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Letter of Comment No: 2503
File Reference: 1102-100

From: scott_dillman@inter-tel.com
Sent: Tuesday, May 18, 2004 12:50 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. I am deeply troubled by this proposal, and the negative impact it will have on my livelihood and that of my coworkers. I am the technical lead for a group of engineers in a telecommunications company. A large portion of our current income comes from two great benefits in our company: employee stock options, and an employee stock-purchase plan. My company understands that offering these benefits to us is a great way to reward us for our hard work, and to motivate us to succeed as we can directly benefit from the company doing well.

If you implement your proposed changes, this will all come to an end at our company. The leaders of our company are notorious for "running a tight ship", and there is absolutely no way that they will continue to offer these benefits to us if they will impact the company's expenses. To give you an idea of how closely costs are monitored here, let me give you two examples:

- 1) There are timers installed on the lights to cut down on electricity costs. During meetings, we must reset these timers hourly to prevent the lights from going out.
- 2) The company monitors the distribution and usage of paper clips to reduce waste on office supplies.

I do not offer these examples as a complaint of my company's cost-cutting measures, but rather to point out that any changes made by the FASB to make stock-option programs more costly will immediately result in the elimination of these benefits by our company. I guarantee that our company also will not suddenly give every employee a raise to compensate for the lost income, so your proposal will effectively reduce the income of myself and most of the engineers in my company. You are also taking away a company benefit which encourages hard work and interest in the performance and well being of the company. In our current troubled economy, I cannot think of a worse thing that you could do to hurt the average worker who relies on these benefits, and to blunt the competitive edge of American companies.

I strongly disagree with your assertions that these benefits are compensation costs that should be reported as an expense by companies. Stock options are not an expense, and expensing options will not make financial statements more clear. In fact, as an investor myself, I think this information could be used by companies to manipulate and cloud the true picture of a companies finances. Companies are already required to disclose the estimated value of options, and I find the manner of this disclosure to be appropriate in allowing me as an investor to gain a clear view of the company's finances. In addition, I strongly disagree with your intent to use a valuation model to estimate the value of stock options. Valuation models are intended to price very short-term, publicly-traded options that are exercised on expiration. This model does not fit our employee stock options. The options held by engineers in my company typically vest over a five-year period, and expire after ten years. All of the employees that I know who have these options exercise them yearly as they vest. Given the way these options are used by employees, a valuation model is completely inappropriate, and will not yield accurate results.

I urge you to carefully consider your actions and the consequences they will have on myself and millions of others like me who rely on these important benefits to support our families.

Sincerely,

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