FASB STAFF POSITION

No. APB 14-1

Title: Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)

Date Posted: May 9, 2008

Introduction

1. This FASB Staff Position (FSP) clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. Additionally, this FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years.

2. This FSP nullifies EITF Issues No. 90-19, "Convertible Bonds with Issuer Option to Settle for Cash upon Conversion," and No. 03-7, "Accounting for the Settlement of the Equity-Settled Portion of a Convertible Debt Instrument That Permits or Requires the Conversion Spread to Be Settled in Stock (Instrument C of Issue No. 90-19)." This FSP amends EITF Issues No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios," No. 99-1, "Accounting for Debt Convertible into the Stock of a Consolidated Subsidiary," No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments," No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share," No. 05-1, "Accounting for the Conversion of an Instrument That Becomes Convertible upon the Issuer's Exercise of a Call Option," and No. 06-7, "Issuer's Accounting for a Previously

Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133."

All paragraphs in this FSP have equal authority.
Paragraphs in bold set out the main principles.

FASB Staff Position

Scope

3. **This FSP applies to convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement, unless the embedded conversion option is required to be separately accounted for as a derivative under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.**

4. Convertible preferred shares that are classified in equity (or temporary equity) are not within the scope of this FSP. However, convertible preferred shares that are mandatorily redeemable financial instruments and are classified as liabilities under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,* shall be considered convertible debt instruments for purposes of determining whether those instruments are within the scope of this FSP. For example, convertible preferred shares that have a stated redemption date and also would **require** the issuer to settle the face amount of the instrument in cash upon exercise of the conversion option are mandatorily redeemable financial instruments under Statement 150 because they embody an unconditional obligation to redeem the instrument by transferring assets at a specified or determinable date (or dates).

5. The guidance in this FSP does not apply to convertible debt instruments that require or permit settlement in cash (or other assets) upon conversion **only** in specific circumstances in which the holders of the underlying shares also would receive the same form of consideration in exchange for their shares. Additionally, the guidance in this FSP does not apply to convertible debt instruments that require an issuer's obligation to

provide consideration for a fractional share upon conversion to be settled in cash but that do not otherwise require or permit settlement in cash (or other assets) upon conversion.

Recognition

6. **Convertible debt instruments within the scope of this FSP are not addressed by paragraph 12 of Opinion 14. The liability and equity components of convertible debt instruments within the scope of this FSP shall be separately accounted for in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods.**

Initial Measurement

7. The issuer of a convertible debt instrument within the scope of this FSP shall first determine the carrying amount of the liability component by measuring the fair value of a similar liability (including any embedded features other than the conversion option) that does not have an associated equity component. The issuer shall then determine the carrying amount of the equity component represented by the embedded conversion option by deducting the fair value of the liability component from the initial proceeds ascribed to the convertible debt instrument as a whole.

8. Embedded features that are determined to be nonsubstantive at the issuance date shall not affect the initial measurement of the liability component. Solely for purposes of applying the guidance in paragraphs 7 and 15 of this FSP, an embedded feature other than the conversion option (including an embedded prepayment option) shall be considered nonsubstantive if, at issuance, the entity concludes that it is probable that the embedded feature will not be exercised. That evaluation shall be performed in the context of the convertible debt instrument in its entirety.

9. If the issuance transaction includes other unstated (or stated) rights or privileges in addition to the convertible debt instrument, a portion of the initial proceeds shall be attributed to those rights and privileges based on the guidance in other applicable U.S. generally accepted accounting principles (GAAP).

10. If a convertible debt instrument within the scope of this FSP contains embedded features other than the embedded conversion option (for example, embedded prepayment options), the guidance in Statement 133 and its related interpretations shall be applied to determine if any of those features must be separately accounted for as a derivative instrument.[1] The following steps specify how an issuer shall apply the guidance on accounting for embedded derivatives in Statement 133 and its related interpretations to convertible debt instruments within the scope of this FSP.

Step 1: Identify embedded features other than the embedded conversion option that must be evaluated under Statement 133 and its related interpretations.

Step 2: Apply the guidance in Statement 133 and its related interpretations to determine whether any of the embedded features identified in Step 1 must be separately accounted for as derivative instruments. *The guidance in this FSP does not affect an issuer's determination of whether an embedded feature should be separately accounted for as a derivative.*

Step 3: Apply the guidance in paragraph 7 of this FSP to separate the liability component (including any embedded features other than the conversion option) from the equity component.

Step 4: If one or more embedded features are required to be separately accounted for as a derivative based on the analysis performed in Step 2, that embedded derivative shall be separated from the liability component in accordance with the guidance in Statement 133 and its related interpretations. Separation of an embedded derivative from the liability component would not affect the accounting for the equity component.

11. Transaction costs incurred with third parties other than the investor(s) that directly relate to the issuance of convertible debt instruments within the scope of this FSP shall be

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[1] As discussed in paragraph 3, this FSP does not apply when there is no equity component because the embedded conversion option is being separately accounted for as a derivative under Statement 133.

allocated to the liability and equity components in proportion to the allocation of proceeds and accounted for as debt issuance costs and equity issuance costs, respectively.

12. Recognizing convertible debt instruments within the scope of this FSP as two separate components—a debt component and an equity component—may result in a basis difference associated with the liability component that represents a temporary difference for purposes of applying FASB Statement No. 109, *Accounting for Income Taxes*. The initial recognition of deferred taxes for the tax effect of that temporary difference shall be recorded as an adjustment to additional paid-in capital.

13. Convertible debt instruments within the scope of this FSP are not eligible for the fair value option in accordance with the scope exception in paragraph 8(f) of FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*.

Subsequent Measurement

14. **The excess of the principal amount of the liability component over its carrying amount shall be amortized to interest cost using the interest method, as described in paragraph 15 of APB Opinion No. 21, *Interest on Receivables and Payables*.**

15. For purposes of applying the interest method to instruments within the scope of this FSP, debt discounts and debt issuance costs shall be amortized over the expected life of a similar liability that does not have an associated equity component (considering the effects of embedded features other than the conversion option). If an issuer uses a valuation technique consistent with an income approach to measure the fair value of the liability component at initial recognition, the issuer shall consider the periods of cash flows used in the fair value measurement when determining the appropriate discount amortization period.

