

ikon**Letter of Comment No: 5805**
File Reference: 1102-100

From: Joe_Pon@amat.com
Sent: Wednesday, June 30, 2004 6:33 PM
To: Director - FASB
Subject: File Reference 1102-100: Accounting for Stock Options and ESPPs

I am writing to express my opposition to changing the accounting treatment for stock options and Employee Stock Purchase Plans (ESPPs). As a long-term employee of a global high-tech company I can attest to the value of stock options as a performance incentive that links employee interests to those of stockholders. At Applied Materials, a broad-based stock option program has helped attract and retain highly-skilled workers and made us more competitive over the years, particularly against foreign competition. Today, more than ever, the United States needs to maintain that competitive edge, and stock options are a great vehicle to do just that.

The proposed rules for expensing stock options will make it unnecessarily expensive for companies to continue to offer broad-based option plans to their employees. When you consider that options may or may not ever be exercised, it is impossible to predict the future value of employee stock options. Adopting an estimate – when that estimate cannot be valid since options are not tradable or transferable and have varied vesting schedules – will only diminish the integrity of financial statements and will not improve clarity or accuracy for our investors. Options have an impact, but by forcing companies to take a hypothetical charge against earnings instead of recording a real expense that has occurred and can be accurately measured, the proposed rules will distort financial statements. These numbers properly belong in their current location — in the footnotes.

In my opinion, it appears that in the proposed rules, 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. 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.

Stock options and ESPPs have made a difference in the lives of thousands of American workers and changed the face of American competition, attracting the best and brightest from around the world to choose the USA as the place to perform the best work of their careers. It would be a shame to trade this real, powerful incentive tool for an accounting fiction.

Sincerely,

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