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From: Kevin_C_Lee@amat.com
Sent: Thursday, June 17, 2004 10:29 PM
To: Director - FASB
Subject: File Reference 1102-100: Accounting for Stock Options and ESPPs

Letter of Comment No: 4532
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).

I understand the proposed change is a try to "improve" accounting practice but I do believe the side effect will destroy the hi-tech industry by discouraging employee incentives and productivity therefore permanently damage US competitiveness and advantages over other countries. I will never work more than 8 hours a day for a salary only based company without stock options and ESPP. The number of shares has to be significantly enough to give me a promise of future for financial independence.

In summary, these employee incentives have effectively tied employee performance to shareholder return in a way that no other incentive can match.

- Stock options have helped Applied Materials attract and retain the highly-skilled workers necessary in our globally competitive industry.
- 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. "Their governments do not even tax the gain of the stock options." We believe stock options have contributed to unprecedented levels of innovation.
- 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.
- 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.
- 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.
- 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.

6/18/2004

I agree that we should find a better way to help the accounting system, but not the proposal by FASB. This proposal by FASB will not resolve the accounting issues but add more issues, and eventually it will damage our economics and global competition.

Sincerely yours,

Kevin Lee