December 13, 2010

VI Email: director@fasb.org

Financial Accounting Standards Board
Attn: Technical Director
401 Merritt 7
Norwalk, CT 06856

Gentlemen:

RE: FASB Exposure Draft “Leases (Topic 840)”
File Reference No. 1850-100

We appreciate the opportunity to comment on FASB Exposure Draft “Leases (Topic 840)” (ED). We believe that the changes to lease accounting in the exposure draft do not achieve the objectives of improved financial reporting. The effort to account for different transactions (leases and purchases of assets) in a similar manner results in similar accounting treatment for transactions with different economics, which should be accounted for differently. Furthermore, the inclusion of option periods based upon judgmental assessments of the intent to renew introduces a lack of reliability into the measurements which would be used to determine the related assets and liabilities. We believe that the changes suggested by the boards will result in unnecessary complexity for preparers and confusion to the users of financial statements.

Background of Beckman Coulter’s Business

Beckman Coulter, Inc. is a leading manufacturer of biomedical testing instrument systems, tests and supplies that simplify and automate laboratory processes. Our revenues were about $3.3 billion in 2009. The vast majority of our revenue is generated from consumable supplies (including reagent test kits), service and operating type lease payment arrangements.

We enter into numerous lease arrangements as both a lessee and lessor. As a lessee we have hundreds of operating leases related to facilities, automobiles and equipment in over 40 locations worldwide. As a lessor we enter into various types of contracts with our customers including operating type leases (“OTL”) and agreements providing for delivery of instruments, consumables and service over the life of the lease. In total we have over 60,000 contracts worldwide, which include various combinations of instruments, many of which are under lease, consumable supplies and service. Each contract is individually immaterial to the results of our operations and we do not have any significant individual customer concentration relative to our revenues. Our contracts usually have a term of five years for OTL and consumable contracts, subject to certain cancellation
provisions. Many of our OTL contracts are bundled together and the customer pays one monthly amount for the instrument, service and consumables, in some cases on a per test basis.

Comments on the Exposure Draft

We are particularly concerned about the following requirements of the ED:

1) Separation of the lease portion from service and supply contracts
2) Lease term determination
3) Retrospective application
4) Decision usefulness

Under the proposed guidance, each OTL contract we enter into would have to be analyzed in order to separate the lease component from the service component. Each component would then be required to be accounted for under separate accounting standards. As the revenue recognized is recorded in the same period, under the current guidance we are not required to separate the lease and service components. We believe that, particularly when combined with the proposed changes to revenue recognition, the new guidance imposes significant additional administrative costs for contract evaluation and remeasurement. We believe that criteria in the lease ED should be consistent with and conform to the proposed revenue recognition ED. Furthermore, we are unclear about the definition of a contract which includes service (and supplies) and the right to use an asset. Paragraph B4 is confusing, as it seems to state that where the price is based upon a unit of output, the contract would be considered to be an executory contract rather than a lease. We agree with that concept. However, the placement of that language within the subparagraph seems to imply that the contract would be a lease.

In addition, the system capabilities we currently have cannot track each contract in the manner proposed in this exposure draft. To do so would require system enhancements and training that would be costly to develop and implement worldwide. The proposed changes would also add ongoing costs that will likely easily exceed the costs incurred to comply with the Sarbanes Oxley Act of 2002 (SOx). Furthermore, we would need to develop new processes with controls that are adequate for SOx purposes. We believe these substantial additional costs would yield minimal benefit, if any, to our shareholders, investors and stakeholders.

We believe that the Board's definition of the lease term which is the longest possible term that is “more likely than not to occur” introduces a lack of reliability in the measurement of the related assets and liabilities. The calculation of the lease term requires the preparers to use a significant amount of subjective judgment as they are asked to estimate the probable occurrence of each lease term using a probability weighted analysis.

