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Sent: Thursday, June 17, 2004 4:01 PM

To: Director - FASB

Subject: File Reference 1102-100: Accounting for Stock Options and ESPPs

Letter of Comment No: 4654 File Reference: 1102-100

I am writing to express my opposition to changing the accounting treatment for stock options and Employee Stock Purchase Plans (ESPPs).

Perhaps personal experience over my 35 year career would help you understand the benefit a company and our economy gains from stock options.

My first stock option was issued by National Semiconductor when I joined them in 1972, three years out of college and had no idea what a stock option was. National issued options broadly to many employees, perhaps all, I don't remember. Two key observations I can make from that option. 1) My first employer, Fairchild Semiconductor, did not offer broad-based options and it has not survived in a globally competitive marketplace and 2) that option provided enough cash two years later for a down payment on my first house. That new construction would not have happened without a stock option.

My next job was with a large computer company that did not give stock options or offer an employee ESPP. I was shocked to find the attitudes of the employees were clearly not in alignment with the needs of the shareholders and the corporation. Waste was tolerated, non-productive work was accepted and the employee's attitudes were more about self than about corporate needs! Heck, people left the office at 4:30, including the VP's! After that experience, I decided I should never work in a company that did not offer ESPP or broad-based employee stock options. The company? Sperry Univac. Its surviving (post merger) entity is no longer a force in the markeplace.

From there, I went to KLA, now KLA-Tencor. Broad-based options and ESPP were an employee benefit from the beginning of this company formed in the late 70's. To compete globally, we needed to surpass two Japanese competitors, Lasertec and Nikon, (yes, that Nikon), one European competitor (Cambridge Instruments, now gone) and several US competitors. We knocked Nikon out of the global market in two product areas. We grabbed leadership from Lasertec in Japan and globally. Finally, we surpassed our domestic competition. KLA-Tencor is the undisputed global leader in its area of capital equipment. I believe its because its employees are world class and are motivated in full alignment with shareholders. Why? Because they will benefit via stock-options and ESPP in the value they create by their success.

I am currently employed by Applied Materials, the world's largest producer of Semiconductor Captial Equipment. We took the lead from Tokyo Electron over a decade ago and we have maintained that lead ever since. Again, we focus on revenue, profit and shareholder value. How? By making sure that we are not tolerating waste, non-productive work or diversionary consumption of resources. Personally, I took some proceeds from stock options in 2000 and put a contractor to work (re)building our 3,400 sq. ft. residence. That local economic effect would not have happened without stock options.

My observation over a 35 year career? For companies who issue broad-based employee stock options and offer ESPP, the following is true: Employees focus on corporate success--revenue, profit and thus, shareholder value. They do not tolerate waste, do not allow non-productive work to continue and more importantly, support the corporate goals. Why? Because they understand that if they meet or exceeded the corporate goals, and if the market conditions are favorable, they will benefit far more in stock value than any company could or would pay for individual efforts.

And that is a key point. No company can afford to pay the equivalent of the potential return of the stock option. After all, option value only exists if the company has been successful! Employees are paid fair market value for their work in salaries, etc. The value of the stock option results from the market valuing the output of the entire corporate entity, not from the effort of one individual.

Lastly, for those who have recieved stock options, we know they are not a 'sure thing.' My first option from National did not buy the house, it merely made the 10% down payment. Most of my options never generated a nickel of profit for me. For six of my ten years at KLA, my options were 'underwater' and not worth the paper they were printed on. For my seven years at Applied, the initial years were locked up waiting for vesting and the past three years I'm mostly 'underwater.'

Instead of attacking broad-based employee options, you should be encouraging them for all industries. After all, Taiwan and China are both using them to encourage employee performance beyond the norm. We should not kill part of the mechanism that created the growth of the US economy (technology) in the past 35 years.

Sincerely,

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