TriQuint
SEMICONDUCTOR ®

June 3, 2004

Director of Major Projects
Financial Accounting Standard Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Comment letter to Exposure Draft No. 1102-100 – Share-Based Payments.

Dear Sir or Madame:

We are writing to you to express the official position of TriQuint Semiconductor, Inc., in response to your request to comment on the exposure draft on share-based payments. TriQuint Semiconductor is a leading supplier of high performance semiconductors, components and modules for the growing worldwide communications market. We have over 2,000 employees and issue stock options to all of our U.S. based employees and to many of our employees in foreign countries. Fundamentally, we believe the accounting in the exposure draft is flawed and the conclusions raised by the Board are not based on valid criteria and, as a result, the exposure draft should be withdrawn.

Why is the accounting flawed?
We believe the accounting is flawed because the Board is applying a calculated expense for share-based payments that does not correlate to a direct cost to the company. In response to the exposure draft issue one, we do not believe that the issuance of equity instruments such as stock options issued at fair market value and slight discounts to market employee stock purchase programs (ESPP) give rise to a compensation charge. The cost for these programs is the added dilution to earnings per share and that is correctly accounted for under SFAS 128. The value to the company ultimately is the retention and recruitment these programs provide, plus the additional capital raised when employees pay for the stock. Furthermore, the use of complex "fair value" models to compute the expense will give rise to abuse, errors, added costs, and a virtually unauditable number. Accounting theory for many years has defined an expense to exist when there are outflows or some other using up of assets or the increase of liabilities or some combination thereof, from the delivery or producing of goods or services that are central to the ongoing operations. Under the cost principle such an expense must be measurable. It is not appropriate to evaluate the cost based upon some probability. If that were the case, we would be measuring revenue upon receipt of an order as there is a high probability of shipment and a high probability of payment. Accounting theory obviously does not allow this for revenue recognition even though the probability of the outcome is much more precise than the probability of an employee ever exercising a stock option. In our view, the issuance of an option or an ESPP

program is not a known measurable cash cost, but rather the issuance of a potentially dilutive security and is properly accounted for under the current accounting literature.

Your assertion that stock options should be expensed is in conflict with the accounting for convertible bonds. Companies account for convertible bonds by expensing the interest at the coupon rate and do not take a charge for the call premium attached to the conversion feature. Should the bonds actually convert, the company merely reduces debt and increases equity. It seems to us that the issuance of a stock option is very similar, except that the employee is issued an interest free loan with the right to buy shares at a fixed rate in the future.

Fair value models are not accurate or appropriate for share-based payments.
We believe that the current fair value models are not accurate or appropriate to measure the cost of share-based payments. These models were developed to value freely tradable, short-term options. These models are not appropriate for employee stock options and have not been proven in the marketplace. Share-based payments are issued specifically to an employee, are not transferable, are subject to continuous employment, vesting and are longer term in nature. Further, they are normally issued at the fair market value at the date of grant. The intrinsic value is zero and the value of the call premium in the open market is also zero as there is no market for a non-transferable option. Several large corporations attempted to develop a market for their options but failed as the market demanded options to be issued without vesting or other restrictions common to employee stock options. Our investment bankers have told us that our options have no value as issued in the marketplace. Both the Black Scholes and binomial models offer a theoretical value based on a multitude of assumptions and estimates. Central to both is the cost implied in the volatility of an entity's stock price. This essentially assumes that companies' stock prices will ultimately revert back to the historic highs experienced in 2000, but that is doubtful for many high tech companies. Yet, these companies have the highest beta and are penalized in the computations for the stock market bubble of the recent past. To use and rely on models where volatility is the key driver will make comparisons of one company's results to another's useless. The complexity of these models should also be questioned. There are frankly just too many variables, assumptions and computations for these models to be accurate and auditable. It is interesting to note the high number of recent restatements from companies that have elected to switch to expense accounting under SFAS 123 due to errors in the model. In summary, we believe that use of fair value accounting for share based payments is theoretically wrong, violates the matching principle of accounting that the recommended models are utterly inappropriate to use for non-transferable options.

Employee stock purchase plans (ESPP) should be excluded from any share-based payment expense accounting.
ESPP programs are designed as a way for employees to accumulate stock in a company through regular payroll deductions and are provided for in Code Section 423 of the Internal Revenue Code. These programs often provide for a small discount to the market price and have a fixed price during the offering period. These programs are also very useful to companies as an easy way to raise equity capital. The cost to raise equity capital for smaller companies often ranges from 10%-15% (underwriter fees, legal, audit, printers, travel, management time, etc.), so an ESPP program provides a low cost and steady source of capital. Employees get to accumulate shares, which will help them to be more aligned to shareholders' interests, so everyone wins.

This is clearly not an expense to the company just as issuance costs to raise equity capital are not an expense. That cost is merely a deduction to the gross equity capital raised; just as companies net the discount from the stock price for equity capital raised using an ESPP program. We believe that the FASB should exclude ESPP programs from the exposure draft provided these programs conform to section 423 of the Internal Revenue Code.

Financial reporting would be distorted and the financial community would not be well served.
Use of fair value reporting resulting from models that rely on volatility as a significant cost driver will give rise to huge swings in reported results, significantly varying results between industries and companies and the resulting charges will be largely ignored by the investment community. The financial analysts that provide research coverage on TriQuint Semiconductor have told us that they plan to exclude stock option costs from reported earnings and ignore it for valuation purposes. Consistency and credibility in financial reporting will be lost so one might ask, why are we doing this?

Implications to companies, employees and the economy.
We believe that the current usage of share-based programs is appropriate, adds to the competitive edge of companies, aligns employee's and management's interests to those of shareholders, is a factor in employee wealth accumulation and is good for our state and national economies. To deal with the huge expense, many companies will modify or eliminate programs and the rank and file employees will lose their opportunity to participate in ownership. Employees only benefit if the stock goes up, so what's good for employees is good for investors. Shareholders control the creation of stock based programs and set the number of shares eligible for these programs through proxy voting. New SEC rules mandate that shareholders approve all new equity programs, so the shareholders have the first and final say in stock option programs. Governments will lose precious tax receipts. The state of Oregon's general fund budget relies on stock option gains for upwards of 10% of its revenues. America would lose its competitive edge, especially in technology, which has been our largest job growth sector over the past 30 years. Our competitors in China and other developing areas will not be required to expense these payments, giving them another advantage over U.S. firms. We see no positive benefit in forcing U.S. companies to expense share-based payments.

Conclusions and recommendations.
Our conclusion is that the Board should withdraw the exposure draft and retain the accounting and disclosures under SFAS 128 and 123, and that share based payments are properly accounted for in the literature.

We further recommend the following:
- Resolve the conflict as to whether or not share-based payments even meet the definition of an expense.
- Abolish the fair value method of accounting for share-based payments as it is not consistent with other accounting principles.
- Exempt ESPP programs that conform to the Internal Revenue Code.
- Study other methods to value options for footnote only disclosure including a zero volatility model, or an opportunity cost or interest cost model.

- Defer any changes until a comprehensive study on the impact to companies, employees and the state and national economy is completed.

Respectfully submitted,

Ralph G. Quinsey, President and CEO

Steve J. Sharp, Chairman of the Board

Raymond A. Link, CPA, VP CFO

Stephanie Welty, CPA – VP Finance and Controller