Karen Salmansohn

Letter of Comment No: 52 File Reference: 1102-001

Director - FASB From:

Sent: Wednesday, January 29, 2003 7:27 AM

To: Karen Salmansohn

Subject: FW: File Reference No. 1102-001 - Proposed Changes to Stock Option Accounting

----Original Message-----

From: Mary.Simmons@Microchip.com [mailto:Mary.Simmons@Microchip.com]

Sent: Tuesday, January 28, 2003 6:26 PM

To: Director - FASB

Subject: File Reference No. 1102-001 - Proposed Changes to Stock Option Accounting

Ladies and Gentlemen:

On behalf of Microchip Technology Incorporate, we attach a letter of comment regarding proposed changes to stock option accounting. The letter is also being sent by Federal Express.

Best regards,

Mary K. Simmons Vice President, General Counsel Microchip Technology Incorporated 2355 West Chandler Blvd. Chandler, AZ 85224

Phone: 480-792-7381 Fax: 480-792-4112



January 28, 2003

MP&T Director—File Reference 1102-001 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: Proposed Changes to Stock Option Accounting

Ladies and Gentlemen:

I am writing to urge you to maintain the current accounting rules, which do not require companies to record any expense in their income statement when they grant stock options to their employees. Because any change is not only unnecessary but also detrimental to United States economy, I strongly oppose any changes to FASB Statement 123.

Mistaken Premise. Recent corporate scandals have caused some investors, government officials and the media to demand that employee stock options be recognized in the income statement. The criminal activities perpetrated by a handful of executives does not mean that the rules on stock option accounting should be radically changed.

In reality, current accounting rules already require companies to disclose employee stock option expenses. If a company elects not to recognize stock option expenses in its income statement, these expenses must be plainly and clearly disclosed in the notes to the financial statements – an integral and necessary part of any company's financial statements. Moreover, a company must also plainly and clearly disclose what its net income would have been and what its net income per share would have been if these expenses were taken into consideration.

Confuses and Misleads Investors. Stock options are a unique compensation device in that they never result in a cash expenditure from the issuing company. Requiring that the estimated value of options be treated as an expense would give investors a misleading picture of a company's financial performance. Expensing options would not add clarity to financial statements.

Fair Value of Options Cannot Be Accurately Determined. Because stock options may not be exercised for many years or at all, employee stock option expenses are necessarily based on mere estimates of the future value of stock options. Unlike exchange-traded options, they have vesting periods – usually two years or more – and they can't be sold or transferred to another person.

Neither the Black Scholes model nor any other derivative-valuation method can accurately incorporate these restrictions into their methodologies.

Furthermore, there has been no systematic study of the efficacy of the Black Scholes model, or any other valuation model, when applied to long term, unvested, non-tradable employee options. The existing valuation models were developed to price very short-term, publicly traded options that are exercised on expiration. Moreover, the existing valuation models require the use of estimates. Different companies will use different models and different estimates for the input models. As a result, it will be difficult, if not impossible, to compare the financial statements of potentially similar companies.

Raises Cost of Doing Business. Another deleterious effect of recognizing the expense of employee stock options on the income statement is that it would raise the cost of doing business for all companies. Because companies would likely reduce the number of option grants, companies would have to spend more cash on salaries and benefits to attract and retain employees. This would inevitably put many of the economy's newer and more dynamic companies out of business and seriously depress entrepreneurship in this country.

Discourages Option Grants to the Rank-and-File. Another clear effect of booking a stock option expense on the income statement is that would significantly reduce the number of rank-and-file employees who receive stock option grants. Last year, more than 10 million workers in this country were granted stock options in the companies for which they worked. In addition, according to a survey of 113 high-tech companies by NASPP/PricewaterhouseCoopers in 2000, 73.5% of the employees of such companies received stock option grants. This issue is of particular concern to me because 100% of our U.S. employees are granted stock options. By raising the costs associated with stock option programs, such proposals would compel us and other companies to reduce the number of options granted and to limit the scope of these programs to executives and managers, thereby denying the benefits of equity ownership to large numbers of rank-and-file employees

For these reasons, I urge you to maintain the current accounting rules, which generally do not require companies to record any expense in their income statement when they grant stock options to their employees.

Sincerely,

Stre Sughi Steve Sanghi President and

Chief Executive Officer