



November 1, 2010

Submitted via email (director@fasb.org)

Technical Director
Financial Accounting Standards Board
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Re: File Reference No. 1820-100: Revenue Recognition (Topic 605): *Revenue from Contracts with Customers*

We appreciate the opportunity to comment on the Proposed Accounting Standards Update, Revenue Recognition (Topic 605): *Revenue from Contracts with Customers* ("Proposed ASU"), issued on June 24, 2010.

We support the Financial Accounting Standards Board and the International Accounting Standards Board for its efforts in trying to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRSs. While we have some practical concerns about the proposed guidance which are detailed further in the letter in response to the questions posed by the Board, we are particularly concerned about the following items:

Evidence of an arrangement

The Proposed ASU indicates that contracts may be either written, oral, or implied according to the Company's customary business practice. Considering oral or implied agreements to be contracts applicable to the Proposed ASU may be a significant change in practice for some entities. Our concern is that there will be a diversity of practice in the documentation that companies will require and a resulting diversity in revenue recognition. We believe that the revenue should only be recognized when persuasive evidence of an arrangement exists which typically would include a written contract or purchase order. We recommend that the Board retains the existing guidance on how to identify a contract. Staff Accounting Bulletin (SAB) Topic 13 provides four criteria that must be met for the recognition of revenue, including that persuasive evidence of an arrangement exists. Further, SAB Topic 13 refers to SOP 97-2 (codified in ASC Topic 985-605-25), which provides guidance on determining whether persuasive evidence of an arrangement exists. Generally, that guidance indicates that if an entity operates in a manner that does not rely on contracts to document formal agreements, some other evidence must exist to document the arrangement (e.g., purchase orders, online authorizations). Additionally, that guidance states that if an entity has a customary business practice of using written contracts to document formal arrangements, evidence of any arrangement exists only by a fully executed contract.



Customer Acceptance and Transfer of Control

The Proposed ASU indicates that an entity shall recognize revenue when it satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The Proposed ASU definition of control focuses on the customer's ability to direct the use of, and receive the benefit from a good or service. We agree that the transfer of control should be a necessary condition in determining whether the conveyance of goods or services has occurred. However, we believe that the transfer of control is not sufficient by itself to demonstrate that a performance obligation has been satisfied and that revenue can be recognized. In our view, a customer acceptance clause that is substantive should preclude the recognition of revenue until the acceptance is received. This is true even if control over the equipment has been transferred to the customer at an earlier point in time. The use of a probability weighted approach for the recognition of revenue in this circumstance could result in the misstatement of the amount of revenue recognized.

Incorporation of Credit Risk into Revenue and Accounts Receivable

The Board proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated. The Proposed ASU considers collectability in the measurement of revenue, while existing standards consider collectability in the recognition of revenue. Our view is that use of a probability weighted approach to calculate revenue when collectability is not reasonably assured will result in a misleading reflection of revenue in a company's financial statements. Further, the Proposed ASU indicates that the difference in the amount actually collected as compared to the amount of revenue recognized will be categorized as other income or expense. Our view is that this approach will result in a reflection of revenue that is not consistent with the economics of the transaction. We propose that the Board allows an entity to measure the transaction price based on management's best estimate. SAB Topic 13, Revenue Recognition, states that revenue can be recognized only if collectability is reasonably assured. As long as collectability is reasonably assured, entities recognize revenue at the full amount of promised consideration. Any doubts about a customer's ability to pay are recognized as an allowance for doubtful accounts and bad debt expense. If collectability is not reasonably assured, an entity generally recognizes revenue on a cash basis. We believe that that this current guidance results in a more meaningful measurement of revenue than the Proposed ASU.

Incorporation of Time Value of Money into Revenue Recognition

The Board proposes that an entity adjusts the amount of promised consideration to reflect the time value of money. However, the guidance does not consider management's intent when entering into these arrangements which could result in an accounting treatment that is not reflective of the underlying economics of a transaction. Companies today generally do not consider the time value of money when recognizing revenue as receivables are generally short term in nature and are generated in the normal course of business. While we understand the conceptual framework of the consideration of the time value into revenue recognition, we do not believe that this will result in an amount of recognized revenue that will match the economics of the transaction or the actual amount of consideration received.



Product Warranties

The Proposed ASU would require companies to distinguish between warranties that cover defects when a product is shipped, quality assurance warranties and warranties that cover defects that did not exist when a product is shipped, insurance warranties. We believe that this will require a substantial amount of judgment and a resulting diversity in practice among companies. We sell our products with terms and conditions covering warranties. We do not view these warranties to be revenue generating but rather a product cost. In most cases, our customers purchase support contracts that cover software updates as well as the repair or replacement of any product defects. Further, the administrative burden associated with the tracking and recognition of revenue, as defects are repaired, will be substantial. We believe that the Board should retain the guidance in ASC 450, ASC 460, and ASC 605 to account for warranty obligations.

Below are our responses to certain questions raised in the Proposed ASU that relate to our concerns noted above:

Question 5: Do you agree that the customer’s credit risk should affect how much revenue an entity recognizes when it satisfies a performance obligation rather than whether the entity recognizes revenue? If not, why?

We do not support the use of a probability weighted approach for the consideration of credit risk in revenue recognition. As described in greater detail above, we support the current revenue recognition framework allowing revenue to be recognized when collectability is reasonably assured.

Question 6: Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?

We do not support the use of the time value of money to adjust consideration for customer prepayments or payments in arrears. This method will result in an amount of revenue recognized which is inconsistent with the amount of total consideration received. Additionally, we believe the recognition of the impact of this adjustment in other income or expense will result in confusion to the users of financial statements.

Question 13: Do you agree that an entity should apply the proposed guidance retrospectively (that is, as if the entity had always applied the proposed guidance to all contracts in existence during any reporting periods presented)? If not, why? Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.

We believe that the cost associated with maintaining a company’s books and records under different revenue recognition guidance will be substantial. We believe that one approach would



be to require a company to provide footnote disclosure in the first year of adoption of the amount of revenue that would have been recognized under the previous guidance as compared to revenue recognized under the Proposed ASU. We believe that this comparison would be useful to users of the financial statements while minimizing costs to the company.

Question 15: Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?

We believe that it will be difficult for companies to distinguish between quality assurance and insurance warranties. We also believe that most companies consider warranties to be a cost of product quality as opposed to a portion of their revenue and classification of warranty costs as revenue will result in confusion to the users of financial statements. Further, we believe that the administrative burden associated with the implementation of the Proposed ASU would be substantial for companies and would not result in improved financial reporting.

If you have any questions regarding our comments, please feel free to contact me at jim.dildine@bluecoat.com.

Sincerely,

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Senior Director, Corporate Controller