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Letter of Comment No: 5361
File Reference: 1102-100

From: Susan_O'Keeffe@amat.com
Sent: Friday, June 25, 2004 3:07 PM
To: Director - FASB
Subject: File Reference 1102-100: Accounting for Stock Options and ESPPs

Dear FASB Director,

I am writing in hopes that sharing our story will encourage you to rethink your proposed change in stock option and ESPP accounting. In general, the stock programs at our employer, Applied Materials, have been generous throughout my 8 and 1/2 years with Applied, and my husband's 10 and 1/2 years with Applied. Without them, the quality of life for our family here in Silicon Valley would be quite difficult, if not near impossible based on the exorbitant cost of living in the Bay Area.

My husband and I both work for Applied Materials, my husband in software, and myself in operations. We have dedicated a collective 18+ years of time to Applied and strongly feel that the stocks we have been awarded have changed our lives. Without them, we would have not been able to share our wedding with both of our families or ever dream of buying a house. Now we are looking at the cost of education for our son and another baby on the way. It is inconceivable to think how we could have afforded any of this out here without cashing in on our stock. Simply put, it would not have happened on our salaries alone.

I believe your general assessment that you can accurately predict future stock value is a little absurd. If any of us could do that with accuracy we would all be billionaires and have no need to be working in the first place. As an operations manager, I know that this is not possible, and one inaccurate prediction could have a devastating impact to the entire balance sheet. We would lose investor confidence by behaving conservatively just as well as wrecklessly, either scenario is speculative at best. I challenge you to defend how you would mandate this to be accurate. If you could, Mr. Greenspan would probably like a few words in private with you.

I also believe as a governing body you equate stock options with million-dollar transactions that have significant impact to the profits and losses of our company. While this is perhaps a feasible argument with respect to a select few of our executive officers of the company, **it is not the overwhelming majority**. The majority are average workers just like my husband and me, who are merely trying to make a living and provide for our families. We do not sell stock in thousand-share increments, but in hundred-share increments in order to make ends meet and enjoy rewards given to us for hard work and long hours. It is something our company can provide as a reward without having to give everyone a blanket salary increase that would dramatically increase our labor dollars on our balance sheet on a daily basis.

In the last 8 years, my husband and I have each sold ESPP/option shares to pay for the following:

- wedding preparations for a wedding in Dublin Ireland, which had to be there due to my husband's family member suffering from a severe stroke and unable to travel (1999)
- travel expenses for my family to attend our Dublin wedding from my home in Texas (1999)
- down payment on a modest house in San Jose (2000)
- new roof for our house (2000)
- repairs and replacement of kitchen appliances in house (2001)
- medical expenses for the birth of our son (2002) - this was our portion of normal PPO insurance coverage
- vacation (2003)
- a new furnace for our house (2004)

I challenge you to assess these expenses as "luxurious" or living a life of extreme spending. They are not. They are mere examples of living normally in the Bay Area, and about covering the cost of living and maintenance on a 30 year old house. **Without our stock options and ESPP, we would have none of it.** We believe we are just one of thousands of examples of Applied Materials' employees who use their stocks in this manner. If our stocks go away, we will have no other choice but to leave this area and look for a less expensive cost-of-living burden elsewhere.

Moreover, as a manager, stock option rewards are also a way to encourage tenure within the company. There will always be

6/28/2004

competitive companies out there who will try to lure employees with promises of six-figure salaries, yet, employees stay with us, because in the end, the stock is far more valuable than a 42% taxed salary in some cases. Stock option rewards may jokingly be referred to as "golden handcuffs", but they work in terms of employee retention, and again, I challenge you to provide evidence of anything working better.

In conclusion, I believe the accounting rules you are proposing to change will have a horrific domino-effect. If companies can no longer afford to compensate employees with stock rewards due to the new accounting rules, employees will have no "reserve money" in stocks to use for basic needs in this area. How else will anyone come up with a 10% or 20% down payment for a house whose median asking price is \$500,000? If employees can not afford to live here, they will leave. If employees start a mass exodus out of the Bay Area, the tax base is reduced, and even less money for schools and social services already in dire peril. It is quite simple, this is ruinous for Applied Materials, the Bay Area, and the technology industry as a whole. Kindly reconsider your stance.

Sincerely,
Susan O'Keeffe
Applied Materials