MINUTES

To:	Board Members
From:	Delmonico ext. 393
Subject:	Minutes of the March 21, 2007 Board Meeting **Date:** April 6, 2007
cc:	L. Smith, Golden, Bielstein, MacDonald, Leisenring, Lott, Tamulis, R. Paul, Wyatt, Tully, Bossio, Chookaszian, Polley, Gabriele, Carney, Allen, Intranet

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.

Topic:	Agenda Request for the Useful Life and Amortization of Intangible Assets
Basis for Discussion:	Board Memorandum No. 1
Length of Discussion:	11:30 a.m. to 11:52 a.m.
Attendance:	
Board members present:	FASB: Herz, Batavick, Crooch, Linsmeier, Seidman, Trott, and Young
Staff in charge of topic:	Wyatt and Tully
Other staff at Board table:	Smith and Delmonico

Summary of Decisions Reached:

The Board decided to add to its agenda a project to provide guidance on how subparagraph 11(d) of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, should be evaluated in determining the useful life of renewable intangible assets. (Four agreed and three did not [DMY, EWT, GMC]).

Objectives of Meeting:

The objective of the meeting was for the Board to decide whether or not to add a project to provide guidance on how subparagraph 11(d) of FASB Statement No. 142 should be evaluated in determining the useful life of renewable intangible assets.

The objective was met.

Matters Discussed and Decisions Reached:

1. Ms. Wyatt began the meeting by stating that the purpose of the meeting was for the Board to decide whether to add a project to its agenda to provide guidance on how the factors in subparagraph 11(d) of Statement 142 should be evaluated in determining the useful life of a renewable intangible asset. Ms. Wyatt stated that in determining the useful life of an intangible asset, subparagraph 11(d) of Statement 142 states that an entity shall consider "any legal, regulatory or contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost (provided there is evidence to support renewal or extension and renewal or extension can be accomplished without material modifications of the existing terms or conditions)." She noted that constituents have raised concerns that there is conflicting guidance or application related to the initial valuation of the renewable intangible asset in accordance with Statement 141 and the determination of its useful life in accordance with Statement 142. That is, for purposes of determining the fair value of the renewable intangible asset, an entity can include expected renewal periods, both explicit and implicit, in estimating the cash flows if the renewals can be accomplished without substantial cost. However, for purposes of determining the useful life of the renewable intangible asset, certain industries have interpreted subparagraph 11(d) of Statement 142 to limit the useful life to explicit renewal periods that can be accomplished without substantial cost and material modifications

of the existing terms. Ms. Wyatt commented that in those circumstances, some companies perceive there to be a disconnect between the useful life used in the valuation and the useful life used for amortizing the asset.

2. Ms. Wyatt noted that this issue was originally discussed by the EITF in Issue 03-9 and when the EITF was unable to reach a consensus, the Board added a project to its agenda to address the issue. She continued noting that the project resulted in the issuance of proposed FSP FAS 142-d, "Amortization and Impairment of Acquired Renewable Intangible Assets," for public comment in December 2005. Ms. Wyatt further stated that at the May 31, 2006 Board meeting, the Board discussed the comments received on the proposed FSP FAS 142-d. She indicated that based on the staff's analysis of respondent comments, the staff asked the Board to consider whether the scope of the project should include intangible assets with both explicit and implicit renewal provisions, whether the methodology in the proposed FSP should continue to be considered, and which of the proposed alternatives would Board members like the staff to further research if the proposed methodology is abandoned. Ms. Wyatt noted that the Board decided that the scope of the project should include intangible assets that have both explicit and implicit renewal provisions, however, the Board ultimately voted to abandon the methodology in the proposed FSP and discontinue deliberations on the proposed FSP without issuing additional guidance. Ms. Wyatt then indicated that in November 2006, the Board received an agenda request to reconsider its decision to discontinue its project to resolve the perceived inconsistency between Statements 141 and 142.

3. Ms. Wyatt stated that the staff did not recommend that a project be re-added to the Board's agenda to address this issue. She continued, indicating that the staff did not believe that significant diversity in practice continued to exist, particularly due to the public deliberations of both Issue 03-9 and proposed FSP FAS 142-d and the SEC staff speeches regarding the application of paragraph 11(d) of Statement 142. Additionally, Ms. Wyatt noted that the issue of renewable intangible assets is most prevalent in the cable and broadcasting industries primarily due to significant contract negotiations that occur at each renewal period. She continued, commenting that

based on the staff's research, users of financial statements in these industries do not appear to be troubled by the perceived disconnect between the valuation and useful life determination since their analysis primarily focuses on cash flow measures, which are not impacted by amortization. Therefore, the staff does not believe that the issue is pervasive enough to warrant an addition to the Board's agenda. Ms. Wyatt then asked if the Board agreed with the staff's recommendation not to add a renewable intangible assets project to its agenda.

4. Mr. Crooch agreed with the staff's recommendations not to add a project to the Board's agenda.

5. Mr. Batavick asked the staff for an example of the disconnect in the fair value measurement under FASB Statement No. 141, *Business Combinations*, and the useful life under Statement 142 for a broadcast license. Mr. Batavick noted that for the purposes of Statement 141, assume a 40 year cash flow assumption. Mr. Batavick then asked how that broadcast license would be accounted for under Statement 142. Mr. Tully responded by stating that a typical network affiliation agreement may have a term of 7 to 10 years with multiple renewal terms and that significant renegotiations typically occur at the end of each term, but that renewal is regularly achieved. Therefore, some in that industry have concluded that the useful life is limited to 7 to 10 years. Mr. Herz then asked how much of the Statement 141 value relates to amortization periods beyond what is determined under Statement 142. Ms. Wyatt commented that it would depend on the probability associated with those renewals. Mr. Herz noted that as one moves out past each renewal period, one would expect the probability to decrease slightly. However, Mr. Herz indicated that he believes, for broadcasting licenses, the amount related to amortization periods beyond what is determined under Statement 142 to be a substantial portion of the balance sheet value. Mr. Batavick commented that he believed there might be a 50/50 split between the amount related to amortization periods under Statement 142 and those that are beyond Statement 142.

