March 7, 2003

Via Email

Kimberley Crook
Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: ED 2 – Invitation to Comment

Dear Ms. Crook:

On behalf of Applied Materials, Inc., we write to submit these comments related to the accounting for employee stock options and other share-based transactions pursuant to the International Accounting Standards Board's Invitation to Comment on ED 2. In short, Applied Materials has found stock options to be an essential tool for broad-based employee motivation and retention and strongly opposes the creation of new rules creating a financial environment hostile to their existence.

Applied Materials strongly support efforts that lend greater clarity to investors regarding outstanding options. To that end, we support efforts to standardize the presentation and computation of data that will allow investors to more easily analyze the FAS 123-required value estimates already contained in the footnotes of financial statements of U.S.-based corporate entities. FAS 148 will enhance this disclosure by providing increased analysis on a quarterly basis. While many investors already find this information easy to access and useful in its format, it is worth investigating how a new standardized format might increase the usefulness of this data.

While these footnotes assess value according to models intended for other purposes, such as the Black-Scholes model, it is clear that available models cannot possibly give investors an accurate portrayal of long-term, unvested, and non-tradable stock options held by employees. Rather, these models were developed for short-term valuation of publicly held, tradable options with definite near-term expiration dates. It is clear that these sorts of models—which rely heavily on estimates and valuations with no tangible relationship to the estimates made by other companies—will only serve to decrease clarity in financial statements. As such, it is appropriate for investors to retain access to the data currently provided in the footnote without the introduction of added factors that would obscure earnings statements if the expensing of stock options were required.

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Similar to many companies in the global high-technology industry, Applied Materials grants stock options to a broad-based group that includes almost all of its employees. In fact, while approximately 97 percent of our employees receive stock options each year our Section 16 officers receive only a small percentage of these options. On average, our "rank-and-file" employees below "manager" receive over 65 percent of stock options granted, allowing us to attract and retain the best and brightest in our rapidly evolving and competitive industry.

We have found that the broad-based deployment of stock options across our 14,000 employees has fostered a well-motivated and entrepreneurial workforce that duly shares in the rewards that accrue as increased productivity and sales lead to increases in our stock price. This outcome rewards all investors in our company, and has resulted in an effective alignment of employee and shareholder interest that would become untethered if the IASB mandates the expensing of stock options. We strongly believe that our broad-based stock option program has widely benefited investors in Applied Materials.

While some companies have chosen to voluntarily expense their stock options, it is notable that these companies do not grant options broadly and deeply to their employees. Obviously, there is a significant difference between the impact expensing has on companies with option plans that only target executives, and those that grant options across the board. This strongly suggests that a likely outcome of proposals mandating expensing is that these companies will find it "affordable" to grant options to key personnel in upper management, but not to "rank-and-file" employees. Certainly, this is not an outcome the International Accounting Standards Board should support.

Applied Materials takes its ethical and legal responsibilities to shareholders very seriously, and commends FASB for efforts that ensure that investors have transparent, accurate, efficient and coherent financial statements from which they can reasonably be expected to conduct a comparative analysis of companies. As such, it is critical that IASB take a prudent approach to disclosure that will not introduce new, anamorphic variables into the computation of the corporate bottom line.

Sincerely,

Joseph R. Bronson
Executive Vice President, Global Executive Committee
Chief Financial Officer