# TIME WARNER TELECOM

October 12, 2007

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

VIA EMAIL

File Reference: FSPAPB 14-a

LETTER OF COMMENT NO. 26

Dear Mr. Golden:

Time Warner Telecom Inc. appreciates the opportunity to comment on 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). Our comments our detailed below as well as our comments to the specific questions posed in the FSP.

## Inseparability of the debt and conversion option

We do not believe that separating the liability and equity components reflects the underlying economic transaction. These instruments are inseparable because (a) the debt and option components cannot be separated and traded and (b) upon exercise, a holder forgoes all debt claims and has only an equity claim in the event of bankruptcy for the value of the underlying shares. APB 14, paragraph 7 supports our assertion:

"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."

#### Misleading Results

Separation of these instruments into a liability and equity component would result in misleading and confusing financial statements as (a) the debt recorded on the balance sheet would be understated compared to the contractual and bankruptcy debt claim in the event of bankruptcy, (b) interest expense would be overstated compared to the interest expense actually incurred and paid, and (c) it results in a misstatement between debt and equity. In addition, diluted EPS would be reduced by the higher hypothetical interest expense and further diluted by the number of shares to be issued prior to conversion. The accounting required by the FSP would impact leverage and other key financial ratios and it is unclear how this might impact a company's bond and corporate ratings and serve to confuse investors.

# Address in the FASB's Liabilities and Equity Project

Given the complexity of these instruments, we believe that a comprehensive approach is warranted in determining changes, if any, to the accounting for these types of instruments. This would seem most appropriately addressed as part of the FASB's broad based Liabilities and Equity project. We feel that the standard setting process normally required of new Financial Accounting Standards is more appropriate for complex issues such as convertible debt because of the extensive due diligence process that development of a new standard undergoes. It would not seem that the accelerated process of an FSP will fully address and resolve all issues which will result in further confusion and a need for additional clarity and guidance. It is possible that the Liabilities and Equity project will result in additional changes in accounting for convertible debt instruments and it would seem illogical to effect a change at this time. This will be confusing for not only registrants but also investors.

## **Effective Date and Transition**

We strongly urge the Board to reconsider the effective date. To the extent that the FSP is issued, we believe that the effective date should be for fiscal years beginning after December 15, 2008. Registrants that have these types of instruments need sufficient time to plan for any change and implement the appropriate internal controls around new accounting principles to ensure accurate financial statements and compliance with 404. Extension of the effective date to allow more time for implementation would mitigate the risk of a material misstatement as a result of application of a new accounting standard. Additionally, registrants need adequate time to educate their investors as to the effects that any change will have on its financial statements. To the extent the FSP is issued in its current form, we urge the Board to grandfather outstanding convertible debt instruments and apply the FSP on a prospective basis.

\*\*\*\*\*\*

In response to the Board's specific request for comments on certain questions raised by the Board in their FSP, we submit the following:

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. 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 reflected in our comments above, we do not agree with separation into liability and equity components.

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 the 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?

We believe the inclusion of such references is helpful.

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

We believe the example is helpful; however, we would encourage the Board to provide additional examples with different scenarios, including an example of application to an outstanding issue at the time of adoption.

\*\*\*\*\*

If you should have any questions or would like additional information on the comments we have provided, please contact me at (303) 566-1000.

Sincerely,

/s/ Jill R. Stuart

Jill R. Stuart Senior Vice President, Accounting and Finance and Chief Accounting Officer