## Karen Salmansohn

From: Director - FASB

Sent: Friday, January 31, 2003 11:46 AM

To: Kareń Salmansohn
Subject: FW: FILE REFERENCE NO. 1102-

Letter of Comment No: 77
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----Original Message----

From: mike.bradley@teradyne.com [mailto:mike.bradley@teradyne.com]

Sent: Friday, January 31, 2003 10:26 AM

To: Director - FASB

Subject: FILE REFERENCE NO. 1102-001

I am currently employed by Teradyne, Inc., (a technology company listed on the NYSE) as the President of the Semiconductor Test Division. As a current stock and stock option holder, I would like to offer my perspective on potential changes to the accounting for stock options. In summary, I believe that the FASB should not change the accounting rules for the handling of stock options for the following reasons:

- 1. 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. Investors may very well be mislead by the accounting for options under a fair value model given the inherent limitations and inaccuracies. Fair value grant date accounting will cause "hypothetical results" versus a reliable and fair depiction of operating performance. The "proforma" calculations, excluding this flawed fair value estimate, will flourish, and analyst's and investor's alike will take the lead in removing these "hypothetical numbers."
- 2. Current option pricing models, when applied to employee stock options do not work. Existing models were designed to value freely transferable options, yet there are significant restrictions on the transferability of employee stock options. 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.
- 3. 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.
- 4. 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. All

companies should consider providing investors with accurate, timely and meaningful information about employee stock options on a quarterly basis, in connection with their 100 filings.

I appreciate the opportunity to express my viewpoint on this subject.

Sincerely,

Michael A. Bradley President Semiconductor Test Division