The determination of the longest possible lease term that is more likely than not to occur results in amounts which are based upon predictions of the future and are subject to change. It is difficult to
have effective internal controls over such subjective assessments. Subjective judgments about the lease term would decrease the reliability of financial statements due to the inherent nature of predictions of future events. Furthermore, the inclusion of option periods overstates the amount of the asset or liability under the lease, since the company has an option whether or not to extend the lease. The option period does not meet the definition of a liability under FASB Concept Statement No. 6 and should not be recorded as an obligation.

We support the use of the minimum non-cancellable lease term in the present value calculation and the disclosure of any options to extend the term. An option within a lease contract should not be accounted for at the inception of a lease, because that option may not be exercised. Conditions in business change and the financial statements should not include liabilities for lease payments that may not occur. It will be very difficult to make accurate estimates of possible renewals in the distant future. However, we do agree that the option period(s) should be included if management clearly intends to exercise the option and is considering the option period(s) in determining the useful life of leasehold improvements. The approach of recording the transactions based on the minimum non-cancellable lease term, including options underlying the leasehold improvement amortization period, along with disclosure of the options to renew will allow the Board to achieve its goal of providing the users of the financial statements visibility to a company’s leasing arrangements.

The transition provisions of the ED suggest applying a simplified retrospective approach to all outstanding contracts at the date of initial application. We do not agree with this approach as this would require us to incur the cost of reevaluating all our leasing arrangements and recording them based on the proposed guidance. This process would require a significant amount of time and resources to incorporate the proposed guidance. We feel that the cost to apply the guidance retrospectively, in any format, would far outweigh the benefit to the users of the financial statements.

We recommend a prospective application of the guidance on new leases entered into after the effective date. Prospective application would allow companies to adopt the guidance in a less costly and more efficient manner.

We agree with the Board’s assessment that information should be provided to help users of the financial statements understand the impact of lease arrangements. However, we disagree with the Board’s conclusion that the benefits of the proposed guidance outweigh the costs involved. The benefits noted by the Board include a comparative advantage for the reporting entities to develop the information instead of the users of the financial statements developing surrogate information and that there should be better economic decision making as a result of improved financial reporting. We believe that the institutional investors have already evaluated the impact of the leasing arrangements under the current guidance and the related impact to the financial statements. Further, the average investor will utilize the analysis prepared by the institutional investors to make their investment decisions. Therefore, we feel the impact of a company’s leasing arrangements has
already been evaluated by the market and that the costs required to implement and apply the changes under the proposed guidance will far exceed the benefits to the users of the financial statements.

We offer the following comments on the questions in the ED:

**Question 1**

(a) _Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?_

(b) _Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?_

We agree with the lessee recognizing a right of use ("ROU") asset and a liability in a simple lease contract provided that the lease contract is for a sufficient time period (over one year).

However, we believe that the Board’s efforts to account for all lease contracts in the same way results in accounting for different transactions in the same way, rather than recognizing the fundamental differences between different economic transactions. The proposal results in accounting for a lease transaction in a similar manner to accounting for a purchase transaction using debt. While in certain circumstances this similarity is appropriate, we believe that it is not appropriate for some leases which have been historically accounted for as operating leases. Continuing to use a two-method approach would more accurately recognize the fundamental difference between an operating lease, which has a shorter term, does not recover all or the majority of the value of the leased asset over the minimum lease term, does not transfer ownership and therefore is NOT similar to a purchase, and a financing lease, which is similar to the purchase of an asset.

While we recognize, under the proposed guidance, that a lease is a financing of an asset, we do not agree with the proposed amortized cost based approach to the subsequent measurement of the ROU asset and the proposed amortized cost using an effective interest method approach for the liability to make lease payments. Under the proposed guidance, the total expense of the lease, which is comprised of amortization and interest expense, will be higher at the beginning of the lease term and will decline over the life of the lease. The expense recognized does not reflect the actual utility of the asset in the operation of the business. If at the end of the lease term a lessee decides to renew the existing lease, the lease expense will increase significantly in the first year of the new lease as compared to the last year of the previous lease. Our concern is that the timing and pattern of the lease expense will not be consistent with the cash flows related to the lease arrangement and this would increase the complexity of the financial statement analysis. We would propose a model
whereby the income statement impact is more comparable to the cash flows of the transaction. We believe that the recording of lease expense based on the proposed guidance would not provide a significant benefit to the users of the financial statements as they place a greater reliance on the cash flow impact of a transaction.

