Karen Salmansohn

From: Len Tatore
Sent: Thursday, January 16, 2003 7:49 AM
To: Karen Salmansohn
Subject: FW: FILE REFERENCE NO. 1102-0(

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-----Original Message-----
From: stu.osattin@teradyne.com [mailto:stu.osattin@teradyne.com]
Sent: Thursday, January 16, 2003 7:49 AM
To: director@fasb.org
Subject: FILE REFERENCE NO. 1102-001

I would like to submit my view point on the possible changes to the accounting for stock options. I am Vice President and Treasurer at Teradyne, Inc., a technology company listed on the NYSE. I have outlined the reasons as to why the FASB should not change the accounting for stock options granted to employees.

Current option pricing models, when applied to employee stock options, produce wide-ranging and therefore often misleading results. There are fundamental problems with applying current option pricing models, including the Black-Scholes valuation method, to employee stock options because many of the unique aspects of stock options are not accounted for in these models. Existing models were designed to value freely transferable options, yet there are significant restrictions on the transferability of employee stock options. Current option pricing models do not factor in a lack-of-marketability discount to address such restrictions. In addition, models such as Black-Scholes were designed for options that are exercisable only upon expiration. Employee options, in contrast, typically have long vesting requirements and are then exercisable for a period of time, but are worthless if the employee terminates employment prior to vesting. Option pricing models do not accurately account for these factors.

An additional significant prediction that must be incorporated into such models is the volatility of the underlying stock expected over the life of the option. Commonly used historical estimates of volatility can vary over a significant range depending on the length of the historical period and the sampling frequency selected during the period. Future stock volatility is impossible to predict. Models like Black-Scholes allow a corporation to come up with large differences in the expense number depending on what inputs are used.

The only "cost" of issuing employee stock options is borne by existing shareholders in the form of potential dilution. This should be fully and completely disclosed. Because investors believe that the value of the stock options given to employees is relevant information, I strongly support accurate and timely disclosure of employee stock option transactions. FASB has already addressed this issue by requiring quarterly disclosure of the value of employee stock options. In addition, over 30 TechNet and American Electronics Association member companies have adopted comprehensive quarterly disclosures about employee stock options. We are one of those companies. All companies should consider providing investors with accurate, timely and meaningful information about employee stock options on a quarterly basis, in connection with their 10Q filings.

CONCLUSION

The FASB should retain the current standard under FAS 123. The flexible approach set forth in Statement No. 123 is appropriate and a mandatory expensing standard should be rejected. The current accounting standard, combined with comprehensive quarterly disclosures about employee stock options, will provide investors with the most accurate and meaningful information available about employee stock options. No investor has been mislead by the accounting for options under the intrinsic model; the information is disclosed and available should an investor prefer to see earnings using a fair value model with all of its limitations and inaccuracies. Under a fair value method, investors would be misled as if a stock price dropped significantly after the grant, large fair value charges would continue ...and how exactly does this provide better information? It would only cause confusion and more pro forma numbers rendering GAAP less useful.