

Intel Corporation  
2200 Mission College Blvd.  
Santa Clara, CA 95052-8119  
Tel: 408-765-8080  
Fax: 408-765-8871

Letter of Comment No: 20  
File Reference: 1050-001  
Date Received: 3/29/02



March 29, 2002

Mr. Timothy S. Lucas  
Director of Research and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

Dear Mr. Lucas:

Intel is pleased to respond to your request for comment on the FASB's proposed project *Issues Related To The Recognition of Revenue and Liabilities*. As we further elaborate below, we believe that these issues deserve the FASB's attention and we support the FASB's effort to improve financial reporting in this area.

First, it is our opinion that the complexity and inappropriate bias towards revenue deferral contained in the existing revenue recognition guidance creates a critical need for the FASB to undertake this project. That need is best articulated by way of example. Consider a hypothetical \$1,000 sale of a standard switching device that includes both hardware and software and entitles the customer to free software upgrades on a when-and-if available basis. The post-sale upgrade obligation (that we would value at \$50) triggers a complex analysis to determine the need for a related revenue deferral. That analysis includes: (i) determining whether the special software rules apply (whether or not those rules apply could drive a dramatically different conclusion), (ii) assessing the nature of the potential upgrades, (iii) assessing the value of those upgrades, and (iv) assessing the nature of the evidence that supports that value. In addition to the complexity, the analysis's default position is to defer all revenue unless very narrowly defined conditions are met. Therefore, a \$50 continuing performance obligation will most likely cause the entire \$1,000 to be deferred even though delivering the switching device obligates the customer to pay the entire \$1,000 and represents the culmination of over 95 percent of the effort and cost. That counterintuitive result would mislead

March 29, 2002

Page 2 of 2

investors by both understating the value of the delivered product and ascribing too much value to the upgrade right.

Further, we support the FASB's stated objective to "...develop a general standard on revenue recognition that applies to business entities generally." However, we encourage you to expand that stated objective to include the notion of a standard that both reduces complexity and creates financial information that is faithful to the underlying transactions. It is our opinion that you can achieve that objective if you eliminate the existing focus on criteria that establishes when revenue is earned and, instead, shift that focus to clarifying how to measure and when to recognize performance obligations associated with revenue generating activities. If we were to apply such an approach to the example above, the analysis would be limited to: (i) recognizing the \$1,000 at the point we are contractually entitled to it (in this case, delivery) (ii) recognizing a \$50 liability equal to the estimated value of the continuing performance obligation (the upgrade right), and (iii) recognizing the \$950 difference as revenue. As you can see, this approach would both simplify the accounting for revenue recognition transactions and improve the relevance and usefulness of the financial reporting model.

Thank you for your consideration of the points outlined in this letter. We appreciate the opportunity to comment, and hope that you will consider our comments. We acknowledge that revenue recognition issues are very difficult and that our proposed approach is, for purposes of this letter, necessarily overly simplified. However we hope that you will consider our approach and we would be happy to answer any questions that you might have and assist you in the further development of the underlying details. If you have any questions, please contact me at (408) 765-5545, or John Hertz, Accounting Policy Controller, at (503) 696-7476.

Sincerely,

Leslie Culbertson  
Vice President, Director of Corporate Finance