Under the right of use model, we believe that the right to use an asset provides the lessee with an even benefit over the lease term. From a business perspective, the utility of a lessee’s right to use an asset does not significantly decline over the lease term. Therefore, we believe that the accounting treatment under the proposed guidance may not be consistent with the matching principle under FASB Concept No. 6 as the recognition of expense will not match the benefits afforded to the lessee.

We currently have hundreds of equipment and facility leases worldwide, most of which are very small. The proposed requirements would take a significant amount of time and resources to implement and maintain. The costs to comply with the proposed changes would far exceed the expected benefits. We would instead propose qualitative disclosure of the categories of leased assets to include a range of useful lives and average dollar amount for the individual leases, providing a user of financial statements information regarding commitments. Currently, analyst valuation models already account for leased property and assets when valuing a company, thus we believe that imposing the substantial analysis, tracking and reporting of these leases would not provide a materially different financial representation or valuation of a company.

In the ED (par. BC39 and BC40), we noted that the Board decided not to make a distinction between core and non-core assets as they believe the leases of non-core assets may give rise to significant assets or liabilities. We ask that the Board revisit this conclusion. The cost of implementing systems and practices to record and track relatively short term (1-5 years) non-core assets (we would define as: printers, vehicles, computers, etc.) will be extensive. It is our view that disclosure of the existence and volume of such leases will provide users with sufficient, relevant information. We understand the Board’s position on consistency in presentation for purchased and leased assets, but similar to acknowledging a proposed exception for treatment of short-term leases we ask that Board consider a similar exception for non-core assets. We believe accounting for non-core assets as proposed will not provide significant benefit to users of financial statements but will result in substantial costs for preparers to implement. We believe that non-core assets are not crucial to the continued success of a business and should be accounted for similar to the current operating lease treatment.

Question 2

(a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?
(b) Do you agree with the boards’ proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?

(c) Do you agree that there should be no separate approach for lessors with leveraged leases, as is currently provided for under US GAAP (paragraph BC15)? If not, why not? What approach should be applied to those leases and why?

We have a business model in which we enter into various types of operating type lease arrangements with our customers that normally have a 5 year term, subject to cancellation in certain circumstances. These arrangements can be “dry leases” where the customer leases the instrument only and pays a fixed monthly amount, “reagent rentals” where the customer receives use of an instrument along with a commitment to purchase consumables from us and pays monthly based on their actual purchases or usage of consumables (per test) and “bundled” arrangements where the customer receives the use of the instrument, use of consumables and service all for a fixed monthly amount. Based on these arrangements, the instrument value would have to be separated (reagent rental and bundled contracts) and accounted for separately under the proposed lease guidance. The consumables and the service portion of the contract would be accounted for based on the proposed revenue recognition rules in topic 605. Separating out the instrument portion of the contract provides no additional value when the timing of the payments and revenue recognition is at the same time for all deliverables, but does require significant additional work to quantify, assign, and track based upon the relative selling price.

We do agree with the boards’ proposal for lessors to account for lease transactions based on the performance obligation approach or the derecognition approach. The two models provide appropriately different accounting for transactions with different risks and rewards. However, we do not think that it is appropriate to record lease assets and liabilities on the balance sheet when we met our obligation upon delivery of the instrument. This would mean that we are recording an obligation on our balance sheet for which we have already performed. In addition, it is duplicative to record an asset for the present value of the minimum lease payments we will receive from the customer when the underlying asset (instrument) is already recorded on our balance sheet. We believe that the important information for users of the financial statements is the non-cancellable portion of the lease. i.e. those amounts that truly represent legal liabilities/assets. Recording a liability that is not an actual obligation under the conceptual framework or an asset which is not reasonably assured (considering cancellation provisions) does not present an accurate picture of the health and flexibility of the company. One significant benefit of a cancellable lease is the ability to cancel, renegotiate, or otherwise obtain financial flexibility based on long term changes in business conditions.
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Question 3

This exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is 12 months or less:

(a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognize lease payments in the income statement over the lease term (paragraph 64).

