

**Letter of Comment No:** 29  
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November 4, 2002

Robert H. Herz  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

Re: File Reference No. 1101-001 Comments on Exposure Draft: *Accounting for Stock-Based Compensation – Transition and Disclosure*

Dear Mr. Herz:

Because the Financial Accounting Standards Board's (the "Board") proposal will have a direct effect on our members, AeA has followed with great interest the deliberations of the Proposed Statement of Financial Accounting Standards, *Accounting for Stock-Based Compensation – Transition and Disclosure*, dated October 4, 2002 (the "Exposure Draft"). We appreciate the opportunity to comment.

Advancing the business of technology, AeA is the nation's largest high-tech trade association. AeA represents more than 3,000 companies with 1.8 million employees. These 3000+ companies span the high-technology spectrum, from software, semiconductors, medical devices and computers to Internet technology, advanced electronics and telecommunications systems and services.

We wish to point out that the majority of AeA's public companies utilize broad-based stock options to attract and retain a highly skilled workforce. We continue to believe that any attempt to mandate the expensing of options is misleading and inaccurate because there are no models that can accurately compute a "cost" of the options. Accordingly, we believe the current choice provided by FAS 123 is working and should continue.

With regard to the new quarterly disclosure proposal, AeA agrees that providing stock option information to investors on a more frequent basis than annually is a positive step. Having said that, however, quarterly disclosure of stock options "expense," generally using the Black-Scholes model, will not provide meaningful information to investors. We believe providing a "bad number" four times per year would be even more misleading to investors.

There is a growing consensus that the Black-Scholes valuation method, the most widely used valuation method, produces wide-ranging, and therefore often misleading, results.

Models like Black-Scholes allow for huge differences in the expense number depending on what inputs are used. Volatility probably moves this number the most. Commonly used historical estimates of volatility can vary over a significant range depending on the length of the historical period and the sampling frequency (e.g., daily, weekly, etc. stock price) selected during the period. A company's guess at what its stock's volatility is going to be is truly trying to predict the future.

Rather, AeA encourages FASB to further explore alternatives of stock option valuation that does not cause companies to accrue an expense that cannot be known today -- just predicted -- and that does not have the end result of over-reporting the value of employee stock options. AeA believes a comprehensive disclosure standard is better than providing a Black-Scholes number. The content of such a disclosure could include:

- Summaries of employee and executive option grants
- Year-to-date option activity
- Updated information about options that have an exercise price below a company's market share price, as well as options with an exercise price above the company's market share price.

Again, thank you for the opportunity to comment on these proposed changes, and we look forward to working with you in the future to help serve the information interests of investors.

Sincerely,

William T. Archey  
President and CEO