

ikon**Letter of Comment No: 4674** —
File Reference: 1102-100

From: Craig_Hoffert@amat.com
Sent: Friday, June 18, 2004 12:04 PM
To: Director - FASB
Subject: File Reference 1102-100: Accounting for Stock Options and ESPPs

Dear Sir/Madam:

I am writing to express my opposition to changing the accounting treatment for stock options and Employee Stock Purchase Plans (ESPPs). Stock options are a key reason why I and many other employees work in the high tech industries. The ability to profit from the company's success through the ESPP and option grants incentivizes me and my co-workers to put in the extra effort that has made Applied Materials the leader in the semiconductor equipment industry. It is also the incentive to stay with the company through the frequent downturns in our industry. By making management and employees shareholders, with potentially greater ownership if the company is successful, the widespread plans such as Applied Materials' ESPP and option plan give all of us a greater interest in the company's long term future. This benefits the company's many external shareholders by increasing the likelihood of future growth by the company with accompanying share price appreciation.

When I was going through business school, I was taught that accounting's purpose was to record the actual costs of the business and those potential costs which could be accurately predicted. Option expenses are highly unpredictable and the many option pricing models we learned in our financial theory classes require so many assumptions and predictions of future trends as to make the calculated value at best a guess. My own history with the options granted by Applied Materials bears witness to this. Forty percent of the options granted to me in my five years with the company are under water, some significantly so. Additionally, many of the co-workers who were receiving grants with me over that period are no longer employed by the company. Their options which were unvested at the time they left the company are therefore worthless. You could make assumptions about employee retention rates which could permit you to estimate the number of options that might vest, but it is a best a guess based on historical trends. The uncertainty in the number of options that will be available to be exercised in the future based on historical trends is then compounded by the high volatility of the stock price. How does expensing options with such inherent uncertainty provide investors with better information than the current use of footnotes and diluted EPS?

Continued use of ESPP and stock option plans are vital to the success of companies like Applied Materials which must compete in a global market. They help retain the employees that give us our competitive edge. A requirement to expense these key incentives will undoubtedly result in the curtailment of the widespread nature of many current plans.

6/18/2004