

Intersil Corporation

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Letter of Comment No: 6506  
File Reference: 1102-100

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Director of Major Projects - File Reference No. 1102-100  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

To Whom It May Concern:

Intersil Corporation is a middle market semiconductor manufacturer with headquarters in Milpitas, CA and manufacturing facilities in Palm Bay, FL. We currently employ over 1,400 people in the US. Given the significance our stock option and employee stock purchase plans play in hiring, recruiting, and maintaining a highly skilled workforce, we felt compelled to share our comments with you regarding the current exposure draft. We have highlighted responses to several of the issues outlined in the exposure draft below:

Issue #1 – Do we agree with the boards conclusion that stock options create an expense?

No. The issuance of options already creates an “expense” under current GAAP due to the requirement to count the underlying shares attached to an option as outstanding in the denominator of the fully diluted EPS calculation. This automatically reduces EPS, regardless of whether or not the options are exercised, on the grant date. Expensing currently in the income statement will have the impact of expensing the options twice on the date of grant. This is before an employee has received anything of value (or that can be valued with any certainty) and before the company incurs any out of pocket expense or liability.

Issue #3 – Do we agree with the board’s view that grant-date FMV should be the measurement used to record compensation cost associated with the granting of stock options? If not, what alternatives would you suggest?

No. We believe analogizing to a FAS 5 approach is a more logical way to consider the FMV and timing of an expense related to an option grant. FAS 5 mandates a contingent liability only be accrued if it is “estimable” *and* “probable” to occur. We do not believe the value of a stock option is “estimable” on the grant date given the significant number of variable forecasts required when using option pricing models to value options. If we were looking at options as a contingent liability, they would clearly fall outside the requirement to be expensed under FAS 5.

Even if there was a liability that was probable and estimable, we point out once again that there should be no accrual necessary for an expense as the company's earnings per share are automatically lowered due to the requirement to count the underlying shares as outstanding in the EPS calculation. In conclusion, our recommended alternative to the board is to leave the current GAAP rules in place with respect to accounting for stock options.

Issue # 5 – Do we agree with the board's conclusion that an option pricing model can be used to value an employee stock option? If not, what alternatives do we suggest?

No. None of the models in use were developed for the purpose of valuing employee stock options. They were all developed for valuing options that are publicly traded over active markets. All of the models contain significant estimates and predictions, which we believe will lead to significant inconsistencies when comparing companies' financial statements. This lack of comparability is the exact opposite result FASB is trying to achieve with other recent proposals. We believe the current GAAP model accurately captures the true expense of options via the reduction to the earnings per share calculation on the grant date and does so in a consistent manner across all companies.

Issue # 6 - Do we agree with the board's view on the treatment of employee stock purchase plans?

No. The US tax code currently does not consider discounts of 15% or less offered to employees of a qualified plan income to the participants. We believe many companies will end this benefit to employees upon implementation of the exposure draft in its current form due to the requirement for companies to recognize discounts as compensation expense. We feel this accounting change clearly reverses the intent of the tax break Congress passed. We believe implementation without a change in the current tax law or a vote in Congress may be acting beyond FASB's current legal authority and undermining Congressional intent.

Issue #7 – Income Taxes – Do we agree with the new accounting for income taxes proposed in the exposure draft and/or the International Financial Reporting Standard method?

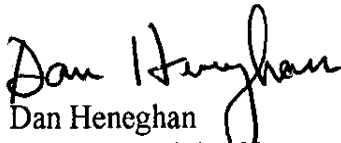
No. In particular, the requirement to record an expense for any decrease in future tax benefits initially recorded without any ability to record income for future increases in tax benefits realized seems rather penalizing. The exposure draft, if implemented, should be amended to allow for the recognition of any excess tax benefits to go through the income statement, just as decreases in future benefits must be expensed. Both are true cash flow type events that require no estimates to measure.

We believe any option standard set by the IFRS should not be considered when drafting US option rules, as most of the countries following those rules only grant options to top executives. Therefore, any standards issued by the IFRS related to options have little, if any, impact on our foreign competitors' financial statements. If the exposure draft is implemented in its current form, we will lose comparability with our foreign competitors at US companies' detriment. We believe this will also impact US companies' ability to recruit, hire and maintain a highly skilled global workforce.

In closing, we strongly advise the board to reconsider the implementation of the exposure draft and to leave the current FAS 123 model in place. We believe the board is playing into our foreign competitors hands by giving into the political pressure of the IFRS and other international standard boards whose members receive no downside by implementing the exact same rules given their lack of offering options to most employees. Our model is different. It is a model in which we strive to reward our most important assets, our high performing workers, with stock ownership. We will also lose comparability to our US competitors, as the number of variables, estimates, and predictions associated with the proposed option pricing models will yield materially different results among companies, even within the same industry. Lastly, the current GAAP rules were drafted taking into account the expense of options by requiring the inclusion of the underlying shares in the fully diluted EPS calculation (regardless of an exercise) on the date of grant.

We would be happy to answer any questions you may have regarding our position.

Sincerely,

  
Dan Heneghan  
Chief Financial Officer  
Intersil Corporation