6. Mr. Trott indicated that he believed the issue of renewals will be addressed as part of the leases project. Mr. Trott did not see much difference between the issues that will be addressed related to leases and the issues related to licenses. Mr. Trott, therefore, agreed with Mr. Crooch and the staff not to add a project to the Board's agenda.

7. Mr. Batavick indicated that he believed a disconnect still existed between the fair value measurement and the useful life. He further indicated that he believed there was a need for alignment between the useful life and the fair value measurement of the intangible asset.

8. Ms. Seidman questioned the comments received by the users of financial statements, noting that these users focus on an EBITDA measure. However, she noted that these same users find it beneficial to have information about impairment numbers since they view the impairment number as a lagging indicator for changes in the economics of the asset. Ms. Seidman then questioned the validity of the impairment numbers. She noted that without addressing this disconnect, users would not receive information about impairment numbers because the asset would be removed from the books sooner than if one had contemplated the renewals implicit in the fair value. She continued expressing concern that the users were receiving impairment numbers that did not reflect the economics of the asset. Ms. Seidman therefore indicated that she would be in favor of adding a project to the Board's agenda.

9. Ms. Seidman further commented that she was not convinced that a lack of diversity in practice suggested that there was no concern about the reporting. She continued, noting that the language in the standard is clear and that to deviate from the standard would be a violation of GAAP. She commented, however, that the question is not whether the language in the standard is clear, but does the combination of conclusions make sense. She further stated that she also believes there to be a disconnect, and therefore, believes that the information about impairment is not useful. Ms. Seidman indicated that she was in favor of removing the language in paragraph 11(d) of Statement 142 causing the problem and let constituents use judgment on the impact of renewals on the determination of the useful life. She noted that the language in

paragraph 11(d) was there as an anti-abuse measure, however, she questioned whether the measure served its purpose.

10. Mr. Batavick indicated that his preference was to pursue the pattern of economic benefits as a means of amortization to solve the disconnect issue. Mr. Smith noted that during the EITF deliberations, there were differences in views on what the pattern of economic benefit is. Mr. Smith stated that the EITF believed that the pattern of economic benefit resulted in an accelerated method of amortization. However, a speech by the SEC staff effectively expressed the view that the SEC was not sure that the pattern of economic benefit resulted in accelerated amortization. Rather, Mr. Smith stated that the SEC staff believed that the rights to receive the economic benefits pass over time similar to a straight-line method.

11. Mr. Trott indicated that another big factor in not supporting the pattern of economic benefits is whether an entity has the ability to delay the recognition of amortization based on the expected pattern of use. He then questioned how different delaying the recognition of amortization was from WorldCom's deferral of line lease payments based on the expectation that the utilization of lines would increase over time.

12. Mr. Smith indicated that the Board's original methodology was to break the asset or the arrangement into its multiple intangibles, which ultimately led to an accelerated method for amortization due to the time value of money, the certainty of cash flows in the earlier years, etc. Mr. Smith stated that this methodology was not much different from the pattern of economic benefits methodology.

13. Mr. Trott indicated that under this approach one would recognize the value of the current license and the value of the right to renew. He commented that this was the direction the leasing project was moving in. Mr. Trott further indicated that he believed that another class of intangible assets existed, referring to those assets as assets with renewals or something between finite lived and indefinite lived assets. However, he noted that many constituents argued that creating a third class of intangible assets would create additional complexity.

14. Mr. Linsmeier stated that he shared Mr. Batavick's and Ms. Seidman's opinions, indicating that he was bothered by the disconnect between fair value measurement under Statement 141 and the useful life measurement under Statement 142. He continued, commenting that he believes there still appears to be some diversity in practice, otherwise this would be a dead issue. He noted that this diversity appears evident from comments made by one of the big four public accounting firms contained in the staff's memorandum and from the agenda request the Board received asking the Board to consider this issue again. Mr. Linsmeier indicated that the staff's recommendation in the FSP appeared to be reasonable; however, he noted that the deceleration of amortization could be abused. He indicated that of the four alternatives put forth by the staff in the Board memo, the one that prohibits the extension of the useful life unless there is a demonstrated history of renewal might help to mitigate the concerns about abuse in a decelerating model. Mr. Linsmeier continued, commenting that there is a logical disconnect between Statement 141 and Statement 142 in the way that those Statements are applied; especially, when the circumstances indicate shorter rights periods with a high probability of renewal. Mr. Linsmeier indicated that he would therefore be in favor of undertaking a project. Mr. Linsmeier continued, indicating that he preferred alternative one from the Board memo (pattern of economic benefits), however, was sympathetic to alternative four (consideration of history of renewals) from an anti-abuse standpoint.

15. Mr. Herz then commented that he was also in favor of taking on a project, as he also believes that there is a disconnect between Statement 141 and Statement 142.

16. Mr. Smith then asked if the Board would like additional information before deciding which approach it would like the staff to research further. Several of the Board members indicated that they would like additional information on the different alternatives. Ms. Seidman indicated that she would like to explore an alternative that used an approach like proposed FSP FAS 142-d, where the intangible's components would be evaluated, but then those components would be fit into one of the existing impairment models rather than creating a new impairment model. Mr. Batavick indicated that he preferred the staff not perform any additional research on alternative

two in the Board memo (attempt to define substantial cost and material modifications). The rest of the Board echoed his sentiments.

Follow-Up Items:

None.

General Announcements:

None.