(b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognize assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognize any portion of the underlying asset. Such lessors would continue to recognize the underlying asset in accordance with other Topics and would recognize lease payments in the income statement over the lease term (paragraph 65).

(See also paragraphs BC41-BC46.)

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

We do not agree with the board's proposal of simplified requirements for the lessee accounting of short term leases, which consists of having the option to measure the liability to make lease payments and the ROU asset at the undiscounted amount of the lease payments. We believe that short term leases should be excluded from the scope of the new standard. Short term leases by their nature do not involve a significant obligation. Inclusion of short term leases as assets and liabilities does not provide useful information to the users of the financial statements and results in unnecessary costs for the preparers.

We agree with the boards' proposal that a lessor should have the option to recognize or not recognize lease assets and liabilities for short term leases (12 months or less).

Question 4

(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?

(b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?
(c) Do you think that the guidance in paragraphs B1-B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?

The definition of a lease as proposed by the board appears to be appropriate based on the fundamentals of a lease transaction but requires additional clarification where payments are based upon units of output. Furthermore, we believe the term “trivial amount of risks and benefits” requires additional explanation and clarification.

In terms of the lease definition, it would be important for the Board to consider those companies (such as ours) where most, if not all, of its customer leases include obligations for service and consumables which are co-dependent upon each other. Thus, singling out the instrument portion as a lease, to be accounted for separately from all other elements of the arrangement, does not provide the users of the financial statements with decision useful information, and is costly to the company. The customer's obligation to pay and our obligation to provide the benefits of each component are economically and legally inseparable. In essence, these should be excluded from lease accounting and be considered service contracts.

Section B4 of the ED which addresses the criteria needed for a contract to meet the lease definition, is unclear. Specifically section B4 (e) seems to be contradictory as currently written. The last sentence within this paragraph seems to us to contradict the first part of the paragraph. It appears that the last sentence should be separate and not part of section (e). The last sentence states “if the price that an entity will pay is contractually fixed per unit of output or at the current market price as of the time of delivery of the output, then the entity is paying for a product or service rather than paying for the right to use the underlying asset”, which implies that a contract would not meet the definition of a lease, however it is one of the conditions of the right to control an asset, requiring accounting as a lease. We agree with the Board’s distinction that these types of arrangements should be defined as a service contract and believe that it should not be accounted for as a lease contract. This section of the ED needs to be clarified in order to avoid confusion and enable companies to appropriately apply the guidance.

Question 5

This exposure draft proposes that a lessee or a lessor should apply the proposed guidance to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33-BC46).

Do you agree with the proposed scope of the proposed guidance? Why or why not? If not, what alternative scope would you propose and why?
We support the scope exclusions noted in the ED, which include leases of intangible assets, leases to explore for or use natural resources or leases of biological assets. However, we believe that short term leases should also be excluded from the scope of the leasing guidance. We believe that even the simplified approach will require significant effort to identify and record short-term leases, and we believe that it is highly unlikely that these short term leases would amount to a material obligation. As a result, we believe that the cost outweighs the benefit. Noncore assets should be further defined as the term appears to imply assets that are not material to a company’s operations. We would propose that non-core asset leases be excluded from the proposed standard because we believe that the cost of including non-core asset leases outweighs the benefits.

