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Letter of Comment No: 5359
File Reference: 1102-100

From: Michael_Coughlin@amat.com
Sent: Friday, June 25, 2004 2:27 PM
To: Director - FASB
Subject: File Reference 1102-100: Accounting for Stock Options and ESPPs

Dear Members of the Board,

I am writing to express my opposition to changing the accounting treatment for stock options and Employee Stock Purchase Plans (ESPPs). I believe that you cannot accurately determine the "expense" occurred at the time the option is granted. 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 Applied Materials Consolidated Statement of Operations (P&L) will not improve clarity or accuracy for investors in Applied Materials stock. These numbers properly belong in their current location — in the footnotes. Currently, I have 9,500 shares of granted stock options that have an exercise price higher than current stock price. The value of these options are \$0, but under the current proposal, Applied Materials would have taken an expense, when no expense has been incurred. 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.

You are 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.

On the personal front, I would have never been able to purchase my home if it were not for stock options that were granted to me. I was able to exercise some options that allowed me to put down a 20% down payment on my home. I am also planning to use some of my options to purchase a new car (if the stock price gets high enough), which would obviously have a positive impact on the US economy. I would hope that you would reconsider your proposal and maintain the current accounting practice for stock options and ESPPs. Please feel free to contact me at my email address with any additional questions.

Regards,

Michael Coughlin
Product Marketing Manager
Applied Materials

6/28/2004