November 4, 2002

Letter of Comment No: 30 File Reference: 1101-001 Date Received: ///4/02

VIA E-MAIL, HARD COPY TO FOLLOW

Financial Accounting Standards Board MP&T Director – File Reference 1101-001 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Dear Sir or Madam:

The Semiconductor Industry Association (SIA) appreciates the opportunity to comment on the Proposed Statement of Financial Accounting Standards, Accounting for Stock-Based Compensation – Transition and Disclosure (an amendment of FASB Statement No. 123), dated October 4, 2002 (the "Exposure Draft"). The SIA represents over 90 percent of the U.S. semiconductor industry – our members represent the largest semiconductor makers in the United States.

Today, the U.S. semiconductor industry — which holds over 50 percent of the world market — is the most competitive industry in the world. In large part, our competitiveness is based on our ability to hire and retain the best and brightest engineers from around the world. Retaining our highly trained workforce is of paramount importance to the industry — we are in constant competition for engineering talent with our foreign competitors, particularly those in Taiwan and China. The ability to offer stock options — which allow us to share the rewards of our success with our employees — is vital in this competition for talent. FASB's exposure draft's transition rules recognize that different approaches to the treatment of stock options is appropriate for different companies and industries. For semiconductor makers, any move that would potentially harm our ability to grant options would severely harm our competitive position.

More timely disclosure of certain information relating to stock options is appropriate – quarterly disclosure, for example, could serve to increase transparency and thus investor confidence. We continue to believe that stock options do not represent a corporate "expense". Making this information available in a consistent location and format makes sense. A separate schedule for disclosing this data is an option worthy of consideration

In order to make this information meaningful, though, the question of valuation must be addressed. Current models are not capable of providing consistent, accurate and meaningful valuation information on employee stock options. A wide number of accounting experts have spoken out on this subject recently, noting, among other things, that the assumptions underlying Black Scholes do not apply to employee stock options

Financial Accounting Standards Board November 4, 2002 Page 2 of 3

and so the model provides inaccurate valuations¹. The unique aspects of employee stock options – including that they are long term, may never be vested and are not freely tradable – are not accounted for in either current option pricing models or in the current valuation standard of FASB Statement No. 123. Requiring quarterly disclosure of this inaccurate expense number would not provide greater clarity to investors or the public, nor would it provide a more accurate picture of the financial health of public companies.

Ample evidence exists to suggest that current valuation methodologies are unfortunately not accurate measures of the value of stock options. When FASB Statement No. 123 was adopted this information was not yet available. Given the wealth of new data available, SIA members applaud FASB for permitting flexibility not requiring mandatory expensing of employee stock options.

If you have any questions regarding the SIA position on this matter, please contact SIA Director of Government Affairs Anne Craib; Anne can be reached by phone at 408-436-6600 or by email at acraib@sia-online.org.

Sincerely,

George Scalise President

Brog M. Sali

¹ William Margrabe, Ph.D., stated in Bloomberg, July 23, 2002 "an employee option must be worth less than an option of the type that Black Scholes was meant to value. So any result obtained by using this method would need a 'haircut' or a discount to a lower figure." According to Burton Malkiel, Professor of Economics, Princeton, and William J. Baumol, Professor of Economics, New York University, "Because employee stock options have durations of five to 10 years, are complicated by not vesting immediately, are contingent on continued employment and subject to various restrictions, it is virtually impossible to put a precise estimate on the option's value. Moreover, employee options cannot be sold, violating one of the key Black-Scholes assumptions." In "Stock Options Keep the Economy Afloat," The Wall Street Journal, April 4, 2002.

SIA Board Members

AMD
Agere Systems
Agilent
Analog Devices
Conexant Systems
Cypress Semiconductor
IBM
Intel
Intersil
LSI Logic
Micron
Motorola
National Semiconductor
Texas Instruments
Xilinx