16. Embedded features that are determined to be nonsubstantive at the issuance date shall not affect the expected life of the liability component. Paragraph 8 of this FSP provides guidance on assessing whether an embedded feature other than the conversion

option (including an embedded prepayment option) shall be considered nonsubstantive at issuance for purposes of applying the guidance in paragraphs 7 and 15 of this FSP.

17. The expected life of the liability component shall not be reassessed in subsequent periods unless the terms of the instrument are modified. Therefore, the reported interest cost for an instrument within the scope of this FSP shall be determined based on its stated interest rate once the debt discount has been fully amortized.

18. **The equity component (conversion option) is not remeasured as long as it continues to meet the conditions for equity classification in EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock."**

19. If the conversion option is required to be reclassified under Issue 00-19 from stockholders' equity to a liability measured at fair value, the difference between the amount previously recognized in equity and the fair value of the conversion option at the date of reclassification shall be accounted for as an adjustment to stockholders' equity. If a conversion option that was previously reclassified from stockholders' equity is subsequently reclassified back into stockholders' equity, gains or losses recorded to account for the conversion option at fair value during the period it was classified as a liability shall not be reversed. Reclassifications of the conversion option would not affect the accounting for the liability component.

Derecognition

Derecognition—General

20. **If an instrument within the scope of this FSP is derecognized, an issuer shall allocate the consideration transferred and transaction costs incurred to the extinguishment of the liability component and the reacquisition of the equity component.**

21. Regardless of the form of consideration transferred at settlement, which may include cash (or other assets), equity shares, or any combination thereof, that allocation shall be performed as follows:

a. Measure the fair value of the consideration transferred to the holder. If the transaction is a modification or exchange that results in derecognition of the original instrument, measure the new instrument at fair value (including both the liability and equity components if the new instrument is also within the scope of this FSP).
b. Allocate the fair value of the consideration transferred to the holder between the liability and equity components of the original instrument as follows:
    (1) Allocate a portion of the settlement consideration to the extinguishment of the liability component equal to the fair value of that component immediately prior to extinguishment. Any difference between the consideration attributed to the liability component and the sum of (a) the net carrying amount of the liability component and (b) any unamortized debt issuance costs is recognized in the statement of financial performance as a gain or loss on debt extinguishment.
    (2) Allocate the remaining settlement consideration to the reacquisition of the equity component and recognize that amount as a reduction of stockholders' equity.

22. If the derecognition transaction includes other unstated (or stated) rights or privileges in addition to the settlement of the convertible debt instrument, a portion of the settlement consideration shall be attributed to those rights and privileges based on the guidance in other applicable U.S. GAAP.

23. Transaction costs incurred with third parties other than the investor(s) that directly relate to the settlement of a convertible debt instrument within the scope of this FSP shall be allocated to the liability and equity components in proportion to the allocation of consideration transferred at settlement and accounted for as debt extinguishment costs and equity reacquisition costs, respectively.

Modifications and Exchanges

24. The guidance in this FSP does not affect an issuer's determination of whether a modification (or exchange) of an instrument within the scope of this FSP should be accounted for as an extinguishment of the original instrument or a modification to the

terms of the original instrument. An issuer shall apply the guidance in EITF Issues No. 06-6, "Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments," and No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments," to make that determination. If a modification (or exchange) does not result in derecognition of the original instrument, then the expected life of the liability component shall be reassessed based on the guidance in paragraph 15 of this FSP and the issuer shall determine a new effective interest rate for the liability component in accordance with the guidance in Issues 06-6 and 96-19.

25. If an instrument within the scope of this FSP is modified such that the conversion option no longer requires or permits cash settlement upon conversion, the components of the instrument shall continue to be accounted for separately unless the original instrument is required to be derecognized under Issues 06-6 and 96-19. If an instrument is modified or exchanged in a manner that requires derecognition of the original instrument under Issues 06-6 and 96-19 and the new instrument is a convertible debt instrument that may not be settled in cash upon conversion, the new instrument would not be subject to this FSP and other U.S. GAAP would apply (for example, paragraph 12 of Opinion 14).

26. If a convertible debt instrument that is not within the scope of this FSP is modified such that it becomes subject to this FSP, an issuer shall apply the guidance in Issues 06-6 and 96-19 to determine whether the original instrument is required to be derecognized. If the modification is not accounted for by derecognizing the original instrument, the issuer shall apply the guidance in this FSP prospectively from the date of the modification. In that circumstance, the liability component is measured at its fair value as of the modification date. The carrying amount of the equity component represented by the embedded conversion option is then determined by deducting the fair value of the liability component from the overall carrying amount of the convertible debt instrument as a whole. At the modification date, a portion of any unamortized debt issuance costs shall be reclassified and accounted for as equity issuance costs based on the proportion of the overall carrying amount of the convertible debt instrument that is allocated to the equity component.

Induced Conversions

27. An entity may amend the terms of an instrument within the scope of this FSP to induce early conversion, for example, by offering a more favorable conversion ratio or paying other additional consideration in the event of conversion before a specified date. In those circumstances, the entity shall recognize a loss equal to the fair value of all securities and other consideration transferred in the transaction in excess of the fair value of consideration issuable in accordance with the original conversion terms. The settlement accounting (derecognition) treatment described in paragraph 21 is then applied using the fair value of the consideration that was issuable in accordance with the original conversion terms. The guidance in this paragraph does not apply to derecognition transactions in which the holder does not exercise the embedded conversion option.

Other Presentation Matters—Balance Sheet Classification of Liability Component

28. The guidance in this FSP does not affect an issuer's determination of whether the liability component should be classified as a current liability or a long-term liability. For purposes of applying other applicable U.S. GAAP to make that determination, all terms of the convertible debt instrument (including the equity component) must be considered. Additionally, the balance sheet classification of the liability component does not affect the measurement of that component under paragraphs 14–17 of this FSP.

