



October 15, 2007

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

International Game Technology (IGT) would like to offer comments on the 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)" (the proposed FSP). IGT is a global company specializing in the design, manufacture, and marketing of computerized gaming equipment, systems and services.

We previously submitted comments to the EITF on the proposed EITF Issue 07-2; "Accounting for Convertible Debt Instruments that Require or Permit Partial Cash Settlement upon Conversion". We reiterate many of those comments here.

We understand the FASB's intent to improve the accounting treatment for convertible instruments that may be settled in cash upon conversion. However, as indicated in our previous comment letter to the EITF, we are concerned with the proposed changes for two primary reasons. First, we believe this issue is more appropriately addressed by the FASB as part of its liabilities and equity project. Second, we believe the FASB should allow for the grandfathering of existing instruments.

Hereafter we will refer to the convertible instruments specifically included in the scope of the proposed FSP as convertible debt instruments that may be cash-settled.

Liabilities & Equity Project:

We believe that the FASB should be focused on creating a comprehensive accounting model for all instruments with characteristics of liabilities and equity that converges with international accounting standards. Accordingly, we believe this issue is more appropriately

International Game Technology

9295 Prototype Drive Reno, NV 89521-8986 775-448-7777 www.IGT.com addressed by the FASB as part of its liabilities and equity project. Further, we are concerned with the FASB providing guidance that could potentially be superseded in a few years. We note the following:

- 1. The proposed FSP provides piecemeal guidance specific to convertible debt instruments that may be cash-settled.
- 2. The proposed FSP does not converge with IFRS, which does not align with FASB's goal to converge U.S. and international accounting standards.
- 3. The FASB is working on developing a comprehensive standard of accounting for all convertible debt instruments as part of its liabilities and equity project. Currently, the preferred approach under this project is not consistent with the proposed FSP. This may require yet another change to the accounting for convertible debt instruments that may be cash-settled in the span of a few years.
- 4. The EITF recently addressed this topic and was unable to reach a conclusion. We note that the EITF members' votes were almost evenly allocated amongst the three alternative views proposed in the Issue.
- 5. At the FASB's July 25, 2007 meeting, although none of the Board members objected to the accounting treatment required in the proposed FSP (Alternative 1), a majority of the FASB board members indicated that they actually *preferred* an accounting treatment that differed from the proposed FSP. Additionally, one board member acknowledged that the proposed FSP would be an interim solution. We've included a table below with a summary of this information. Note that Alternative 2 would have required accounting for convertible debt instruments that may be cash-settled at fair value with changes in fair value recorded in earnings.

Board	Object to	Preferred Alternative	
Member	Alternative 1	Accounting Treatment	Other Significant Comments
Batavick	No	Alternative 1	None
Crooch	No	Alternative 2	None
Herz	No	Unspecified, but stated it was not Alternative 1	None
Linsmeier	No	Alternative 2	None
Seidman	No	Alternative 1	None
Smith	No	Alternative 1	None
Young	No	If-converted approach to EPS calculation	Stated that Alternative 1 would be an interim step

Source: Minutes of the July 25, 2007 FASB Board Meeting.

We are concerned that the short-term improvement provided for in the proposed FSP followed by a different accounting treatment in the liabilities and equity project will negatively affect investor confidence in the reliability and consistency of our financial information. Additionally, the multiple revisions will be difficult for us as financial statement preparers. Accordingly, we believe the costs imposed by the multiple changes in accounting are not justified in relation to the overall benefits.

We encourage the Board to proceed with the liabilities and equity project rather than amending the accounting for convertible debt instruments that may be cash-settled. Further, we encourage the Board to develop a preferred approach agreed to by a majority of the Board that converges with international accounting standards so that any short-term changes to the accounting guidance will be as consistent as possible with the forthcoming liabilities and equity project guidance.

Grandfathering:

If the FASB decides to issue the proposed guidance as a final standard, we believe it would be appropriate for the FASB to allow for the grandfathering of existing instruments.

In December 2006, IGT issued \$900.0 million of convertible debt that, upon conversion, requires IGT to settle the principal amount in cash and any remaining conversion value in common shares. At the time we sought additional financing, we considered several alternative debt instruments. In reviewing the alternatives, we compared numerous factors one of which was the accounting treatment and the related financial statement impact of the instruments. We relied on the financial statement treatment under existing GAAP when deciding on the appropriate debt instrument for IGT. At that time, we were not permitted to consider the accounting treatment in the proposed FSP. Had the proposed guidance been in effect at that time, we may have made a different decision. Further, we may have issued a different instrument had we known that the accounting was uncertain, subject to short-term change or not clearly addressed within current guidance.

We issued our convertible debt relying on the explicit GAAP guidance in existence at the time of issuance. We will be penalized by the proposed changes with a negative impact on our operating results. Additionally, these proposed changes will have a negative impact on our financial covenants.

The EITF previously addressed the accounting for our convertible debt instrument and made conclusions under EITF 90-19, EITF 00-19, EITF 03-7, EITF 05-1, EITF 05-2, etc. This guidance explicitly defines the GAAP accounting treatment for our convertible debt instrument. Since issuance we have been correctly applying the existing GAAP in accounting for our debt instrument; and therefore, we believe it would be unfair to require retrospective adoption. Further, we are concerned that this transition method may confuse our investors and financial statement readers as it may appear to them that we were previously accounting for these instruments incorrectly, which is not the case.

