October 28, 2005

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference Number: 1204-001 – Business Combinations

Dear Director:


TI makes, markets and sells high-technology components and systems to more than 30,000 customers all over the world. The company has three separate business segments: 1) Semiconductor; 2) Sensors & Controls; and 3) Educational & Productivity Solutions. Semiconductor is by far the largest of these business segments. TI was the world’s third-largest semiconductor company in 2004 in terms of revenue, according to Gartner, Inc., an industry analyst.

First of all, TI would like to congratulate the Financial Accounting Standards Board for its continuing efforts to work with the International Accounting Standards Board on converging diverse accounting standards into a single set of high-quality global financial standards and in particular applaud this first ever joint-issuance of a proposed accounting standard.

However, TI does not fully agree with all of the issues raised by this Exposure Draft. Due to the length and complexity of the Exposure Draft, our response will be limited to addressing the issues covered by questions 6, 7, 8 and 13 as listed in the Notice for Recipients section.

6. Is the accounting for contingent consideration after the acquisition date appropriate? If not, what alternative do you propose and why?
Response – TI does not believe that the method proposed to account for contingent consideration is appropriate. This proposal will result in the recording of unnecessary liabilities and the application of a “Mark-to-fair value” method which will result in additional financial statement volatility.

First – Until the contingent triggering event occurs it may be an unnecessary accrual of an obligation. TI believes that the current method of when to recognize and measure contingent consideration (i.e. when the contingency is resolved and consideration is issued or becomes issuable) should be retained and that as an alternative the earliest that contingent consideration should be recorded is when it is at least “probable” that the contingency event will be met.

We believe this is supported by analogy to the recent issuance of FIN 47, Accounting for Conditional Asset Retirement Obligations, which covers a similar type of situation when there is uncertainty as to recognition and measurement of an obligation. In paragraph 5 and 6 of that standard (see below) it is admitted that the fair value cannot be determined until the period in which enough information exists to estimate the fair value.

Para 5 - "In many cases, the determination as to whether the entity has the information to reasonably estimate the fair value of the asset retirement obligation is a matter of judgment that depends on the relevant facts and circumstances.

6. If sufficient information is not available at the time the liability is incurred, paragraph 3 of Statement 143 requires a liability to be recognized initially in the period in which sufficient information becomes available to estimate its fair value.”

Prior to that time we believe a company would be unable to reliably determine the fair value of the contingent obligation.

Second - the initial and subsequent valuation of this potential future contingent consideration will be difficult to determine, document and audit. In most cases the determination of fair value will necessitate the services of special (i.e. expensive) valuation experts on an ongoing basis until the contingency is settled. The subsequent remeasurement to a new fair value amount each reporting period will subject companies to unnecessary income statement variation as well as presenting increased complexities into the valuation and record keeping process.

TI believes that rather than recording the fair value of contingent consideration at the date of acquisition as a part of the acquisition, contingent consideration should be measured and recognized when the contingency is resolved and the amount becomes payable and should be reflected in current period compensation. (This is similar to the current accounting for contingent consideration that is based on the attainment of futures security prices.) Disclosure of the contingency amounts and the nature of the triggering event should be made in the footnotes, where material, both prior to and subsequent to the resolution of the contingency.

7. Do you agree that the costs that the acquirer incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree? If not, why?
Response — TI does not agree with the proposal to expense acquisition-related costs as they are incurred. Even though the Board has considered and rejected the rationale under paragraph B97, we believe that such costs are an inherent and unavoidable part of the acquisition process — no acquisition could legally be completed without incurring such costs. While we conceptually agree with one of the basic principles of the Exposure Draft, that the acquisition should reflect the fair value of the business acquired (i.e. should be recorded at the fair value of the assets acquired and liabilities assumed), we cannot ignore the fact that there is a direct relationship between the incurrence of acquisition related transactions and the rights to the future benefits of the acquired entity that transfer to the acquirer as a result of those transactions. Therefore those costs cannot be disassociated with the acquisition.

There is also a precedence for including acquisition-related costs in the total purchase price of other types of assets, principally inventory and fixed asset accounting which allow that the cost of acquiring an asset should include all costs incurred to bring an asset to the condition and location necessary for its intended use. There is no difference in applying this concept on an individual asset basis to the purchase of a business in a business combination.