Disclosure

29. **The disclosure requirements of this FSP are intended to provide users of financial statements with information about the terms of convertible debt instruments within its scope and an understanding of how those instruments have been reflected in the issuer's statement of financial position and statement of financial performance.**

30. Other U.S. GAAP (for example, FASB Statements No. 107, *Disclosures about Fair Value of Financial Instruments,* and No. 129, *Disclosure of Information about*

Capital Structure, FSP FAS 129-1, *Disclosure Requirements under FASB Statement No. 129 Relating to Contingently Convertible Securities*, and Opinion 21) sets forth disclosure requirements that may apply to instruments within the scope of this FSP. In addition to disclosures required under other applicable U.S. GAAP, entities shall provide the disclosures required by paragraphs 31–33 in annual financial statements for convertible debt instruments within the scope of this FSP that were outstanding during any of the periods presented.

31. As of each date for which a statement of financial position is presented, an entity shall disclose the following:

a. The carrying amount of the equity component
b. The principal amount of the liability component, its unamortized discount, and its net carrying amount.

32. As of the date of the most recent statement of financial position that is presented, an entity shall disclose the following:

a. The remaining period over which any discount on the liability component will be amortized.
b. The conversion price and the number of shares on which the aggregate consideration to be delivered upon conversion is determined.
c. The amount by which the instrument's if-converted value exceeds its principal amount, regardless of whether the instrument is currently convertible. This disclosure is required only for public entities (as defined in paragraph E1 of FASB Statement No. 123(R), *Share-Based Payment*).
d. Information about derivative transactions entered into in connection with the issuance of instruments within the scope of this FSP, including the terms of those derivative transactions, how those derivative transactions relate to the instruments within the scope of this FSP, the number of shares underlying the derivative transactions, and the reasons for entering into those derivative transactions. An example of a derivative transaction entered into in connection with the issuance of an instrument within the scope of this FSP is the purchase of call options that are expected to substantially offset changes in the fair value of the conversion option. This disclosure is required regardless of whether the related derivative transactions are accounted for as assets, liabilities, or equity instruments.

33. For each period for which a statement of financial performance is presented, an entity shall disclose the following:

a. The effective interest rate on the liability component for the period

b. The amount of interest cost recognized for the period relating to both the contractual interest coupon and amortization of the discount on the liability component.

Effective Date and Transition

34. This FSP shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is not permitted.

35. Except as discussed in paragraph 36, this FSP shall be applied retrospectively to all periods presented. The cumulative effect of the change in accounting principle on periods prior to those presented shall be recognized as of the beginning of the first period presented. An offsetting adjustment shall be made to the opening balance of retained earnings (or other appropriate components of equity or net assets) for that period, presented separately.

36. The guidance in this FSP shall not be applied retrospectively to instruments within its scope that were not outstanding during **any** of the periods that will be presented in the annual financial statements for the period of adoption but were outstanding during an earlier period. Therefore, an entity shall not reclassify amounts between its opening equity accounts in those circumstances.

37. For purposes of applying this FSP retrospectively, the guidance in FASB Statement No. 34, *Capitalization of Interest Cost,* shall be applied in all periods in which the instrument within the scope of this FSP was outstanding. However, an entity shall not re-perform asset impairment tests or perform additional asset impairment tests in prior periods in connection with retrospective application of this FSP. Additionally, an entity shall not perform a transitional impairment test in connection with the adoption of this FSP.

38. For convertible debt instruments that were modified after their original issuance date to provide for cash settlement (including partial cash settlement) upon conversion in a transaction that was not accounted for as an extinguishment, this FSP shall be applied

retrospectively to the modification date. In those circumstances, the guidance in paragraph 26 of this FSP shall be applied.

39. The transition disclosures set forth in paragraphs 17 and 18 of FASB Statement No. 154, *Accounting Changes and Error Corrections,* shall be provided.

The provisions of this FSP need not be applied to immaterial items.

This FSP was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Robert H. Herz, *Chairman*
George J. Batavick
G. Michael Crooch
Thomas J. Linsmeier
Leslie F. Seidman
Lawrence W. Smith
Donald M. Young

Appendix A

IMPLEMENTATION GUIDANCE

A1. The following example illustrates the application of the guidance in this FSP. For purposes of this example, assume the embedded conversion option does not require separate accounting as a derivative instrument under Statement 133 because it qualifies for the scope exception in paragraph 11(a) of that Statement. For simplicity, transaction costs have been omitted from this example. Journal entry amounts in this example have been rounded to the nearest thousand.

On January 1, 2007, Company A issues 100,000 convertible notes at their par value of $1,000 per note, raising total proceeds of $100,000,000. The notes bear interest at a fixed rate of 2 percent per annum, payable annually in arrears on December 31, and are scheduled to mature on December 31, 2016. Each $1,000 par value note is convertible at any time into the equivalent of 10 shares of Company A's common stock (that is, representing a stated conversion price of $100 per share). The quoted market price of Company A's common stock is $70 per share on the date of issuance. Upon conversion, Company A can elect to settle the entire if-converted value (that is, the principal amount of the debt plus the conversion spread) in cash, common stock, or any combination thereof. The notes do not contain embedded prepayment features other than the conversion option.

At issuance, the market interest rate for similar debt without a conversion option is 8 percent. The par value of Company A's common stock is $0.01 per share. The tax basis of the notes is $100,000,000, Company A is entitled to tax deductions based on cash interest payments, and its tax rate is 40 percent.

On January 1, 2012, when the quoted market price of Company A's common stock is $140 per share, all holders of the convertible notes exercise their conversion options. Accordingly, those investors are entitled to aggregate consideration of $140,000,000 ($1,400 per note). At settlement, the market interest rate for similar debt without a conversion option is 7.5 percent. Company A receives no tax deduction for the payment of consideration upon conversion ($140,000,000) in excess of the tax basis

of the convertible notes ($100,000,000), regardless of the form of that consideration (cash or shares).

