



Ms. Leslie Seidman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

March 13, 2012

Re: File Reference no. 2011-230

Dear Ms. Seidman:

We at Microchip Technology appreciate the opportunity to provide our views on the FASB's proposed Accounting Standards Update *Revenue Recognition: Revenue from Contracts with Customers* (FASB file No. 2011-230, Revision of Exposure Draft Issued June 24, 2010, hereinafter referred to as the Proposed Standard). There are certain matters within the Proposed Standard that we believe will significantly impact our operations and industry, and which we have provided our thoughts below.

Microchip Technology develops and manufactures specialized semiconductor products used by our customers for a wide variety of embedded control applications. Our product portfolio comprises 8-bit, 16-bit, and 32-bit PIC® microcontrollers and 16-bit dsPIC® digital signal controllers, which feature on-board Flash (reprogrammable) memory technology. In addition, we offer a broad spectrum of high-performance linear, mixed-signal, power management, thermal management, RF, safety and security, and interface devices, as well as serial EEPROMs, Serial Flash memories and Parallel Flash memories. We market our products worldwide primarily through a network of direct sales personnel and distributors. Our distributors focus primarily on servicing the product requirements of a broad base of diverse customers. We believe that distributors provide an effective means of reaching this broad and diverse customer base. We believe that customers recognize Microchip for its products and brand name and use distributors as an effective supply channel. In the fiscal year ended March 31, 2011, we derived 58% of our net sales through distributors and 42% of our net sales from customers serviced directly by Microchip. We are an S&P 500 Company, traded on the NASDAQ (MCHP), and in fiscal 2011 had revenue totaling \$1.49 billion.

As discussed above, a significant portion of our sales occur through distributors. Our distributors worldwide generally have broad price protection and product return rights, so we defer revenue recognition until the distributor sells the product to their customer. We recognize revenue when the distributor sells the product to an end-user, at which time the sales price becomes fixed or determinable. Revenue is not recognized upon shipment to our distributors since, due to discounts from list price as well as price protection rights, the sales price is not substantially fixed or determinable at that time. At the time of shipment to these distributors, we record a trade receivable for the selling price as there is a legally enforceable right to payment, relieve inventory for the carrying value of goods shipped since legal title has passed to the distributor, and record the gross margin in deferred income on shipments to distributors on our consolidated balance sheets.

Deferred income on shipments to distributors effectively represents the gross margin on the sale to the distributor; however, the amount of gross margin that we recognize in future periods could be less than the deferred margin as a result of credits granted to distributors on specifically identified products and customers to allow the distributors to earn a competitive gross margin on the sale of our products to their end customers and price protection concessions related to market pricing conditions.

We sell the majority of the items in our product catalog to our distributors worldwide at a uniform list price. However, distributors resell our products to end customers at a very broad range of individually negotiated price points. The majority of our distributors' resales require a reduction from the original list price paid. Often, under these circumstances, we remit back to the distributor a portion of their original purchase price after the resale transaction is completed in the form of a credit against the distributors' outstanding accounts receivable balance. The credits are on a per unit basis and are not given to the distributor until they provide information to us regarding the sale to their end customer. The price reductions vary significantly based on the customer, product, quantity ordered, geographic location and other factors and discounts to a price less than our cost have historically been rare. The effect of granting these credits establishes the net selling price to our distributors for the product and results in the net revenue recognized by us when the product is sold by the distributors to their end customers. Thus, a portion of the "deferred income on shipments to distributors" balance represents the amount of distributors' original purchase price that will be credited back to the distributor in the future. The wide range and variability of negotiated price concessions granted to distributors does not allow us to accurately estimate the portion of the balance in the deferred income on shipments to distributors account that will be credited back to the distributors. Therefore, we do not reduce deferred income on shipments to distributors or accounts receivable by anticipated future concessions; rather, price concessions are typically recorded against deferred income on shipments to distributors and accounts receivable when incurred, which is generally at the time the distributor sells the product.

Under the Proposed Standard, it appears we would need to adopt a "sell-in method" of accounting for these transactions, as the Proposed Standard would require us to estimate the end sales price at the time we ship our product, and recognize revenue on the amount we are reasonably assured to receive.

In order for us to develop a reasonably assured model for such pricing, there are certain considerations we would like to bring to the FASBs attention that we believe should either be addressed in any future finalized standard, or considered in determining whether such a "sell-in" only model is appropriate.

- We concur with other respondents, that the ability to estimate and the quality of the estimate are two distinct concepts. We employ a number of different programs with our distributors in various markets that could cause volatility in our revenue results.
- We believe recognizing revenue at the time of sell-through better aligns end demand of the product, again reducing not only pricing volatility, but also volatility of demand within our cyclical industry.
- The investor community prefers the current model that we, and a majority of our peers utilize, as it is better aligned with end user demand, and makes results of companies in the industry less subject to manipulation or "channel stuffing."
- Inventory carrying levels at distributors can have significant variability due to industry conditions such as lead times for products from manufacturers and changes to the working capital carrying levels of the distributors, neither set of circumstances may reflect any material change in end customer demand.
- "Channel stuffing," or the appearance thereof, may occur consciously, or unintentionally, as a result of using the "sell-in" method, if expected results, and actual demand of end users differ.
- Our management and our audit committee gain comfort in the fact that the sell-through model reduces risks of returns subsequent to the time of sale, or significant adjustments.

- We do not believe the introduction of another more subjective financial statement estimate when we currently utilize objective information best serves the investor community.
- We monitor inventory levels looking both at inventory in the distribution channel, and our own carried inventory. These metrics, which are reviewed both by management and the investor community, would be significantly affected by a shift to the “sell-in” method, and we do not believe this method appropriately reflects the economics of our industry, nor the way companies manager their business in our industry manage.

We believe the following proposed edits to the exposure draft should be made, which would reflect the economics of a distributor arrangement, specifically, that distributor activities are not directly in control of the seller.

*82. Indicators that an entity's experience (or other evidence) is not predictive of the amount of consideration to which the entity will be entitled include, but are not limited to, the following:*

*(a) The amount of consideration is ~~highly~~ susceptible to factors outside the entity's influence. Those factors include, but are not limited to, volatility in a market, distribution or subsequent selling or pricing activities of a reseller, the judgment of third parties, weather conditions, ~~and~~ a high risk of obsolescence of the promised good or service and other changes in demand or pricing.*

*(b) The uncertainty about the amount of consideration is not expected to be resolved for a long period of time.*

*(c) The entity's experience (or other evidence) with similar types of performance obligations is limited.*

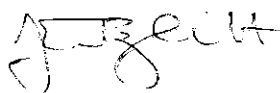
*(d) The contract has a large number and broad range of possible consideration amounts.*

We believe the proposed changes above and, more importantly, reconsideration by the FASB on the timing of revenue due to subjective channel pricing estimates would continue to be consistent with the overall proposed revenue model while at the same time provide high value and reliable revenue recognition information to financial statement users.

We concur with certain of our industry peers that an example of the sell-through model in the Proposed Standard would help illustrate the appropriateness of the model for preparers, auditors and users to be clear on acceptable methods.

We thank you for providing us with the opportunity to provide our comments on the Proposed Accounting Standards Update.

Sincerely,



J. Eric Bjornholt  
Vice President and Chief Financial Officer  
Microchip Technology Incorporated