ikon

Letter of Comment No: 4516
File Reference: 1102-100

From: Gopal_Prabhu@amat.com
Sent: Thursday, June 17, 2004 5:43 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).

I think there are several reasons why I believe that it would be detrimental to both my company, Applied Materials Inc. and the US economy overall, if we are forced to account for stock options and ESPPs as an expense as designed by the FASB. I will list the ones I think are key.

First, we live in a true global economy and our company, Applied Materials Inc., is arguably one of the companies at the forefront of this revolution. The ability of our company to compete is this environment, while driven by a lot of different factors, is contingent on the ability to attract and retain the best available talent in the marketplace. ESPP and stock option plans are key to helping attract and retain employees. Several other companies in other countries which also compete in this market have similar forms of compensation and they are actually, increasing the amount of stock relative to the rest of the compensation package. Thus our company (and any other company in the US) would be at a great disadvantage when we compete in this global industry.

Second, the long-term benefits of issuing stock options and ESPP plans to our stockholders has been historically shown. At Applied Materials, almost all employees are eligible to participate in these 2 plans and so, this acts as a real tool to movitate employees to perform better and provide a better return to stockholders. Because employees themselves are stockholders, the impact of improved job performance to the bottomline hits home very quickly.

Third , the proposed method for accounting the cost of these stock options and ESPP plans to the company is technically incorrect. The value of stock options changes over time and it is impossible to predict future value of stock options with any level of accuracy. With this in mind, companies that are required to expense the cost of these options when the options are isssued, are neither improving clarity nor accuracy for investors. So, the purpose of the proposal is not served. If the FASB wants to regulate the process in order to have a good estimate of the expense and for better transparency to investors, it is better to get the "real cost/expense" of the options at the time of exercise, rather than the fictitious cost that is incurred when options are granted.

I hope that you will take into consideration the above reasons that I have listed and make a decision that would best help both, the companies that compete in this global industry and the US economy.

Thank You,

Sincerely,

Gopal B. Prabhu
Applied Materials Inc.
M/S 81 107
1285 Walsh Avenue
Santa Clara, CA 95050 - 2662