Recognition and Initial Measurement

A2. Upon issuance of the notes, the liability component is measured first, and the difference between the proceeds from the notes' issuance and the fair value of the liability is assigned to the equity component. The following illustrates how the fair value of the liability component might be calculated at initial recognition using a discount rate adjustment present value technique (an income approach). Depending on the terms of the instrument (for example, if the instrument contains prepayment features other than the embedded conversion option) and the availability of inputs to valuation techniques, it may be appropriate to determine the fair value of the liability component using an expected present value technique (an income approach) and/or a valuation technique based on prices and other relevant information generated by market transactions involving comparable liabilities (a market approach).

A3. The fair value of the liability component can be estimated by calculating the present value of its cash flows using a discount rate of 8 percent, the market rate for similar notes that have no conversion rights, as shown below.

Present value of the principal—$100,000,000 payable in 10 years	$ 46,319,349
Present value of interest—$2,000,000 payable annually in arrears for 10 years	13,420,163
Total liability component	$ 59,739,512
Total equity component ($100,000,000 – $59,739,512)	$ 40,260,488

A4. Company A records the following at initial recognition:

Cash	100,000,000	
Debt discount	40,260,000	
Debt		100,000,000
Additional paid-in capital		40,260,000
Additional paid-in capital	16,104,000	
Deferred tax liability ($40,260,000 × 40%)		16,104,000

Subsequent Measurement

A5. The notes do not contain embedded prepayment features other than the conversion option, so Company A concludes that the expected life of the notes is 10 years (consistent with the periods of cash flows used to measure the fair value of the liability component) for purposes of applying the interest method. During the 5-year period from January 1, 2007, through December 31, 2011, Company A recognizes $26,304,228 of interest cost, consisting of $10,000,000 of cash interest payments and $16,304,228 of discount amortization under the interest method. During that period, Company A recognizes $10,521,691 of income tax benefits, consisting of $4,000,000 of current tax benefits (the tax effect of deductions for cash interest payments) and $6,521,691 of deferred tax benefits (partial reversal of the deferred tax liability due to amortization of the debt discount).

Derecognition

A6. Upon settlement of the notes, the fair value of the liability component immediately prior to extinguishment is measured first, and the difference between the fair value of the aggregate consideration remitted to the holder ($140,000,000) and the fair value of the liability component is attributed to the reacquisition of the equity component. The following illustrates how the fair value of the liability component might be calculated at settlement using a discount rate adjustment present value technique (an income approach). Depending on the terms of the instrument (for example, if the instrument contains prepayment features other than the embedded conversion option) and the availability of inputs to valuation techniques, it may be appropriate to determine the fair value of the liability component using an expected present value technique (an income approach) and/or a valuation technique based on prices and other relevant information generated by market transactions involving comparable liabilities (a market approach).

A7. The fair value of the liability component (which has a remaining term of 5 years at the settlement date) can be estimated by calculating the present value of its cash flows

using a discount rate of 7.5 percent, the market rate for similar notes that have no conversion rights, as shown below.

Present value of the principal—$100,000,000 payable in 5 years	$ 69,655,863
Present value of interest—$2,000,000 payable annually in arrears for 5 years	8,091,770
Consideration attributed to liability component	$ 77,747,633
Consideration attributed to equity component ($140,000,000 – $77,747,633)	$ 62,252,367

A8. Regardless of the form of the $140,000,000 consideration transferred at settlement, $77,747,633 would be attributed to the extinguishment of the liability component and $62,252,367 would be attributed to the reacquisition of the equity component. The carrying amount of the liability is $76,043,740 ($100,000,000 principal – $23,956,260 unamortized discount) at the December 31, 2011 settlement date, resulting in a $1,703,893 loss on extinguishment.

A9. At settlement, Company A would record the following *assuming it elects to transfer consideration to the holder in the form of $100,000,000 cash and 285,714 shares of common stock (with a fair value of $40,000,000).* The $62,252,367 decrease to additional paid-in capital for the reacquisition of the conversion option, the $39,997,143 increase to additional paid-in capital from the issuance of common stock at conversion, and the $8,900,947 increase to additional paid-in capital to reverse the deferred tax liability relating to the unamortized debt discount at conversion, adjusted for the loss on extinguishment, are presented on a gross basis in this journal entry for illustrative purposes.

Debt	100,000,000	
Additional paid-in capital—conversion option	62,252,000	
Loss on extinguishment	1,704,000	
Deferred tax liability	9,583,000	
Debt discount		23,956,000
Cash		100,000,000
Common stock at par		3,000
Additional paid-in capital—share issuance		39,997,000
Deferred income tax benefit ($1,704,000 × 40%)		682,000
Additional paid-in capital [($23,956,000 – $1,704,000) × 40%]		8,901,000

A10. At settlement, Company A would record the following *assuming it elects to transfer consideration to the holder in the form of $140,000,000 cash:*

Account	Debit	Credit
Debt	100,000,000	
Additional paid-in capital—conversion option	62,252,000	
Loss on extinguishment	1,704,000	
Deferred tax liability	9,583,000	
Debt discount		23,956,000
Cash		140,000,000
Deferred income tax benefit ($1,704,000 × 40%)		682,000
Additional paid-in capital [($23,956,000 – $1,704,000) × 40%]		8,901,000

A11. At settlement, Company A would record the following *assuming it elects to transfer consideration to the holder in the form of 1 million shares of common stock (with a fair value of $140,000,000):*

Account	Debit	Credit
Debt	100,000,000	
Additional paid-in capital—conversion option	62,252,000	
Loss on extinguishment	1,704,000	
Deferred tax liability	9,583,000	
Debt discount		23,956,000
Common stock at par		10,000
Additional paid-in capital—share issuance		139,990,000
Deferred income tax benefit ($1,704,000 × 40%)		682,000
Additional paid-in capital [($23,956,000 – $1,704,000) × 40%]		8,901,000

Appendix B

BACKGROUND AND BASIS FOR CONCLUSIONS

Background

B1. Prior to the issuance of this FSP, Issue 90-19 provided accounting guidance for certain types of convertible debt instruments that may be settled in cash upon conversion. One of those instruments, referred to as Instrument C in that Issue, requires that, upon conversion, the issuer satisfy the accreted value of the obligation (generally, the principal amount of the debt if the instrument was issued at par) in cash and the conversion spread in either cash or stock.

