

October 11, 2007

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. //

**Re: Proposed FASB Staff Position APB 14-a – *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*.**

We appreciate the opportunity to comment on the recently proposed FASB Staff Position (FSP) APB 14-a related to the accounting treatment for certain convertible debt instruments that may be settled entirely or partially in cash upon conversion.

Although we may not fully agree with all of the accounting concepts in the proposed FSP, we recognize the need for the FASB to periodically review accounting standards to ensure that they reflect changes in methods of doing business and changes in the economic environment. Like the FASB, we also believe that reasonable effective dates and transition provisions should be established when new standards are introduced. It is our view, however, that the proposed effective date of FSP APB 14-a for fiscal years beginning after December 15, 2007, (January 1, 2008 for calendar year-end companies like St. Jude Medical) would be counter to this objective as well as inconsistent with other implementation timelines for significant accounting changes.

Our principal concern is that the proposed speed of the implementation timeline could cause significant unnecessary risk to the companies affected by this change because it is counter to the necessary budget and planning process that is used to responsibly manage any business. Specifically, it has a significant impact on investment decisions that have been or are already being made for the upcoming year. Additionally, the compressed timeline between final FSP issuance and implementation provides insufficient time to calculate the impact, properly communicate the accounting changes to the investor community and stay in compliance with our core corporate governance principles.

Our proposed resolution is to provide a reasonable effective date and implementation timeline such that the new standards would be implemented in fiscal years beginning after December 15, 2008, or one year from the FASB's proposed effective date. Such a proposed timeline would provide an orderly process for implementation and would be consistent with the FASB's historical approach to effective dates on similar matters.

## **Implications and Effects of the FASB's Proposed Implementation Date**

***The fast-track implementation of this proposed change will lead to significant disruption to our planning cycle.***

Many companies have already prepared initial operating plans and budgets for 2008. A fast-track accounting change without reasonable effective dates and transition provisions could negatively impact these businesses as they scramble to reallocate funds in their operating budgets in order to meet the increased interest costs that will result from the change. As a medical device company, to be accomplished properly, the resource allocation process is a time consuming exercise. Investments in R&D and other business initiatives often require months of planning before actual activities can begin. To adjust the interest expense calculation at this late date is extremely disruptive to our planning cycle.

Furthermore, because the specific measurement requirements in the final FSP could change from that outlined in the FSP exposure draft, we will not be able to calculate the ultimate impact and make budget decisions for 2008 in such a compressed timeframe. As proposed, the earliest the final FSP could be issued would be November or December of 2007. This impacts us both economically and operationally. From an economic perspective, we cannot engage valuation experts to separately calculate both the fair value of the equity and liability components of the convertible debt in order to anticipate what the final measurement requirements in the FSP will be. From an operational perspective, we cannot make 2008 budget decisions in a compressed timeframe (after final FSP issuance and before our 2008 budget is approved by our Board of Directors and ultimately before our 2008 net earnings target is communicated to investors) driven by a change in accounting standards.

***The fast-track implementation of this proposed change will lead to direct conflicts with our core corporate governance principles.***

As one of our core corporate governance principles, St. Jude Medical's annual operating budget and performance goals are approved by our Board of Directors in December of the preceding year. Because annual incentive awards for almost 1,000 executives and employees are based on revenue and earnings per share performance objectives established within our annual operating budget, St. Jude Medical, has a long-standing policy of not adjusting the annual operating budget for variances once approved by the Board of Directors. The compressed timeframe puts these principles at risk if a late change in accounting rules requires us to make subsequent operating budget adjustments.

We also note that the compressed timeline puts us at a higher risk to develop and implement new internal controls to ensure that the impact of the new accounting treatment on future and prior periods (due to the proposed retrospective method of adoption) is accurately reflected.

***The fast-track implementation of this proposed change will lead to significant confusion in the investor community.***

The compressed timeframe between issuance and implementation will make it difficult for companies to adequately explain the changes to investors and for the investor community to fully understand the implications.

