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MP&T Director – File Reference 1102-001 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

> E: FASB Invitation to Comment on Accounting for Stock-Based Compensation

Ladies and Gentlemen:

I am writing to provide comments from Sapient Corporation to the FASB's Imitation to Comment on Accounting for Stock-Based Compensation. Sapient is a leading business and technology consulting company that helps Global 2000 clients achieve measurable business results through the rapid application and support of advanced technology on a fixed-price basis. Sapient employs more than 1,500 people in offices in Atlanta, Cambridge (Mass.), Chicago, Dallas, Dusseldorf, London, Los Angeles, Milan, Munich, New Delhi, New York, San Francisco, Toronto and Washington, D.C. Sapient is publicly-traded, and its stock trades on the Nasdaq National Market under the symbol SAPE.

Sapient believes that stock options are an important means to align the interests of its employees with the interests of its stockholders, and to enable employees to feel personally invested in the success of the company. Accordingly, Sapient has for many years granted options broadly to all employees throughout the company. Sapient also recognizes that options do cause dilution to existing shareholders, and we fully support the proposition that companies should fully and accurately disclose their stock option grant practices, to permit investors to determine the potential dilutive impact of those practices. Towards this end, Sapient elected voluntarily last year to begin including the Equity Compensation Plan Information in our Proxy Statement, a year earlier than was required.

Sapient does not agree, however, with the FASB's current proposal regarding the expensing of stock options. Our primary objection to the proposal is that the method by which options are proposed to be valued is arbitrary and does not accurately and reliably measure the impact of options on the company. We are concerned about the method of valuation for several reasons.

First, we understand that the proposed accounting for stock options would be based on valuation models such as Black-Scholes. We believe that these models, while helpful, suffer from key limitations. The foremost of these limitations, we believe, is their strong emphasis on volatility. For any stock, volatility is a measure of the past fluctuations that the



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stock has encountered, over a specified period. Because of this, volatility can vary widely depending on what time is used, and the historical events that occurred during that time period. A long time period would help smooth out temporary, abnormal swings in price, but also runs the risk of including historical periods in which the company's business or performance was substantially different. Using a very recent period would solve the latter problem, but creates that risk that the fluctuations for that period are not historically representative. Also, fluctuations during the period chosen may be primarily due to market forces, and not to the company's underlying volatility, depending on the period chosen. Finally, even if the past periods are representative, they may not reflect ongoing changes in a company's business or industry that will cause future periods to be more or less volatile. Because of these limitations, volatility should be discounted in determining value. Black-Scholes, however, relies heavily on volatility, which is why we are concerned about its accuracy. Also, Black-Scholes assumes that options are freely tradable, which employee stock options are not. The failure of Black-Scholes to recognize this key limitation calls into question its use as a valuation method for financial statement purposes.

Second, because Black-Scholes is only an estimate of future value that cannot capture many of the variables that impact an option's value, we believe Black-Scholes often leads to results which contrast sharply with reality. As a hypothetical, let's assume a company's stock was trading at \$50. Any options granted at this price would be assigned a value by Black-Scholes of \$45.60 per share (assuming a volatility of 100 (which is likely for technology companies), no dividend rate and a risk-free funds rate of 5%). However, within the next year, let's assume the company's stock dropped to \$10, giving those options a revised Black-Scholes value of \$7.73, all within a one year period. In this scenario, the company would have been forced to record a compensation charge of \$45.60 per share, for options that ultimately delivered zero value to the employee or the company. Unlike cash and other forms of compensation, options are inherently unpredictable, and their value is highly speculative. In our view, to arbitrarily assign a value to an option based on one snapshot in time, without the ability to account for the wide range of variables that affect option value, distorts the true cost of options to the company and the value of those options to employees.

We believe that investors would be better served by clear, detailed disclosure regarding option practices, in a manner that is commonly applied across all public companies. This would permit investors to understand the way in which options were being utilized by a company, and to readily compare that company's utilization with other companies. Investors would also be readily able to determine the risk of dilution caused by a company's stock option practices. These goals would be accomplished without confusing investors about the manner in which an accounting expense for options was calculated, and the complex inputs that such calculation requires, and the flaws associated with those inputs (as discussed above). We believe that more is not always better, where it serves to distract investors from the fundamental issues that are of importance to them.



We thank you for the opportunity to provide comments regarding this important issue, and hope that you will take the points mentioned above into careful consideration when crafting your final provisions.

Sincerely Yours,

Susan D. Johnson, Chief Financial Officer