B2. The consensus in Issue 90-19, as revised, required that Instrument C be accounted for like convertible debt (that is, in accordance with the guidance in paragraph 12 of Opinion 14) but prescribed a diluted earnings-per-share methodology that was consistent with debt issued with detachable warrants. As a result, Instrument C generally has had less of a dilutive effect on the calculation of diluted earnings per share than a convertible debt instrument that requires application of the if-converted method. Because of the proliferation of such instruments in the marketplace over the past several years, questions were raised as to whether the accounting guidance in Issue 90-19 appropriately reflected the economic effects of those instruments. In response to those concerns, EITF Issue No. 07-2, "Accounting for Convertible Debt Instruments That Are Not Subject to the Guidance in Paragraph 12 of APB Opinion No. 14," was added to the EITF's agenda in January 2007 to reconsider the appropriateness of the guidance in Issue 90-19. The Task Force discussed Issue 07-2 at its March 15, 2007, and June 14, 2007, meetings but was unable to reach a conclusion. Accordingly, the Task Force agreed to discontinue discussion of that Issue and to remove it from the EITF's agenda.

B3. The Board believes that the consensus in Issue 90-19, as revised, on the accounting for Instrument C inappropriately expanded the application of the guidance in paragraph 12 of Opinion 14. That Opinion contains no discussion of convertible debt

instruments that may be settled in cash (including partial cash settlement) upon conversion. Additionally, the conclusion in paragraph 12 of Opinion 14 on the accounting for convertible debt instruments was based, in part, on the mutual exclusivity of the debt and the conversion option such that the holder cannot exercise the option to convert into equity shares unless the holder forgoes the right to repayment of the debt component. In contrast, the issuer of a convertible debt instrument with the characteristics of Instrument C is required to repay the debt in cash and can elect to settle the conversion spread in either cash or shares. Additionally, the diluted earnings-per-share treatment of convertible debt instruments with the characteristics of Instrument C is a treasury-stock-type method that is consistent with the diluted earnings-per-share treatment of debt issued with detachable warrants. The Board believes that the inconsistency between the accounting for those instruments (as convertible debt) and the diluted earnings-per-share treatment (as debt issued with detachable warrants) can provide misleading information to investors. This FSP clarifies that convertible debt instruments within its scope are not addressed by paragraph 12 of Opinion 14 and requires that the liability and equity components of those instruments be separately accounted for in a manner that will reflect the issuer's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods.

Basis for Conclusions

Scope

B4. This FSP applies to all convertible debt instruments that may be settled in cash (or other assets) upon conversion, including partial cash settlement, unless the embedded conversion option is required to be separately accounted for as a derivative under Statement 133. Therefore, the scope of this FSP is not limited solely to convertible debt instruments with the characteristics of Instrument C. Additionally, convertible preferred shares that are accounted for in equity (or temporary equity) are not within the scope of this FSP because those instruments do not contain a debt component under other guidance in U.S. GAAP.

B5. Some respondents to the proposed FSP recommended that the scope should be expanded to apply broadly to all convertible debt instruments, including those instruments that must be settled entirely in shares upon conversion. The Board observed that a broad reconsideration of the accounting for all convertible instruments is being undertaken in connection with the Board's liabilities and equity project. This limited-scope FSP is intended to clarify, prior to completion of the broader liabilities and equity project, that convertible debt instruments within its scope are not addressed by paragraph 12 of Opinion 14 and to provide accounting guidance for those instruments.

Recognition and Initial Measurement

B6. Because convertible debt instruments within the scope of this FSP are not addressed by paragraph 12 of Opinion 14, those instruments must be accounted for based on their substance pursuant to the guidance in paragraph 18 of that Opinion. Convertible debt instruments, including instruments within the scope of this FSP, consist of a liability component with a below-market interest coupon (the debt instrument) and an equity component (the conversion option). For purposes of this FSP, the Board decided to require that a convertible debt instrument that may be cash settled upon conversion be separated into its liability and equity components, with each component accounted for pursuant to other U.S. GAAP applicable to that component. Some Board members believe that all financial instruments indexed to an entity's own shares, including convertible debt instruments, should be measured at fair value with changes in fair value reported in earnings. However, such broad changes to all financial instruments indexed to an entity's own shares are being considered in the Board's liabilities and equity project and are beyond the scope of this FSP. The guidance in this FSP is intended to be consistent with current U.S. GAAP applicable to financial instruments indexed to, and potentially settled in, an entity's own stock, including Issue 00-19.

B7. The fundamental principle underlying the separation approach in this FSP is that 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. That is,

the equity component is measured as a residual amount reflecting the interest cost that was "paid" with the conversion option. Accordingly, separation is achieved by measuring the fair value of a similar liability that does not have an associated equity component. This liability-first separation methodology is consistent with the approach required by International Accounting Standard 32, *Financial Instruments: Disclosure and Presentation,* for convertible debt instruments that contain liability and equity components under that standard. However, because the requirements for equity classification under U.S. GAAP (Issue 00-19) differ from the requirements for equity classification under IFRS (IAS 32), the guidance in this FSP does not converge with IFRS. 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. To accomplish convergence in the accounting for instruments within the scope of this FSP, a broad-based reconsideration of Issue 00-19 would have been necessary, which the Board decided was beyond the scope of this project.

