Letter of Comment No: 4547

File Reference: 1102-100

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From: David Tuttle@amat.com

Sent: Thursday, June 17, 2004 7:50 PM

To: Director - FASB

Subject: File Reference 1102-100: Accounting for Stock Options and ESPPs

Dear Director.

I am writing to express my opposition to changing the accounting treatment for stock options and employee stock purchase plans.

I have invested 15 years of my career with Applied Materials. My company has given me the option to buy thousands of shares as an incentive. Over time I have been able to save "real" money by responsible use of these options. I am head of a single-income family living in the San Francisco Bay Area where the cost of living is high, and the cost of housing is stagering. Still, I have very little debt, I have college savings for my son, I have a healthy 401K plan, and soon I'll have a down-payment for a house. I am convinced that the stock options from Applied Materials are the sole reason I have come this far. I am equally sure that my continued hard work, in addition to the accurate financial performance reports of my company will maximize shareholder value and preserve the value of my remaining and future stock options, as they vest in coming years.

If the FASB proposal to change the accounting treatment for stock options and employee stock purchase plans succeeds, I have no doubt that my family and I will loose the secure future that today's accounting treatment allows my company to contribute.

Passage of the House Financial Services Committee Approval of the Stock Option Accounting Reform Act (H.R. 3575) by a 45-to-13 margin should suggest to you that there is strong support for broad-based stock option plans and to eviscerate such plans would be a very bad thing in the eyes of both employees and stockholders. I add my voice to theirs.

I want the FASB understand the personal impact that this accounting change would have on me and my family. I am joining the fight against this proposal by sending this e-mail to you, at FASB, and sharing my personal story about how my family and I have benefited from participation in our stock option programs. I hope my real-life example will help make the case to the FASB that its proposed accounting change will have a significant negative economic impact on me and my family.

I know our employee stock option plan and employee stock purchase plan are under attack from the Financial Accounting Standards Board (FASB). I understand the FASB is trying to force all companies to expense stock option and employee stock purchase plans on their profit and loss statement. If implemented, I believe these changes would create unacceptable financial uncertainty on our Consolidated Statement of Operations and destablize investor confidence. This accounting change could make it too expensive for companies such as ours to continue to offer employee stock plans that I can participate in. I think that is bad news for all stockholders. I mean to protect the viability of these incentives and the essential role they play in my family's future.

In addition to the posative impact of these programs on the lives of employees across these United States of America, I encourage you to consider the following ideas on competitiveness and accounting.

- 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. 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. In almost all cases the NYSE and NASDAQ require that companies receive the approval of their stockholders before they issue employee stock options. I believe stockholders are willing to forgo a piece of their company because they believe that the employees will put in extra effort, going "above and beyond," which may ultimately 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.

As Director of the FASB, I am asking you to please take action to stop this proposed change to force all companies to expense stock option and employee stock purchase plans on their regular profit and loss statement. It's just not the right solution.

Thank you for your consideration,

David Tuttle Engineer Applied Materials, Inc.