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From: Bryan_McEntire@amat.com
Sent: Monday, June 21, 2004 6:33 PM
To: Director - FASB
Subject: File Reference 1102-100: Accounting for Stock Options and ESPPs

Letter of Comment No: 4625
File Reference: 1102-100

Dear Sirs or Madames:

I am writing to express my opposition to changing the accounting treatment for stock options and Employee Stock Purchase Plans (ESPPs). I am afraid that the change may drastically alter the way America innovates and invests in new technology. Please consider the following important points:

- (1) Employee incentives effectively tie employee performance to shareholder return in a way that no other incentive can match.
- (2) Stock options have helped Applied Materials attract and retain the highly-skilled workers necessary in our globally competitive industry. It was what brought me to Applied. Without these incentives, I would have never joined the company.
- (3) As we move forward in an increasingly competitive world, the United States should not decrease the utility of these incentives while our technological competitors, particularly in China and Taiwan, are increasing their use of stock and stock options. We believe stock options have contributed to unprecedented levels of innovation.
- (4) It is impossible to predict the future value of employee stock options, particularly since they are not tradable or transferable and have varied vesting schedules. Adding a "guesstimate" to our Consolidated Statement of Operations (P&L) will not improve clarity or accuracy for our investors. These numbers properly belong in their current location — in the footnotes.
- (5) FASB is assuming that employee stock options are employee compensation, over which stockholders have no control. That is not true because in almost all cases the NYSE and NASDAQ require that companies receive the approval of their stockholders before they issue employee stock options. Stockholders are willing to forgo a piece of their company because they believe that the employees will put in extra effort and go "above and beyond," which ultimately may increase the value of their investment.
- (6) Per FASB's proposal, companies will be required to take a hypothetical charge against earnings, instead of recording a real expense that has occurred and can be accurately measured.
- (7) The current accounting rules already work because companies must compute how much dilution of the stockholders' interests is caused by "in the money" employee stock options, and this is factored into all companies' earnings per share (EPS) calculation. Unless the stock price increases and the option vests, it has no "cost" to stockholders because the option is worthless.

Please do not change the method FASB uses to account for stock options and ESPP. In my view there are no sound compelling reasons to do so.

Best Regards,

Bryan J. McEntire
Sr. Director, Global Materials

6/23/2004