

7628 Thorndike Road Greensboro, NC 27409-9421 Tele (336) 664-1233



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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: 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)"

Dear Mr. Golden:

RF Micro Devices, Inc. appreciates the opportunity to respond to the guidance that the Financial Accounting Standards Board (the Board) has proposed in FASB Staff Position No. APB 14-a, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement" ("Proposed FSP"). While we understand the Board's intent to clarify the accounting for convertible debt instruments that may be settled in cash upon conversion, we do not support the Proposed FSP, as currently drafted.

During April 2007, RF Micro Devices issued \$200 million aggregate principal amount of 0.75% Convertible Subordinated Notes due 2012 and \$175 million aggregate principal amount of 1.00% Convertible Subordinated Notes due 2014. These instruments incorporate the characteristics of Instrument C in EITF Issue No. 90-19 and are currently accounted for as follows:

- the debt balance reflects the amount of cash owed to investors (except for unamortized debt discount)
- interest expense equals the cash coupon paid to holders; and
- the shares to be delivered upon conversion will be included in diluted earnings per share when the stock price exceeds the conversion price

The Board has requested that constituents provide specific comments on the following issues in the Proposed FSP:

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



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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?"

We do not believe that the Proposed FSP clarifies existing authoritative literature, but rather will result in Instrument C convertible debt to be recognized in direct contrast to current authoritative literature. As discussed in Paragraph 7 of APB 14, the Accounting Principles Board stated that "the most important reason given for accounting for convertible debt solely as debt is the inseparability of the debt and the conversion option". A convertible debt security is a complex hybrid instrument bearing an option, the alternative choices of which cannot exist independently of one another. The holder ordinarily does not sell one right and retain the other. Furthermore the two choices are mutually exclusive; they cannot both be consummated. Thus, the security will either be converted into common stock or be redeemed for cash. The holder cannot exercise the option to convert unless he forgoes the right to redemption, and vice versa." This inseparability of the debt and conversion option was critical to the conclusions in paragraph 12 of Opinion 14. Additionally, Instrument C debt complies with the definition of convertible debt securities in paragraph 3 of Opinion 14.

In addition, in more recent literature, Appendix B, Paragraph 199 of FAS 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 paragraph 11 (a) scope exception (the option is indexed solely to the issuer's own stock and meets the requirements for equity classification), then the conversion option should not be bifurcated and accounted for separately.

We believe that the conversion feature is not separable from the debt and that the long-standing conclusion in APB 14 and the more recent conclusion in FAS 133, should override the FASB's current conclusion in the Proposed FSP.

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



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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?

We believe the inclusion of references to other applicable U.S. GAAP improves the understandability of the Proposed FSP and should be retained.

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?"

We believe the inclusion of examples provide clarity in implementing new guidance.

Accounting Implications:

We believe the proposed treatment is not consistent with the ultimate financial impact of Instrument C convertible debt. Financially, upon settlement the issuer will be required to repay the principal balance in cash plus any conversion premium in either cash or stock. The current accounting guidance of recognizing the full principal balance as a liability plus the diluted EPS impact by including potentially issuable shares associated with the conversion premium properly recognizes this outcome.

While the Instrument C debt does carry a below market coupon rate, this discount is associated with the potential for appreciation in the stock price. If the stock appreciation occurs and the conversion feature is exercised, the resulting payments are more appropriately recorded as an equity transaction, rather than as interest expense.

If the proposed guidance is issued as currently written, the financial statement results that would occur are as follows:

- 1) The liability would be understated as compared to the face amount of the debt and the proceeds received. This misrepresentation of the true debt position of issuers would lead to inaccurate Debt to Equity and other key financial ratios.
- 2) Interest expense would be overstated as compared to interest expense actually incurred and paid. In addition, this would create a charge to the income statement which investors would have difficulty understanding because it is not based upon a cash cost to the Company.
- 3) We are also concerned about the valuation assumptions and methodology and the amount of judgment required to determine the value of the liability component at both inception and extinguishment in the FSP.



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Recommendations:

We believe that changes to Instrument C accounting guidance would be more appropriately addressed in connection with the Board's liability and equity standard setting project rather than dealing with complex issues related to convertibles on a one-off basis.

If the guidance issued under the proposed FSP is retained in its present form, application should be prospective, not retroactive, to protect those purchasers and investors that in good faith bought or issued Instrument C convertible debt. The issuance of this FSP in its current form will penalize the Company by forcing it to record a higher rate of interest associated with straight debt without the benefits that would have been received from the actual issuance of straight debt (such as less complexity, lower issuance costs and pre-payment opportunities among others). Accordingly, we request the Board to reconsider its view in this regard and grandfather existing Instrument C convertible debt.

Additionally, the proposed guidance would not result in convergence with international accounting standards (IAS), as stated in Paragraph B6 of the proposed FSP. In accordance with IAS 32, the conversion option embedded in a convertible debt instrument that may be settled in cash upon conversion (including partial cash settlement) would be bifurcated and accounted for at fair value as a derivative under IAS 39, *Financial Instruments: Recognition and Measurement*, unless the fair value option is elected for the instrument in its entirety. Given the recent receptiveness of the SEC concerning the ability of U.S filers to potentially adopt International Financial Reporting Standards (IFRS) in the near future, we are not sure why the FASB would want to issue an FSP in direct conflict with IFRS.

The current implementation date of this proposed FSP is extremely aggressive. This change in accounting for convertibles would have a significant impact not only on companies' prior decisions and financial statements, but on their 2008 operating plans, as the interest expense change of this proposed treatment will be material for many companies. As a responsible company, we need to manage our expenses to deliver an appropriate return to our shareholders and we need to have more time to react to changes to make responsible decisions, particularly since long-term investment plans are impacted by these decisions. Therefore, at a minimum, we request a delay in the proposed implementation timeframe by at least one year. As previously discussed, we disagree with the conclusions in the proposed FSP, and believe that there should be time for additional discussion of these issues prior to issuance of the final FSP.



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We appreciate the opportunity to participate in the FASB's considerations. If you should have questions or require further information regarding the above comments, please feel free to contact me at 336.678.7975.

Sincerely,

/s/ William A. Priddy, Jr.
William A. Priddy, Jr.
Chief Financial Officer, Corporate Vice
President of Administration and Secretary