Notwithstanding the guidance in FASB Statement 154, "Accounting Changes and Error Corrections", the FASB has the ability to allow for prospective transition (i.e. application to instruments issued or modified after a certain date). Because we have been accounting for these instruments under explicitly stated existing GAAP, we believe that prospective application should be allowed.

Further Clarification Needed:

If the FASB proceeds with issuing a final standard, we believe that the following aspects of the proposed FSP would benefit from further clarification.

1. <u>Call/put features in the valuation of the debt instrument:</u>

A majority of companies that have issued convertible debt instruments that may be cash-settled have included call and/or put features. We assume that the FASB would find it acceptable for issuers with these types of instruments to engage a valuation expert to assist management with a complex valuation calculation using an option

pricing model (i.e. a Black-Scholes or lattice model) to model the interrelationship between the value of the call, put and conversion options. However, would it also be acceptable for issuers with these types of instruments to apply the simple methodology as illustrated in Appendix A if they used a market rate for similar debt (without a conversion option) with a term equal to the earliest put date so as to exclude any future call/put dates? We believe it would be prudent for the FASB to provide additional guidance on the valuation of instruments with call/put features both in the body of the standard and in an illustrative example in Appendix A. We note that the illustrative example provided in Appendix A is very simplistic and does not reflect the characteristics of the majority of issued convertible debt instruments that may be cash-settled. Additionally, we believe the value of the call/put is impacted by the existence of the conversion option. Accordingly, the FASB should provide guidance as to whether the conversion option should be included or excluded from the valuation of the call/put features.

2. Discount accretion period for instruments with calls/puts:

We note that the proposed guidance requires amortization of the discount over the "expected life" (taking into account the effects of any prepayment features) of a similar liability without a conversion option and also note that the discount period should be similar to the period used in determining the fair value of the liability. Based on the guidance provided in the proposed FSP we believe there will be significant diversity in practice in determining the expected life because of the significant amount of judgment involved. We note that in several published articles on the proposed FSP, there is uncertainty as to whether the discount should be amortized to the first put date, to the maturity date or possibly neither of those dates.

Furthermore, guidance should be provided as to whether the expected life should be revised in subsequent periods for changes in valuation assumptions, expectations and actual experience and, if so, the appropriate methodology for doing so.

3. Embedded derivatives:

We note that the proposed FSP states that guidance in FASB Statement 133, "Accounting for Derivatives and Hedging Activities", should be applied first (we assume prior to the bifurcation) to determine if embedded features (other than the embedded conversion option) should be separately accounted for. However, the proposed treatment requiring recognition of the debt at a substantial discount could cause the embedded derivative to fail the clearly and closely related criterion in FAS 133 ¶13 and ¶61(d) and DIG B16 that otherwise would have been met. Because calls/puts are common in these instruments, we request further guidance on this issue as the proposed FSP appears to change how other embedded features could be accounted for under FAS 133.

4. Contingent beneficial conversion features:

We note that under the proposed FSP, convertible debt instruments that may be cashsettled are excluded from the guidance provided in both EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments". However, no further guidance has been provided in the proposed FSP. Accordingly, if a convertible debt instrument that may be cash-settled includes a contingent beneficial conversion feature, we are assuming that the value of the contingent beneficial conversion feature has already been captured in the value of the embedded conversion option and so when the contingent event occurs there is no additional accounting required. The FASB should provide guidance on this issue in the final standard.

5. <u>Diluted earnings per share treatment for a modification not accounted for as an extinguishment:</u>

We note that under the proposed FSP, if a convertible debt instrument that may be cash-settled is modified in such a way that the conversion option no longer requires or permits cash settlement, the components are still treated separately unless extinguishment accounting is required. However, we are unsure as to the diluted earnings per share treatment for these modified awards – continue to apply the treasury stock method or apply the if-converted method. Neither the proposed FSP nor the related proposed amendments to EITF Issue 04-8, *The Effect of Contingently Convertible Instruments on Diluted Earnings per Share*, address this issue.

6. <u>Income tax accounting implications:</u>

The convertible debt issued by IGT is subject to the contingent payment debt instrument regulations under Treasury Regulation § 1.1275-4(b). Accordingly, IGT claims an interest deduction for tax purposes equal to the full borrowing cost for a comparable, fixed-rate, nonconvertible instrument. We note that it is common for convertible debt instruments that may be cash settled to include contingent interest provisions and for issuers to apply a tax accounting treatment similar to IGT's. The proposed FSP provides only a very brief discussion of the income tax accounting implications. Given the complexities in income tax accounting, we believe it would be prudent for the FASB to provide additional guidance on this area taking into consideration the common provisions and features of convertible debt instruments that may be cash settled.

We thank you for the opportunity to provide our comments on the proposed FSP. We appreciate your consideration of these comments in future deliberations on this issue. If you have any questions or if you would like to further discuss these comments, please do not he sitate to contact us.

Sincerely

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