For example, in St. Jude Medical's case, we would not have the proper opportunity to communicate the impact on 2008 net earnings as well as the retroactive impact on prior periods

(specifically, 2007 net earnings) until our 2007 fourth quarter earnings press release in January 2008. At the time we announce our 2007 results (which will be based on current accounting treatment), we also provide 2008 earnings guidance (which would be based on and include the impact from the new accounting treatment), and would therefore need to revise our 2007 results (to allow investors to accurately compare 2007 and 2008). Users of financial statements will be absorbing these complex communications without the benefit of any reasonable transition period. We question whether there can be a full understanding of the impact of the new accounting treatment. Deferring the effective date by one year will allow adequate time for St. Jude Medical, as well as other calendar year-end companies, to communicate the pending impact of the new accounting treatment to investors and other financial statement users in a more structured and understandable manner.

*The fast-track implementation of this proposed change is contrary to precedent on similar matters.*

Recent significant accounting changes introduced by the FASB have provided reasonable effective dates, most often providing an implementation timeline of at least one year (i.e. SFAS 143, SFAS 151, SFAS 153, SFAS 157 and SFAS 159).

A recent significant accounting change where the FASB did not provide a reasonable effective date was SFAS 123(R), *Share-Based Payment*, which was issued in December 2004 with an initial adoption date for public issuers in interim or annual periods beginning after June 15, 2005. The SEC became involved and provided issuers additional time after issuing SAB 107, *Share-Based Payment*, which changed the effective date for public issuers to annual periods beginning after December 15, 2005.

Just as companies made long-term employee compensation decisions based upon authoritative APB 25, *Accounting for Stock Issued to Employees*, accounting guidance before the implementation of SFAS 123(R), companies made long-term capital structure decisions based upon authoritative EITF 90-19, etc. accounting guidance. Similarly, the final twelve-month implementation timeframe of SFAS 123(R) provided companies a reasonable amount of time to calculate the impact of the new standard, make budget decisions, modify or change their employee compensation programs and communicate the impact and changes to the investment community. We believe that the final implementation timeframe of FSP APB 14-a should at least afford companies the same amount of time to accomplish these efforts as well as to amend existing debt covenants and modify existing convertible debt or consider alternative financing arrangements.

### **Suggested Resolution**

We therefore ask that the FASB delay the effective date to fiscal years beginning after December 15, 2008. Even under this extended timeline, if the final FSP will require retrospective application under SFAS 154, the impact of this new accounting treatment on both past and future periods will still be fully transparent and understandable to users of financial statements. Furthermore, upon the issuance of the final FSP, SAB 74 disclosures would require transparent disclosure of the estimated impact on past and future periods.

As discussed above, providing companies with at least one year to prepare for the implementation of this new accounting treatment would be consistent with the adoption timeline afforded to companies for other new accounting guidance that had a significant impact on a company's operations and strategy.

In light of the clear risks to companies associated with the currently contemplated timeline and the benefits from a more reasonable effective date, we ask that the FASB wait at least one year (fiscal years beginning after December 15, 2008) before implementing the new proposed accounting guidance.

We appreciate your consideration of our views as you deliberate the final FSP. Feel free to contact me at 651-490-4326 with any questions or observations you might have.

Sincerely,



John C. Heinmiller  
Executive Vice President and Chief Financial Officer

**About St. Jude Medical, Inc.**

St. Jude Medical is dedicated to making life better for cardiac, neurological and chronic pain patients worldwide through excellence in medical device technology and services. The Company has five major focus areas that include: cardiac rhythm management, atrial fibrillation, cardiac surgery, cardiology and neuromodulation. Headquartered in St. Paul, Minn., St. Jude Medical employs approximately 12,000 people worldwide. For more information, please visit [www.sjm.com](http://www.sjm.com).