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Letter of Comment No: 2224 File Reference: 1102-100

From: Macnaughton, Craig [Craig.Macnaughton@kla-tencor.com]

Sent: Wednesday, May 05, 2004 10:55 AM

To: Director - FASB Cc: Laboy, Tracy

Subject: File Reference No. 1102-100

The idea that an accounting rule could curtail my ability to participate in the success of my company is disheartening to say the least. Our employee stock purchase plan, (ESPP) and employee stock option plan give me a stake in the success of the company, and they motivate me to work harder. I believe that if companies are forced to expense these plans, my company will be forced to limit the use of the plans. I am a mid level manager and have worked 20 years in this industry. I believe the productivity gains seen in this country can partly be attributed to the fact employees are willing to work more if they have a personal stake in the companies performance. I believe that mandatory expensing of our ESPP and stock options is bad accounting. The potential dilution of each investor's share of company ownership is the real cost of employee stock options. That cost is already reflected in our company financial statements through "diluted earnings per share". I also do not see that the current proposal clarifies the issues of transparency or accuracy. In fact, I would think given the array of variables and latitude in the assumptions proposed, the valuation methodology would cloud the financial statements more than ever. The options actually cause an influx of cash (albeit at slightly lower than market value, which is reflected in the diluted earnings) to the company. Saying options are an expense is absolutely not true.

Broad-based stock option programs are good for shareholders because employees are rewarded only if our company's stock value increases. In the past, my stock options have enabled me to improve my quality of life in meaningful ways.

Trying to live in Silicon valley is difficult enough with a family of four. Because of the gains I have made on options and ESSP, our family has been able to buy a house and have my wife stay at home to raise the children which is very important to us. Without these programs, both of these quality of living choices we have made would not be possible.

I have personally seen the benefits of stock options to companies, employees and families. Broad-based plans should be encouraged, not eliminated and certainly not eliminated by a set of standards that does nothing to add to transparency or accuracy which are the hallmarks of accounting.

Respectfully submitted,

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