B8. Some respondents to the proposed FSP expressed a preference for a different separation methodology, such as an equity-first separation approach or a relative-fair-value separation approach. The Board believes that the liability-first separation approach required by this FSP is less difficult to apply than those alternative approaches. Paragraph BC30 of IAS 32 indicates that this separation methodology "removes the need to estimate inputs to, and apply, complex option pricing models to measure the equity component of some compound financial instruments." Unlike the separation methodology in Statement 133, this FSP does not require an issuer to measure the fair value of an embedded feature. Rather, the issuer is required to determine the fair value of a comparable debt instrument that has no conversion feature. FASB Statement No. 157, *Fair Value Measurements,* provides guidance on measuring fair value for financial reporting purposes. The fair value measurement framework in Statement 157 requires entities to use judgment when performing a fair value measurement for which there is no

Level 1 input available (that is, when there is no quoted market price in an active market for an identical asset or liability). Estimating the fair value of the liability component of a convertible debt instrument within the scope of this FSP generally will require the issuer to apply such judgments.

B9. A number of respondents asserted that they would be unable to measure the liability component of an instrument within the scope of this FSP at fair value because they are unable to estimate their borrowing rate. The Board considered those comments but concluded that the inputs required to estimate the fair value of a nonconvertible debt instrument (for example, information about market interest rates and the issuer's credit standing) are expected to be available with limited effort for issuers of instruments within the scope of this FSP. Many of those entities currently have nonconvertible debt instruments outstanding for which the fair values are disclosed in accordance with Statement 107. Additionally, convertible debt instruments issued in the United States often contain contingent interest provisions that enable the issuer to receive an income tax deduction based on its nonconvertible debt borrowing rate. Some entities purchase call options on their own stock concurrently with the issuance of convertible debt, and the two instruments are integrated for tax purposes, resulting in a tax deduction that may be similar to their nonconvertible debt borrowing rate. Consequently, many issuers of convertible debt instruments within the scope of this FSP already are obtaining some of the information that may be used to estimate the fair value of the liability component in order to adequately support deductions taken on their U.S. federal income tax returns.

B10. After considering the factors described in this appendix, the Board concluded that the financial reporting benefits of separately accounting for the liability and equity components of a convertible debt instrument that may be settled in cash upon conversion using the separation methodology described in this FSP outweigh the costs and any practical difficulties associated with the application of that treatment.

B11. Other guidance in U.S. GAAP contains separation or allocation requirements that are intended to accomplish objectives other than measuring the amount of a borrower's

interest cost that is "paid" with an embedded equity component. For example, Statement 133 requires that derivative instruments within the scope of that Statement be measured initially and subsequently at fair value. Consequently, an embedded derivative (including an embedded conversion option) that requires separation under Statement 133 is initially measured at fair value, with the residual proceeds attributed to the host contract. That separation methodology is intended to measure the embedded derivative at its fair value, not to generate a particular interest cost on the debt host.

B12. Opinion 14 requires that the proceeds from an offering of nonconvertible debt and equity-classified warrants be allocated on a relative-fair-value basis between the debt and the warrants. That guidance is intended to provide an allocation mechanism between two freestanding financial instruments, not to generate a particular interest cost on the debt instrument. Additionally, a relative-fair-value separation methodology is more difficult to apply than the separation methodology under this FSP because it requires fair value measurements for both the liability component and the equity component.

B13. This FSP requires an issuer to separately account for the liability and equity components of convertible debt instruments within its scope. In some jurisdictions, the tax basis of a convertible debt instrument at initial recognition includes the entire amount of the proceeds received at issuance. As a result, a taxable temporary difference arises from the initial recognition of the equity component separately from the liability component. The Board decided that the initial recognition of deferred taxes for the tax effect of the temporary difference should be recorded as an adjustment to additional paid-in capital. That treatment is consistent with the consensus in EITF Issue No. 05-8, "Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature."

Subsequent Measurement

B14. The subsequent measurement guidance in this FSP requires the application of other U.S. GAAP (for example, Opinion 21 and Issue 00-19) to the liability and equity components. Convertible debt instruments within the scope of this FSP frequently

contain prepayment features (for example, put and call options) other than the embedded conversion option. For purposes of separating the liability and equity components of instruments within the scope of this FSP at initial recognition, an issuer is required to measure the fair value of a similar liability (including any embedded features other than the conversion option) that has no associated equity component. In accordance with that guidance, substantive prepayment features other than the conversion option are considered when measuring the fair value of the liability component at initial recognition. Similarly, the Board decided that the subsequent measurement guidance in this FSP should specify that debt discounts 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 substantive prepayment features other than the conversion option). That treatment is consistent with the objective that an issuer's reported interest cost from convertible debt instruments within the scope of this FSP should reflect its nonconvertible debt borrowing rate.

B15. The Board is aware that for debt instruments containing prepayment features, different accounting policies have been applied in practice for purposes of estimating the amortization period for discounts, premiums, and deferred transaction costs under Opinion 21. The guidance in this FSP on determining an appropriate discount amortization period is not intended to be a broad-based interpretation applicable to debt instruments that are not within the scope of this FSP.

Modifications and Derecognition

B16. The principle underlying the guidance in this FSP on modifications and settlements is that upon any settlement of a convertible debt instrument within the scope of this FSP, an entity is extinguishing the liability component and reacquiring the equity component. Accordingly, the fair value of the consideration transferred to the holder at settlement (regardless of the form of that consideration) is attributed between the liability and equity components using the same methodology that was applied when the original proceeds received by the issuer were attributed to those components.

B17. For purposes of determining whether a modification or an exchange of convertible debt instruments within the scope of this FSP should be accounted for as an extinguishment, the Board concluded that other applicable U.S. GAAP (Issues 06-6 and 96-19) should be applied. If an instrument within the scope of this FSP is modified such that the conversion option no longer requires or permits cash settlement upon conversion, the components of the instrument would continue to be accounted for separately pursuant to the guidance in this FSP unless extinguishment accounting is required under Issues 06-6 and 96-19. That guidance is consistent with the EITF's conclusions in Issues 06-6 and 06-7 that Opinion 14 only applies at inception. Therefore, a convertible debt instrument within the scope of this FSP that is originally separated into liability and equity components should not be recombined at a later date due to a modification that is not accounted for as an extinguishment. Rather, the liability component should continue to be accreted to its principal amount based on the modified terms of the instrument.

