



October 1, 2007



Technical Director 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 Technical Director:

Linear Technology appreciates the opportunity to comment on proposed FSP APB 14-a ("the FSP"). Linear Technology Corporation is a leading designer and manufacturer of high performance linear integrated circuits with revenues of approximately \$1.1 billion for the fiscal year ended July 1, 2007.

POSITION

- We disagree with FSP ASB 14-a
- We believe that current guidance supported by View A of EITF 07-2 should be retained as it more appropriately accounts for Instrument C convertible debt. The guidance issued under the FSP:
 - does not reflect the beginning, ending or on-going cash flows of the transaction
 - o misrepresents the true debt position of issuers directly leading to inaccurate Debt to Equity and other key financial ratios
 - o dismisses the concerns of the EITF review of the same transactions thereby dismissing the conclusion of other professional accounting experts.
- Retroactive implementation of the FSP penalizes both purchasers and issuers of Instrument C convertible debt who relied on current and clear accounting guidance issued by the EITF.



RECOMMENDATION

- Do not implement FSP APB 14-a, rather as recommended by the EITF, review this within the context of the broader FASB liabilities and equity project.
- If the guidance issued under the 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 Company has been following the deliberations surrounding this issue through the published minutes of the Emerging Issues Task Force, including the related EITF Issues from 90-19 through 07-2. Earlier this year, Linear Technology issued convertible notes totaling \$1.3 billion with certain characteristics of "Instrument C" as described in EITF 90-19; in particular, the Notes require settlement of the face value of the notes in cash and the conversion spread in cash and/or common stock at the Company's option. The Notes bear interest at the rate of 3% - 3.125%. The Notes carry a conversion price of approximately \$50 at a time when the fair market price of the stock was approximately \$36.

We disagree with the Board's conclusion that, as noted at B6 of the FSP "...an issuer of a convertible debt instrument that requires or permits partial cash settlement upon conversion should recognize the same interest cost it would have incurred had it issued a comparable debt instrument without the embedded conversion option." We do not believe that this reflects the economic substance of the transaction. Consequently, we believe that View A of EITF 07-2 is the proper view and the accounting prescribed by View A should be retained.

In the case of Linear Technology, the Company (i.e. Executive Management and the Board of Directors) decided to repurchase a significant number of its outstanding shares using a combination of its existing cash and debt. In its twenty six year history, this was the Company's first debt issuance of any kind. The Company had various alternatives, among those alternatives included the issuance of straight debt, convertible notes or a combination of the two. To make that decision the Company's Board of Directors considered many factors including cost, cash flow, rates of return, accretion/dilution to earnings, balance sheet impact, debt covenants and existing accounting guidance among other considerations. Of course, each alternative came with its pros and cons.

The Company could have issued solely straight debt (debt without a stock conversion feature). This alternative included certain benefits over the issuance of convertibles, including less complexity, lower issuance costs and pre-payment opportunities among others. Ultimately, the Company decided to issue convertible notes with the lower interest cost vs. the issuance of straight debt. Though it was not the only reason, the existing accounting guidance for Instrument C type securities was a factor in that decision. The Company was aware of the EITF deliberations over this issue, and in



particular that certain members of the Task Force supported View A and that no consensus could be reached. In light of this, there was no reason for the Company to believe that the FASB would so quickly support View B of EITF 07-2. In managing its business, the Company must consider the financial implications of transactions under existing guidance; it cannot be expected to anticipate changes in accounting principles that may or may not occur, particularly where present guidance is clear.

We do not understand why the Board believes that the guidance provided by the FSP more appropriately reflects the economic substance of this transaction. The purchaser/holder of the Notes has accepted a lower rate of return from interest yield for the possibility of much higher returns that may come from stock appreciation. Linear Technology will only pay the holder the coupon rate and will only issue shares upon conversion over the accreted value of the Notes. That is the economic substance of the transaction and View A properly recognizes the appropriate accounting for this transaction. Interest cost should be reflected at the rate of interest the Company is paying as opposed to a hypothetical rate and the outstanding shares in the EPS calculation should only reflect those shares that may be issued upon conversion. As noted at B3 of the FSP, we fail to understand how the Board views this accounting as "inconsistent" and "misleading" when it represents the true substance of the transaction and the exact result that will occur in terms of cash flow and potential share dilution. The Board has incorrectly compared Instrument C convertible notes to debt issued with detachable warrants to make its case for inconsistency in accounting. There are relevant differences between these instruments including mutual exclusivity of redemption of the notes and conversion into stock as well as the holder's rights in bankruptcy. We do not accept the Board's view that the accounting guidance issued under the proposed FSP is proper and in the best interest of investors. To the contrary, under the guidance of the FSP, our interest expense will be overstated, our debt will be understated and related financial ratios will likewise be misstated.

To the extent the Board intends to issue the FSP in its present form, we strongly urge the Board to grandfather outstanding Instrument C convertible notes and apply the FSP on a prospective basis. It is unfair to penalize issuers and purchasers of these securities who followed existing guidance that was clear in its application to those instruments. The Boards' concerns regarding comparability among issuers will be inconsequential because the proposed FSP, with its detrimental earnings effect and erroneous balance sheet accounting treatment, will diminish issuance of Instrument C convertible debt as financial alternatives. Further, we are concerned that our investors will be confused by this change and will incorrectly assume that we have previously accounted for this instrument incorrectly or tried to take advantage of an accounting loop hole.

We are surprised by the issuance of the FSP and that it was issued so quickly after the EITF could not reach a consensus. This is not a case where there is diversity in application of existing accounting guidance. Existing guidance is clear and appropriate to the substance of the transaction and has been followed uniformly by existing issuers of



Instrument C debt. Clearly, View A continued to have its supporters among the Task Force, so it is surprising that view has been quickly deemed inappropriate accounting.

It is also surprising that the Board has ignored that the issuance of the FSP will be harmful to previous issuers and purchasers of Instrument C debt. Linear Technology had alternatives when it considered its financing options. There were benefits associated with the issuance of straight debt. Had the FSP been in effect at that time, the Company may very well have issued straight debt and taken advantage of its benefits over convertible notes. The issuance of the FSP in its present 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. In addition, if the Notes exceed the conversion price, the Company will incur both the higher hypothetical interest rate and the dilutive effect of the shares to be issued prior to actual conversion, in effect a double count. Clearly, the impact of this FSP will curtail the issuance of Instrument C securities as prospective issuers will no doubt consider the detrimental accounting impact. However, previous issuers did not have the ability to weigh the consequences of the FSP. We believe it is unfair to those companies and their investors. Accordingly, we request the Board to reconsider its view in this regard and grandfather existing Instrument C securities.

Respectfully,

Don Zerio

Corporate Controller Linear Technology Corp.

Paul Coghlan

Vice President and Chief Financial Officer

Linear Technology Corp.