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LETTER OF COMMENT NO. 39



October 15, 2007

Technical Director—FSP APB 14-a  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

**Proposed FASB Staff Position No. APB 14-a: Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)**

Intel is pleased to respond to your request for comment on the FASB's proposed FSP APB 14-a: *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. We agree that the accounting model for convertible debt instruments can be improved. However, we are concerned with the FSP's scope and transition requirements.

Intel has \$1.6 billion of outstanding convertible debt that we can settle, at our option, in any combination of cash and/or shares. SFAS 34 requires that we capitalize the interest from this debt as part of the cost of qualifying assets. We have used the if-converted method when calculating the earnings-per-share (EPS) dilution adjustment for this debt since its issuance in December 2005. The convertible debt was the largest source of dilution in our diluted EPS calculation (approximately \$.0076 per share) in 2006.

We understand that the proposed FSP's primary purpose is to increase comparability of diluted EPS treatment and interest cost for the myriad of instruments that have Instrument C characteristics. However, the FSP's current scope includes instruments that may be settled in any combination of cash or stock at the issuer's option (Instrument X). We believe that convertible debt instruments with characteristics like Instrument X that are ultimately share settled are economically similar to instruments that are required to be share settled. In our view, events that result in identical economic outcomes should be subject to identical accounting principles. Therefore, we believe that the FSP can improve comparability across similarly situated issuers and achieve greater harmony with the intent of APB 14 paragraph 18 by (a) permitting the application of APB 14 for instruments having settlement expectations that are substantially similar to instruments that can only share settle, and (b) requiring all other convertible debt instruments to be accounted for under the proposed FSP. This approach

would require an issuer to evaluate whether the settlement expectations are substantially similar to share settled instruments. We believe that the FSP could provide factors to consider in making this determination, such as:

- the issuer's ability to settle in shares, which could be demonstrated by a sufficient number of shares authorized and available for issuance,
- management's declared intent, and
- whether an entity has historically computed its diluted EPS using the if-converted method consistent with that ability and intent.

With respect to transition, we acknowledge that retrospective transition provides the benefits described in paragraph B21. However, we feel that certain issuers will face significant costs to achieve retrospective treatment. Specifically, issuers subject to SFAS 34 will be required to allocate incremental interest expense to qualifying assets and to recalculate depreciation expense in subsequent periods for those assets. This will be difficult and expensive, especially in instances in which depreciation comprises a significant component of inventory values. In our view, a prospective transition method would significantly reduce costs for many issuers while remaining in-line with the transition methods used for past standards that have affected convertible debt accounting, such as SFAS 133. Specifically, we favor a transition method that emphasizes establishing the carrying value of the liability at the time of the implementation of the FSP as if the FSP had been effective at the time of an instrument's issuance, but not recognizing retrospective or cumulative effect income statement adjustments. This approach would eliminate the need for the costly calculations described above.

Thank you for your consideration of the points outlined in this letter. We would be happy to answer any questions that you might have and assist you in the further development of the underlying details. If you have any questions, please contact me at (408) 765-5545, or Tonya Stevens, Treasury Accounting Controller, at (971) 215-2221.

Sincerely,

Leslie Culbertson  
Vice President, Director of Corporate Finance

**Q&A – responses to the three questions posed on page 2 of the FSP’s proposal document**

1. *This proposed FSP requires that instruments within its scope be separated into their liability and equity components at initial recognition by (a) recording the liability component at the fair value of a similar liability that does not have an associated equity component and (b) attributing the remaining proceeds from issuance to the equity component. The rationale for the Board’s decision to require this separation methodology for convertible debt instruments within the scope of this proposed FSP is described in Appendix B. Do you agree with this method of separation? Would this proposed FSP be easier to apply if separation were achieved by (a) recording the embedded conversion feature (equity component) at its fair value and (b) attributing the remaining proceeds from issuance to the liability component?*

As mentioned in the body of our comment letter, we do not favor a treatment for Instrument X that differs from the treatment for instruments that must be settled in shares when the facts and circumstances support the conclusion that share settlement will likely occur.

If separation is to occur, we agree that estimating the fair value of the liability component is usually no more difficult (and probably is less difficult) than measuring the fair value of the embedded conversion component. Furthermore, we note that the accounting model proposed by the FSP, which emphasizes fair value treatment for the debt component, may represent an opportunity to revisit the guidance in paragraph 8(f) of SFAS 159 so as to encourage the expanded use of fair value measurement.

2. *This proposed FSP provides guidance on the attribution of proceeds at initial recognition and at settlement for convertible debt instruments within its scope. It also requires that discounts on the liability component of instruments within its scope be amortized using the interest method over the expected life of a similar liability that does not have an associated equity component (considering the effects of prepayment features other than the conversion option). The remaining guidance in this proposed FSP, including much of the guidance on subsequent measurement and accounting for modifications, primarily consists of references to other applicable U.S. generally accepted accounting principles (GAAP). Does the inclusion of those references to other applicable U.S. GAAP improve the understandability of this proposed FSP, or should those references be eliminated from a final FSP?*

Yes, we agree that having the relevant guidance in one place is helpful since many believe that GAAP pertaining to convertible debt is somewhat fragmented.

3. *Does the inclusion of the illustrative example in Appendix A improve the understandability of the guidance in this proposed FSP, or should that example be eliminated from a final FSP?*

Yes, we think the example provides helpful guidance for a typical situation. We believe the FASB should consider adding guidance or another example for the unusual case where the APIC balance has been reduced after issuance (say, due to a buyback program) and is thus not sufficient to absorb any debits that may be required in applying the FSP.