taking culture that drives innovation.

AsA, our high-tech trade association, Nasdaq, and other well-respected organizations have concluded that if companies are forced to expense options, then current stock option plans will be severely reduced or completely eliminated for employees. If Congress does not act, it is possible that my company will have to end the practice of giving stock options to its employees and removing employee stock purchase plan benefits. Please do not let that happen.

The proposed changes would harm Employee Stock Purchase Plans (ESPPs) that allow eligible employees to purchase company stock at a discounted rate. Our company currently offers employees a 15% discount on company stock under our plan, but the proposed changes would force companies to expense stock discounted at this rate. This would force companies like mine to curtail or end this type of program. As the plan administrator, I have been informed that the plan benefit may be canceled if the Exposure Draft becomes the rule.

Please do not let FASB harm employees who today receive options through a benefit from broad-based stock option plans. These changes not only adversely impact our employees, but will also reduce growth and economic vitality in our state.

Expensing options would not make financial statements more clear. I believe the new rules would actually give investors a misleading picture of a company's financial performance. There are so many variables with the calculation models (including the binomial model), that investors would not have an "apples-to-apples" comparison when making investment decisions, even if a single model is selected. The binomial model has numerous input points and I believe most companies will select differing inputs to complete the models and the methodologies would not be consistently applied. Hence, this would only create more investor confusion, not clarity.

In addition, the estimated value of options is already included in the stock dilution through the weighted-average shares calculations used by all companies, based on the "in-the-money" value, and the impact of the "expense" is also already disclosed, although using different models. Our company currently uses the Black Scholes model for footnote disclosures, but I believe this model is flawed in its calculations as well. Our company and others already disclose in financial statements the estimated value of options, either as an expense or in a footnote to the income statement. Most companies that treat options as an expense do not have broad-based stock option programs and the impact of such an expense usually is very small relative to the impact on high-tech companies like ours. For companies that have broad-based programs, the expense would be material.

Please help to stop this Exposure Draft from becoming a reality.

Sincerely,

Kurt Kneip
Inter-Tel, Incorporated
1615 S. 52nd Street
Tempe, AZ 85281