Question 6

This exposure draft proposes that lessees and lessors should apply the guidance in proposed Accounting Standards Update, Revenue Recognition (Topic 605): Revenue from Contracts with Customers, to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5-B8 and BC47-BC54). If the service component in a contract that contains service components and lease components is not distinct:

(a) The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.

(b) The IASB proposes that:

i. A lessee should apply the lease accounting requirements to the combined contract.

ii. A lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.

iii. A lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the guidance in the exposure draft on revenue from contracts with customers.

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

For lessors we do agree with the boards’ proposal that a lease contract that has both a lease component and a service component that is distinct should be accounted for separately using the proposed revenue recognition rules in Topic 605, unless the payment is based upon units of output. It is appropriate to separate the service component since this is not a part of the underlying asset being leased. This is a separate obligation for future servicing of the underlying asset. Where payments are made based upon units of output, we agree with the statement in paragraph B4 (e) that the payments are for a product or service and that the use of the asset is incidental. In those instances, there should not be separate accounting for the right of use asset because the cost
outweighs the benefits. As noted previously, additional clarification is needed to describe the appropriate accounting for contracts based upon units of output.

From a lessee perspective, common area and maintenance costs are a frequent service component of real estate transactions. We believe it is inappropriate to include such period costs in the proposed capitalized value of a lease as the treatment of common area and maintenance and property taxes should be consistent, regardless of whether the asset is purchased or leased. The treatment of the executory costs should not differ if we decide to purchase the asset or lease it.

For agreements which contain an asset lease and a service component which is not distinct, we believe that the entire arrangement should be accounted for as an executory contract, recognized over the time of the contract, rather than as a lease. We believe that this type of arrangement should not be recorded as a liability since the majority of the payments do not meet the definition of a liability under FASB Concept Statement No. 6. For a lessor, such an agreement should be accounted for using the proposed revenue recognition rules in Topic 605. For a lessee, such agreements should be accounted for as an expense in each period over the term of the agreement.

**Question 7**

*This exposure draft proposes that a lease contract should be considered terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC3 and BC64).*

*Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?*

We agree with the boards’ proposal that a lease contract should be considered terminated upon the exercise of a purchase option. We agree that exercise of a purchase option should result in conversion from a lease to a purchase of the underlying asset.

**Question 8**

*Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?*

We do not support the proposed use of the “longest possible term that is more likely than not to occur” to determine the obligation. The use of a subjective lease term results in amounts which are
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difficult to objectively determine because it is based upon a company estimating the probability of occurrence for each possible term. It is also difficult to have effective internal controls over such subjective assessments. We believe that the determination of the lease term, as defined in the ED, would decrease the reliability of financial statements due to the inherent nature of predictions of future events. Furthermore, an option provides financial flexibility which is not recognized if the option is treated as if it is part of the lease term. The recognition of the option does not meet the definition of a liability under FASB Concept Statement No. 6.

We support the use of the minimum non-cancellable lease term, because that is the actual transaction which has occurred and should be accounted for. An option within a lease contract should not be accounted for at the inception of a lease, because that option may or may not be exercised. For example, a 10 year lease with a five year option should not be accounted for the same way as a 15 year lease. The recorded obligation should only reflect the 10 year term. Conditions in business change and the lessee may not know whether it will exercise the option. Current financial statements should reflect actual transactions rather than predictions of future decisions. However, we believe that option periods should be included in the lease term to the extent that the option period is included in the life of leasehold improvements.

**Question 9**

*Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?*

*Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured? Why or why not?*

We do not agree with the use of the expected outcome technique as it is very subjective, requiring a company to estimate the amount and timing of the cash flows for each reasonably possible outcome. Also, the company would be required to estimate the probability of each outcome. Estimates which require judgments about future events that are difficult to predict may result in the initial recording of a liability that may not occur. This process would be costly for preparers and may reduce the reliability in financial statements.

