



**Medtronic**



LETTER OF COMMENT NO. 16

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October 15, 2007

Mr. Russell G. Golden  
Director of Technical Application and Implementation Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Re: File Reference: Proposed FSP APB 14-a

Dear Mr. Golden:

Medtronic, Inc. is a world-leading medical technology company headquartered in Minneapolis, MN. Our fiscal year 2007 net sales were \$12.3 billion, our market capitalization is approximately \$64 billion and our stock is listed on the New York Stock Exchange. We have approximately \$4.5 billion of convertible debt outstanding that would be impacted by the proposed FASB Staff Position, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" (the proposed FSP). For purposes of this letter, hereinafter we will refer to the convertible debt addressed in the proposed FSP as "Instrument C", similar to the term used in EITF 90-19.

We appreciate the opportunity to respond to the proposed FSP as we have concerns with the conclusions outlined in this proposed FSP and the ramifications that the proposed accounting changes would have on future financial reporting. Specifically, we have the following four concerns:

- I. The proposal does not reflect the economics of the Instrument C securities and would distort the issuer's financial statements;
- II. The requirement to bifurcate the "debt" and "equity option" is inconsistent with existing accounting standards and the mechanical attributes of the debt instrument;
- III. This issue should be addressed by the FASB in its project regarding financial instruments with characteristics of both Liabilities and Equity; and
- IV. If adopted, the proposal does not allow for grandfathering of existing Instrument C securities.

We will comment on each of these concerns in more detail below:

I. The proposal does not reflect the economics of the Instrument C securities and would distort the issuer's financial statements.

Under the existing accounting standards, an issuer's financial statements reflect the true contractual terms and obligations of the outstanding Instrument C security:

- the debt balance reflects the amount of cash owed to holders of the debt instruments;
- interest expense equals the cash coupon actually paid to holders of the debt instruments; and
- the shares to be delivered upon conversion of the instrument are included in diluted earnings per share when the stock price is trading above the conversion price.

In contrast, the proposed FSP would distort the issuer's financial statements by understating its debt balance and leverage ratio for several years until the debt discount is fully amortized into the debt balance. Interest expense would be overstated and would not reflect the economic reality of the actual cash interest payments. In addition to the belief that these proposed changes would result in financial statements that do not reflect the underlying economics of the debt instruments, we believe that if adopted, the proposed changes may force investors to focus on non-GAAP schedules to understand the true financial position of the Company. We also would question the amount of judgment required to estimate the appropriate fair value of the liability component and the resulting difficulty this may cause in comparing financial results for companies with similar Instrument C securities.

II. The requirement to bifurcate the "debt" and "equity option" is inconsistent with existing accounting standards and the mechanical attributes of the debt instrument.

APB 14 concluded that convertible bonds should not be separated into a debt and equity component because of the two mechanical attributes of convertible bonds: (1) the debt and conversion option are inseparable and cannot be traded independently and (2) the conversion option and the redemption of the bond are mutually exclusive of one another and cannot both be consummated. Therefore, we believe the proposed FSP would result in a direct conflict with the guidance of APB 14 and would be inconsistent with the attributes of the convertible bond.

Additionally, paragraph 199 of SFAS 133 provides guidance as to whether or not a conversion option in a convertible bond should be bifurcated and accounted for separately. Specifically, the FASB concluded that if the conversion option meets the requirement for the exception outlined in paragraph 11(a) of SFAS 133 (the

option is indexed solely to the issuer's own stock and meets the requirements for equity classification), then the convertible bond should not be bifurcated and accounted for separately. Therefore, we also believe the proposed FSP is inconsistent with SFAS 133.

III. This issue should be addressed by the FASB in its project regarding financial instruments with characteristics of both Liabilities and Equity.

We continue to believe that the existing accounting standards for Instrument C securities are appropriate. However, if changes of this scale were to be contemplated, we believe they would be better addressed through the full due diligence process of the FASB's comprehensive Liabilities and Equity project. As noted below in the excerpt from the FASB website, the Board has an ongoing project to address this type of financial instrument, which would presumably provide a more comprehensive and holistic approach to accounting for instruments of this nature. Issuing another less comprehensive form of regulation has caused unintended inconsistencies with existing standards, as noted above, and leaves open the possibility that this proposed FSP may be superceded in the not too distant future. We would question the decision to adopt the proposed FSP with the Liabilities and Equity project still being debated and encourage the FASB to hold off on adopting the proposed FSP at this time.

Excerpt from the FASB website – "Project Update – Liabilities and Equity"

This project is one part of the Board's broader initiative to improve the accounting for financial instruments. The project's objective is to develop a comprehensive standard of accounting and reporting for financial instruments with characteristics of equity, liabilities, or both, and assets. Such a standard will improve financial reporting by providing a more complete and representational depiction of those financial instruments in the statement of financial position. The improved classification, measurement, and presentation guidance provided by this standard, when combined with required disclosures in notes to the financial statements, is intended to provide users with decision-useful information about a reporting entity's obligations to transfer assets or issue shares.

Consistent with the FASB's broader convergence goals, the Board will use this project to further converge with accounting standards developed by the IASB. Presently, the FASB and the IASB plan to conduct this project under a modified joint approach. Under that approach, the initial due process document issued by the FASB will be in the form of a Preliminary Views. That document will be concurrently published by the IASB for comment by its constituents. The Boards plan to use the input received on those initial due process documents as the basis for a joint project to develop a common standard of accounting and reporting. In that joint project, the Boards will deliberate and develop a

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proposed Statement, to be followed by joint redeliberations and development of a common final Statement.

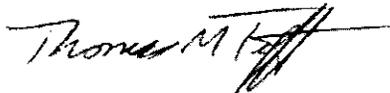
IV. If adopted, the proposal does not allow for grandfathering of existing Instrument C securities.

The proposed FSP calls for retrospective application of the guidance. However, the companies that issued Instrument C convertible debt securities, including Medtronic, did so in good faith and followed the existing accounting guidance available at the time of issuance. Therefore, to require retrospective treatment of the proposal inappropriately penalizes those companies who issued these instruments and further confuses investors who will see a significant change in the financial results and financial position of the issuer without having a fundamental change in the outstanding debt instrument. If this proposed FSP is adopted, we strongly suggest that this accounting approach be applicable prospectively for instruments issued after the effective date of the standard. We believe prospective application is more consistent with the approach used for most other new accounting pronouncements including SFAS 157 and the proposed changes to business combinations being contemplated by the Board. Although we acknowledge retrospective application lends to comparability, we believe these goals can be accomplished through disclosure.

Furthermore, if the FASB adopts this proposed FSP with no changes from this current draft, we ask the FASB to consider changing the effective date to fiscal years ending after December 15, 2008. This is a broad standard requiring retrospective application and an effective date of fiscal years ending after December 15, 2007 does not allow registrants the appropriate amount of time needed to properly comply with the proposed changes.

Again, we appreciate the opportunity to comment. If you have any questions regarding this letter or would like to discuss any of our views further, please feel free to contact me at (763) 505-1510.

Sincerely,



Thomas M. Tefft  
Vice President, Corporate Controller