B18. The Board decided that if an entity amends the terms of a convertible debt instrument within the scope of this FSP to induce early conversion, the entity must recognize a loss equal to the fair value of all securities and other consideration in excess of the fair value of the consideration issuable pursuant to the original conversion terms. That treatment is consistent with the accounting for such additional consideration under paragraph 3 of FASB Statement No. 84, *Induced Conversions of Convertible Debt*. No portion of the additional consideration paid to the holder to induce early conversion is attributed to equity because that payment embodies an incremental financing cost.

Earnings per Share

B19. This FSP does not affect the application of the guidance in FASB Statement No. 128, *Earnings per Share,* and its related interpretations on calculating basic and diluted earnings per share. Issue 90-19 provided interpretive guidance on the diluted earnings-per-share treatment of convertible debt with the characteristics of Instrument C (Instrument C is described in paragraph B1 of this FSP). That Issue has been nullified by this FSP. Example 2 of Issue 04-8, which previously referred to the diluted earnings-per-share guidance in Issue 90-19, has been amended to incorporate that guidance directly.

Transition

B20. Many respondents to the proposed FSP disagreed with the requirement to apply the guidance on a retrospective basis. The Board considered a number of factors in reaching its conclusion that this FSP should be applied retrospectively. For example, convertible debt instruments that require or permit cash settlement (including partial cash settlement) upon conversion were relatively uncommon before the consensus on Issue 90-19 was revised in January 2002. Additionally, the number of convertible debt instruments that require or permit cash settlement (including partial cash settlement) upon conversion increased after the consensus on Issue 04-8 eliminated the diluted earnings-per-share benefits of contingently convertible debt instruments (Co-Cos) that contain a market price trigger. Because information about market interest rates for recent years is available, entities should have access to the inputs that would be required to measure the fair value of the liability component of a convertible debt instrument within the scope of this FSP as of its issuance date to apply the provisions of this FSP retrospectively.

B21. Convertible debt instruments within the scope of this FSP frequently incorporate features that enable the issuer to obtain a tax deduction based on its nonconvertible debt borrowing rate (for example, purchased call options on the issuer's own stock that achieve tax integration with the convertible debt and contingent interest provisions). Consequently, many of those issuers already have obtained some of the information about market interest rates and their own credit standing that may be used to estimate the fair value of the liability component of an instrument within the scope of this FSP as of its issuance date in order to apply the provisions of this FSP retrospectively.

B22. The FASB's conceptual framework describes comparability (including consistency) as one of the qualitative characteristics of accounting information. Paragraph B7 of Statement 154 specifies that "the Board concluded that retrospective application improves financial reporting because it enhances the consistency of financial information between periods. That improved consistency enhances the usefulness of the financial statements, especially by facilitating analysis and understanding of comparative

accounting data." After considering the availability of information that would be necessary to apply the provisions of this FSP retrospectively, the Board concluded that the benefits of improved comparability through full retrospective application outweighed the related costs of that transition approach. Accordingly, the Board decided that the guidance in this FSP should be applied retrospectively to all periods presented.

B23. Some respondents asked whether the guidance on capitalization of interest cost in Statement 34 would apply in prior periods under retrospective application of this FSP. The Board decided that, for purposes of retrospectively applying this FSP, the guidance in Statement 34 must be applied in all periods that the instrument within the scope of this FSP was outstanding to determine the amount of interest cost to be capitalized, if any.

B24. The increased carrying amount of an asset or a reporting unit resulting from additional capitalized interest under retrospective application may have resulted in the recognition of a prior-period impairment charge or in an increase to a previously recognized impairment charge under other applicable U.S. GAAP. However, to facilitate retrospective application of this FSP, the Board decided to specify that an entity should not re-perform asset impairment tests or perform additional asset impairment tests in prior periods. Therefore, when applying the guidance in this FSP retrospectively, an entity is not permitted to recognize a new asset impairment charge or to adjust the amount of a previously recognized asset impairment charge. This FSP also specifies that an entity is not permitted to perform a transitional impairment test in connection with the adoption of this FSP. Rather, the entity should apply the guidance in other applicable U.S. GAAP (for example, APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock,* and FASB Statements No. 142, *Goodwill and Other Intangible Assets,* and No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*) to determine when an impairment test should be performed. Except for the prohibitions on re-performing asset impairment tests and performing additional asset impairment tests in prior periods, the disposition of capitalized interest amounts **for all periods** would be the same as that of other components of asset cost, as discussed in paragraph 20 of Statement 34.

Appendix C

EFFECT ON EITF ISSUES

C1. This FSP nullifies EITF Issues No. 90-19, "Convertible Bonds with Issuer Option to Settle for Cash upon Conversion," and No. 03-7, "Accounting for the Settlement of the Equity-Settled Portion of a Convertible Debt Instrument That Permits or Requires the Conversion Spread to Be Settled in Stock (Instrument C of Issue No. 90-19)."

C2. EITF Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios," is amended as follows: [Added text is underlined and deleted text is ~~struck out~~.]

a. Paragraph 3:

> This Issue applies to convertible debt instruments and convertible shares (collectively, convertible securities) with beneficial conversion features that must be settled in stock and convertible shares with beneficial conversion features ~~to those~~ that give the issuer a choice of settling the obligation in either stock or cash. This Issue also applies to instruments with beneficial conversion features that are convertible into multiple instruments, for example, a convertible preferred stock that is convertible into common stock and detachable warrants. In addition, this Issue applies to instruments with conversion features that are not beneficial at the commitment date but that become beneficial upon the occurrence of a future event, such as an initial public offering. This Issue does not apply to instruments within the scope of FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement).*

C3. EITF Issue No. 99-1, "Accounting for Debt Convertible into the Stock of a Consolidated Subsidiary," is amended as follows:

a. Paragraph 1:

