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Letter of Comment No: 5503
File Reference: 1102-100

From: jeff.hotchkiss@teradyne.com
Sent: Tuesday, June 29, 2004 4:09 PM
To: Director - FASB
Cc: lsaul@technet.org
Subject: Reference No. 1102-100

Attention: Director of Major Projects File Reference No. 1102-100

I am writing to express my support of the SEMI position on stock options as outlined in the attached SEMI comments document. I am currently the Division President of the Teradyne Assembly Test Division and the former CFO of Teradyne Corporation. After reviewing the FASB March 31, 2004 Exposure Draft on Share-Based Payment I am concerned with several issues in the FASB position:

1. **Stock options are not an expense:** There is no liability created or out of pocket cost to the company. This is necessary for an expense to be created under general accounting concepts. Stock options may represent an opportunity cost to the company, but this would be the only opportunity cost that is accounted for anywhere in the financial statements.
2. **Black-Scholes (B/S), lattice models or binomial models will result in inaccurate, unreliable and inconsistent measurement of stock options.** The draft proposal requires prediction of 10 year volatility which will be inherently inaccurate and for companies with less than a 10 year history highly arbitrary. Early exercise behavior will also have a major impact on the valuation and can not be predicted
3. **The Exposure Draft raises significant auditability issues and Sarbanes Oxley concerns.**
4. **FASB's proposal would materially misstate equity section of company balance sheets.** This makes the equity section of the balance sheet meaningless, raising practical problems such as loan covenants, etc.
5. **FASB should require comprehensive field testing of any proposal before a final pronouncement is enacted.** I strongly urge that the FASB should implement a plan for comprehensive field-testing of any proposal before a final standard is implemented. This will identify the practical challenges and implications of the proposal. There is ample precedent for field testing, which FASB has utilized in other cases.

Based on my experience of over 30 years in a public firm which has successfully used stock options as an integral part of its compensation for the majority of its employees, I strongly recommend that FASB reconsider its current draft proposal.

Regards,

Jeff Hotchkiss
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6/30/2004