We recommend that if lease payments are contingent on changes in an index or rate, such as the consumer price index or the prime interest rate, the lessees should measure the obligation to pay rentals using the index or rate existing at the inception of the lease. Also, we do not believe that contingent rentals that are performance based or usage based should be considered in the measurement of the lease obligation as they do not meet the definition of a liability per FASB
conceptual framework. The lessees should account for those contingent rentals when the applicable triggering events have occurred.

We do not agree with the inclusion of payments on term option penalties and residual value guarantees in the lease calculation until they are readily determinable. We believe that adequate disclosure in the footnotes will provide sufficient information about the arrangements.

Question 10

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

We support that significant changes in a leasing arrangement, based on facts and circumstances, and should require a remeasurement of the previously recorded asset and liability. However, we disagree with the remeasurement of the asset or liability based on changes in expectations about future events that may or may not occur. We have numerous lease arrangements both as a lessee and as a lessor and the amount of time and effort required to make those detailed reassessments and judgments based on changes in expectations would create a significant cost to our operations without a corresponding benefit to the users of the financial statements.

Question 11

Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?

We do not agree with the additional criteria provided by the Board in the sale leaseback guidance to determine whether a sale has occurred for the seller-lessee. We believe that the criteria for a transaction to qualify as a sale should be based on the guidance in the Board’s revenue recognition proposals. The inclusion of another set of criteria to determine a sale would introduce additional confusion.

Question 12

(a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant, and equipment, but separately from assets that the lessee does not lease (paragraphs 25 and BC143-BC1345)? Why or why not? If not, do
you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?

(b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totaling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

(c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipments (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

(d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?

We believe that the lessee’s obligation to pay rentals should be presented separately in the footnotes to the financial statements but is not necessary to present separately on the face of the financial statements unless deemed significant. We believe that the right of use asset should be presented based on the nature of the underlying asset, because we believe that information is most relevant to the users of the financial statements. We believe that the leased assets should be shown separately from owned assets in the footnotes to the financial statements to provide users with relevant information about the nature of the leased and owned assets.

We believe that under the performance obligation approach the underlying asset of a lease should continue to be presented together with property, plant and equipment, net of depreciation since this is the physical asset component of the lease. The right to receive lease payments and the lease liabilities should only be presented as a net number and not a gross number. Presenting these as a gross number would inflate the balance sheet dramatically for these estimated lease assets and obligations that do not provide a benefit to the readers of the financial statements.

We agree with the boards proposed presentation of lease assets under the derecognition approach.

We do not believe that it is necessary for lessors to disclose assets and liabilities under a sublease transaction in the statement of financial position. We believe that the assets and liabilities arising from subleases can be disclosed in the footnotes, if material and this will provide the shareholders, investors and stakeholders with adequate information.
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**Question 13**

*Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in the income statement (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?*

From a lessee perspective we disagree that the amortization of the ROU asset and interest expense on the liability to make lease payments should be disclosed separately from other income and expense in the income statement. If leased assets are accounted for similarly to purchased assets, we don’t see a need to disclose the lease related amounts separately on the face of the financial statements. We believe that disclosure of these items in the notes to the financial statements, if material, would provide the users of the financial statements with sufficient information about the lease related P&L activity.

From a lessor perspective we agree with paragraph 32 in the ED where it states that a lessor shall classify lease income as revenue if it arises in the course of a lessor’s ongoing, major or central activities. These payments from our customers represent recurring revenues for our company and should be accounted for as revenue from operations, not as other income. Reporting these as other income would not accurately present the performance of our company since a lease payments are a normal part of our revenue generating activity, consistent with cash product sales. We believe that it is not meaningful to distinguish the amounts related to leases from the amounts related to ongoing product sales, as noted previously. We believe that the cost of separately recording the interest income element of leasing transactions is not worth the benefit to the users of the financial statements, and that all lease income should be included in revenue from operations when it arises in the course of a lessor’s ongoing activities. We do not believe allocation of interest income on leases is useful to the users of the financial statements and is instead confusing and creates a more cumbersome income statement.