Business combinations are made with the intent that there will be a benefit from combining two companies. As acquisition-related costs are an unavoidable cost to make these combinations occur, those costs indirectly provide an intangible benefit — without them the combination could not be consummated. Since we agree that the acquisition of the assets and liabilities assumed should be measured at the fair value of what is being acquired it does not make sense to include these transaction costs as a direct part of the acquisition and included in goodwill where they could remain forever. We believe these are transaction costs but should be included in the cost of the acquisition.

TI recommends that the current method of allowing the acquisition-related costs to be capitalized as a part of the total purchase price should be continued.

An alternative to consider would be to record the acquisition of the assets acquired and liabilities assumed at their fair value, but allow the acquisition-related costs to be capitalized as an intangible asset to be amortized over a fixed period of time (say no more than 3 to 5 years), reflecting the benefit and importance of these costs to the acquiring company, while reflecting that the value of these acquisition-related costs may not be realized indefinitely. Synergies expected from a business combination usually take years to be realized. Therefore, we could consider linking the amortization period of these intangible assets to the estimated time in which the full effect of expected synergies and other benefits from the acquisition will become fully evident. The amounts would also be linked to the normal FAS 142 impairment review for goodwill, such that if before the end of the arbitrary amortization period for these intangible assets the acquiring company has to recognize an impairment for goodwill, then a proportional amount of those unamortized intangible assets would also have to be written-down. (These amounts would not be included as a part of the impairment test, but because of the nature of their relationship to the acquired transaction, would be affected by the outcome of the test.)

[This alternative is no more unrealistic than other proposals in accounting that the Board has approved recently, such as the concept of an unrecorded "APIC" pool used in FAS 123R.]
8. Do you believe that these proposed changes to the accounting for business combinations are appropriate? If not, which changes do you believe are inappropriate, why, and what alternatives do you propose?

Response – Of the four issues listed in this question – receivables valuation, preacquisition contingencies, restructuring or exit costs, and in-process research & development (IPR&D) – TI is primarily concerned with the proposed accounting for preacquisition contingencies and IPR&D.

Preacquisition contingencies – TI does not believe that these types of contingent assets and liabilities should be subjected to recording at fair value, for reasons similar to the comments above on contingent consideration in Question 6.

First – the original measurement of such amounts would be difficult.
Second – we believe this violates the requirements under FAS 5 to record a liability when it is probable and can be reasonably estimated. The Exposure Draft would have a company record a liability when there is much less assurance of an obligation to pay and would require providing a measurement even if it cannot be reasonably estimated.

Consider the situation in which the acquiring company and the acquired company are both defendants in the same lawsuit and neither company has determined it is “probable” that a loss contingency has been incurred under FAS 5. As a result of the proposals in this Exposure Draft, the fair value of the lawsuit related to the acquired company would have to be recorded at the acquisition date while no liability for the exact same lawsuit would be recorded for the acquiring company. This seems to be an inconsistent application.

IPR&D – TI believes that this proposal (i.e. to capitalize the acquisition-date fair value of all identifiable intangible and tangible assets that are used in research activities regardless of whether there is an alternative future use for those assets) would result in an inconsistent application of accounting for the costs of R&D. Similar assets acquired in an asset purchase transaction are currently required to be recorded as an expense when acquired and all other R&D costs are required to be expensed as incurred. TI does not believe that deferring the expensing of those acquired R&D costs to some future date (whether amortized over the useful life of the products resulting from the completion of a successful project or written off completely if the project fails) adds meaningful value.

TI recommends there should be no change to the current accounting requirements for preacquisition contingencies and IPR&D.
13. Do you agree that comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments? If not, what alternative do you propose and why?

Response – TI does not believe that prior period financial statements should be adjusted (i.e. restated) for the effects of measurement period adjustments as the relatively small benefits of comparability between periods is less relevant than the reliance that investors have in the validity of financial statements they read. (If financial statement users know that the current period financials they read may be changed in the next period due to finding additional facts subsequent to the issue date, then they will be less likely to put as much faith in their analysis of a company’s true value and may make a different investment decision.)

TI recommends that the current accounting treatment be continued (i.e. changes in valuation during the measurement period should be reflected on a prospective basis in the period of the change with disclosure in the footnotes of the pro forma effect on prior periods, if the effect on those periods was material.)

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We appreciate the opportunity to present our comments to the Board. If you have any questions regarding this letter, please feel free to contact Rod Harden at (214) 480-1025.

Sincerely,

CHARLIE MILLER
Vice President and Controller