> An entity may issue debt that is convertible into the stock of a consolidated subsidiary, or the consolidated subsidiary may issue debt that is convertible into its own stock. Opinion 14 and Statement 133 provide potentially conflicting guidance on the accounting for certain convertible debt instruments falling within their respective scopes. Paragraph 12 of Opinion 14 prohibits separation of a nondetachable conversion feature embedded in convertible debt securities, including debt convertible into the stock of an affiliated company. Paragraph 12 of Statement 133 requires the separation of the embedded conversion feature, provided certain criteria are met, including a criterion that a separate instrument with the same terms as the embedded instrument must meet the definition of a derivative instrument. Paragraph 11(a) of Statement 133 provides that a reporting entity shall not consider a contract to be a derivative if it is both (a) indexed to its own stock and (b) classified in stockholders' equity in its statement of financial position. This Issue does not apply to convertible debt instruments that may require cash settlement by the issuer of an in-the-money conversion feature~~,~~ or that provide the holder an option to receive cash for an in-the-money conversion feature~~,~~. Additionally, the guidance in paragraph 3 of this Issue does not apply to convertible debt instruments that are within the scope of FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement),* or that have a beneficial conversion feature.

C4. EITF Issue No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments," is amended as follows:

a. Paragraph 1:

> Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios," addresses the accounting for convertible debt instruments and convertible preferred stock (collectively, convertible instruments) with nondetachable conversion options that are in-the-money (see Part II, Issue 1 for additional guidance on determining when a conversion option is in-the-money) at the commitment date. Issue 98-5 also addresses an issuer's accounting for convertible instruments that have conversion prices that are variable based on future events. Issue 98-5 does not apply to instruments within the scope of FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement).* The Task Force reached a consensus on Issue 98-5 at the May 19–20, 1999 meeting. Subsequent to the consensus, a number of issues about the application of the Issue 98-5 model have been raised.

C5. EITF Issue No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share," is amended as follows:

a. Exhibit 04-8A:

> **Example 2—Contingently convertible debt ~~Instrument C in Issue 90-19~~ with a market price trigger that requires settlement of the principal amount of the debt in cash upon conversion**
>
> In Example 2, the assumptions are the same as Example 1 except that the issuer of the contingently convertible debt must settle the principal amount of the debt in cash upon conversion and it may settle any conversion premium in either cash or stock. The holder of the instrument is only entitled to the conversion premium if the share price exceeds the market price trigger. The

contingently convertible instrument is issued on January 1, 200X, income available to common shareholders for the year ended December 31, 200X is ~~$10,000~~$9,980, and the average share price for the year is $64.

The if-converted method should not be used to determine the earnings-per-share implications of convertible debt with the characteristics described in this example. There would be no adjustment to the numerator in the diluted earnings-per-share computation for the cash-settled portion of the instrument because that portion will always be settled in cash. The conversion premium should be included in diluted earnings per share based on the provisions of paragraph 29 of Statement 128 and EITF Topic No. D-72, "Effect of Contracts That May Be Settled in Stock or Cash on the Computation of Diluted Earnings per Share." The convertible debt instrument in this example is subject to other applicable guidance in Statement 128 as well, including the antidilution provisions of that Statement.

In this example, basic EPS is ~~$5.00~~$4.99,[4a] and ~~applying the method required by Issue 90-19 for this instrument results in~~ diluted earnings per share is ~~of~~ ~~$4.99~~$4.98.[5]

[4a] Basic EPS = IACS ÷ SO = $9,980 ÷ 2,000 shares = $4.99 per share.

[5] Potential common shares = (Conversion spread value) ÷ (Average share price) = $14 × 20 shares ÷ $64 = 4.38 shares.

Diluted EPS ~~(computed in accordance with Issue 90-19)~~ = IACS ÷ (SO + Potential common shares) = (~~$10,000~~$9,980) ÷ (2,000 + 4.38) shares = ~~$4.99~~$4.98 per share.

C6. EITF Issue No. 05-1, "Accounting for the Conversion of an Instrument That Became Convertible upon the Issuer's Exercise of a Call Option," is amended as follows:

a. Paragraph 4:

> This Issue applies to the issuance of equity securities to settle a debt instrument that was not otherwise currently convertible but became convertible upon the issuer's exercise of a call option when the issuance of equity securities is pursuant to the instrument's original conversion terms. Statement 84 provides guidance about conversions pursuant to terms that reflect changes made by the debtor to the conversion privileges provided in the terms of the debt at issuance to induce conversion and Issue 06-6 provides guidance about modifications to embedded conversion options. The guidance in this Issue does not apply to debt instruments that are within the scope of FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement).*

b. Paragraph 10:

> ~~When extinguishment accounting is required under this Issue upon the settlement of a debt instrument with the characteristics of Instrument C in Issue 90-19, the reacquisition price for the debt would include the cash payment for the accreted value of the debt and fair value of the equity instruments issued to settle the conversion spread. Pursuant to the guidance in Issue 03-7, for the settlement of a debt instrument with the characteristics of Instrument C as described in Issue 90-19 that is accounted for as a conversion under this Issue, the reacquisition price of the debt would not consider any shares transferred to settle the embedded equity instrument (the excess conversion spread in Issue 90-19).~~

C7. EITF Issue No. 06-7, "Issuer's Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133," is amended as follows:

a. Paragraph 4:

> The Task Force also reached a consensus that if a holder exercises a conversion option for which the carrying amount has previously been reclassified to shareholders' equity pursuant to the guidance in this Issue, the issuer should recognize any unamortized discount remaining at the date of conversion immediately as interest expense. ~~In reaching this conclusion, the Task Force observed that if the instrument being converted has the characteristics of "Instrument C" in Issue 90-19, the guidance for conversions of such instruments in Issue 03-7 should be applied, regardless of whether the embedded conversion option was previously reclassified to shareholder's equity pursuant to the guidance in this Issue.~~ If a convertible debt instrument with a conversion option for which the carrying amount has previously been reclassified to shareholders' equity pursuant to the guidance in this Issue is extinguished for cash (or other assets) prior to its stated maturity date, the portion of the reacquisition price equal to the fair value of the conversion option at the date of the extinguishment should be allocated to equity and the remaining reacquisition price should be allocated to the extinguishment of the debt to determine the amount of gain or loss.