# *Press Information*

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NASDAQ SYMBOL MXIM

Contact: John F. Gifford, Chairman,
President and Chief Executive Officer
(408) 737-7600

**Maxim's Views Regarding Stock Options Expensing –**

**And a Link to a Relevant Web Site**

SUNNYVALE, CA–May 9, 2005–Maxim views the proposed option expensing rules are distortive to earnings in part because the higher the company's option grant price the higher the expense. This can lead to nonsensical results where options that are valuable to the employee carry a small charge while other options which are of little or no value to the employee carry a disproportionately large charge. Here is a concrete example of how distorting the option expense rules can be. As of the date of this posting, Maxim trades around $38. We have employees holding options that are unvested with exercise prices that range from $12 to $87. The $12 option triggers an earnings charge of approximately $8 over the life of the option while the $87 option triggers a charge of $55 over the option life, almost seven times the charge! This would seem to indicate that the out-of-the-money $87 option is seven times more valuable than the in-the-money $12 option. However, the true economic value to the employee is probably the opposite. How does it add value to reported earnings or shareholder knowledge, when the charge associated with the option, with little value, is so much greater that the one with greater value?

Maxim therefore believes that options expensing is bad accounting, a bad rule. Prima facia evidence that the FASB and the SEC are on shaky ground is that FAS123R is 295 pages long, while the SEC's "guidance" explaining how to interpret this rule is 64 pages long! Despite its length, the SEC guidance is not particularly helpful. It basically

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says that if we act in “good faith we can use either pricing model recommended by FAS 123R (Black-Sholes or binomial). The good faith test is also to be applied to the selection of the two most subjective variables, volatility and the expected option term. This, and the fact that the range of good faith selection of these variables can produce significantly different option values, has the potential, if not the likelihood to seriously impair the comparability of financial statements. Recently 16 accounting and economic experts, including two former Secretaries of the Treasury, two former or current chairs of the accounting departments of major universities, two business school deans and several economists and professors of economics and business, submitted a paper to the SEC in which they vigorously opposed the expensing of employee stock options. It is most worthy of note that the basis for the opposition of this distinguished group was that expensing would be improper accounting that would impair the usefulness of financial statements. This paper, detailing the accounting case against option expensing can be found at www.expensingisbadaccounting.com. I strongly suggest its review.

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