**Question 14**

*Do you think that cash flows arising from leases should be presented in the statement of cash flow separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?*

We do not believe that cash flows arising from leases should be presented separately in the statement of cash flows. For our company, attempting to pull out cash flows from lease transactions would require additional quantification of the separate elements of bundled agreements that is not currently required. We believe that the significant costs associated with gathering this information would far exceed the benefit provided to the users of the financial statements.
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Question 15

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:
(a) identifies and explains the amounts recognized in the financial statements arising from leases; and
(b) describes how leases may affect the amount, timing and uncertainty of the entity’s future cash flows?
(paragraphs 70-86 and BC168-BC183)? Why or why not? If not, how would you amend the objectives and why?

We agree with the Board’s assessment that information should be provided to help users of the financial statements understand the impact of the lease arrangements. However, we are concerned with the increased number of the recommended disclosures under the proposed guidance as they far exceed the current disclosures required under both IFRS and US GAAP. We believe that the inclusion of the additional disclosures in the financial statements will require a significant amount of the company’s resources to accumulate and prepare but will not provide the same level of benefit to the user of the financial statements.

Question 16

(a) This exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88-96 and BC186-BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?
(b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?
(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

We do not agree that the proposed guidance should be applied retrospectively to all outstanding leases. This would require companies to reevaluate all leasing arrangements and assess them based on the proposed guidance. This process would take a significant amount of time and companies, including ours, would incur substantial costs. All of the work to apply the guidance retrospectively would far outweigh the benefit to the users of the financial statements.

We recommend prospective application of the guidance on new leases entered into after the effective date. Prospective application would allow companies to adopt the guidance in a less costly and more efficient manner. As a practical alternative, retrospective adoption could be required only for leases exceeding a specified remaining term at the implementation date, such as at least five years, which would reduce the implementation costs and provide the benefits of the new
lease accounting requirements for the leases more likely to have a significant impact on the financial statements.

**Question 17**

*Paragraphs BC200-BC205 set out the boards’ assessment of the costs and benefits of the proposed requirements. Do you agree with the boards’ assessment that the benefits of the proposals would outweigh the costs? Why or why not?*

We believe that the costs for the preparers to implement the proposed guidance far outweigh the benefits to be received by the users of the financial statements. The proposed standard would require us to revisit and analyze each one of our thousands of current lease contracts, which would be a long and cumbersome process requiring substantial judgment on the part of the company. We are concerned that the measurement of the lease payments, determination of the lease term, reassessment of lease term and lease payment, and the preparation of the increased amount of qualitative and quantitative disclosures will require a significant amount of company resources but will not provide a corresponding benefit to the users of the financial statements. We contend that the users of the financial statements already incorporate the impact of the leasing arrangements in their analysis.

**Question 18**

*Do you have any other comments on the proposals?*

The determination of whether service components of a lease, such as executory services, are distinct may prove difficult for the lessees under the proposed guidance. If the components are not distinct then they would be included in the asset and liability recorded on the balance sheet, which we believe overstates the assets and liabilities.

As noted in our responses above, we are concerned that the difference in income statement recognition as compared to the cash flows of the transaction will be confusing to the users of the financial statements, and result in an increased need for non-GAAP reporting. Although many users of financial statements have historically considered operating lease obligations in their debt analysis of a company, we believe the actual impact of adoption of this ED as proposed will be significantly different than previous models and will be difficult for users to decipher and gain meaningful benefit.

As noted in our response to Question 1, we believe accounting for non-core assets as proposed will not provide significant benefit to users of financial statements but will result in substantial costs for
preparers to implement. We believe that non-core assets are not crucial to the continued success of a business and should be accounted for similar to the current operating lease treatment.

Thank you for the opportunity to provide comments related to the proposed Exposure Draft. Please contact me at 714/961-3285 with any questions.

Sincerely,

Carolyn D. Beaver
Corporate Vice President, Controller
Chief Accounting Officer

Cc: Charles A. Slacik, Senior Vice President, Chief Financial Officer