

AOL LLC

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VIA EMAIL TO DIRECTOR@FASB.ORG

LETTER OF COMMENT NO. **2**

Mr. Lawrence W. Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116
File Reference No. EITF0601

Dear Larry:

We appreciate the opportunity to provide our comments on the draft abstract for EITF Issue No. 06-01, "Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider" ("Issue 06-01").

We believe that the Task Force reached an appropriate conclusion regarding the applicability of EITF Issue 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller's of the Vendor's Products)" ("Issue 01-09") to these arrangements, as described in the first sentence of paragraph 4 of the draft abstract of Issue 06-01 which states, "The Task Force reached a [consensus] on Issues 1-3 that if the consideration given by a service provider to a manufacturer or reseller (that is not a customer of the service provider) can be linked contractually to the benefit received by the service provider's customer, a service provider should account for the consideration in accordance with Issue 01-09."

However, having reached this conclusion, we have some concerns with the Task Force's observation, documented in the second to last sentence of paragraph 4 of the draft abstract for Issue 06-01, which reads as follows: "In reaching this conclusion, Task Force members observed that consideration paid by a service provider that results in a customer receiving a reduced price on equipment purchased from a manufacturer or reseller should be characterized as 'other than cash' consideration for purposes of applying Issue 01-09."

Clearly, price reductions provided directly by a vendor to its customer are characterized as a reduction of the vendor's revenue when recognized in the vendor's income statement under Issue 01-09. However, the same form of benefit provided by a service provider to its customer, albeit indirectly through an intermediary, would result in a different accounting treatment for the service provider simply because of the way the incentive is passed to the customer. As a result, we believe that the guidance in the draft abstract for Issue 06-01 would easily permit vendors to circumvent the guidance in Issue 01-09, simply by directing cash payments to their customers through a third-party intermediary. This could have the effect of making the guidance in Issue 01-09 essentially irrelevant.

We understand that the Task Force's tentative conclusions, as documented in the draft abstract for Issue 06-01, were likely influenced to a large extent by the guidance in paragraph 10 of Issue 01-09, which provides the relevant guidance on accounting for "other than cash" consideration given by a vendor to its customer. However, we believe, based upon a review of the historical record of the Task Force's deliberations on Issue 01-09 and the context in which this guidance was developed, that this guidance was intended to help distinguish multiple-element revenue transactions from transactions in which vendors are

merely rebating cash to their customers. That is, if a customer is receiving a free product from the same vendor that is providing the service, then a portion of the consideration paid for the service should be ascribed to the free product as this would be considered a multiple-element revenue transaction. In multiple-element revenue transactions, the consideration received by a vendor from its customer is characterized by the vendor as revenue when recognized, and the fulfillment costs for the deliverables being sold to the customer are characterized as cost of sales by the vendor when recognized. In the circumstances described in Issue 06-01, the vendor providing the service is not the same vendor that is providing the free product; therefore, this is not a multiple-element revenue transaction.

With respect to the specific fact patterns contemplated by Issue 06-01, we believe that a transaction in which a service provider is making a cash payment to reimburse a specialized equipment manufacturer for all or a portion of the cost of the specialized equipment that the manufacturer is selling to the service provider's customer, in connection with a transaction in which the same customer is entering into a service agreement with the service provider, is not a multiple-element revenue transaction from the service provider's perspective. The service provider is not the principal in the transaction between the manufacturer and the service provider's customer. In form, in this transaction, the service provider makes a cash payment to the manufacturer, with the contractual requirement that the manufacturer provide this benefit, in the form of a price reduction, to the service provider's customer. In substance, in this transaction, the service provider is making a cash payment to its customer, in exchange for the customer's purchase of the service provider's service. The substance of the two transactions addressed in the exhibit to the draft abstract for Issue 06-01 is identical, although they result in two different accounting treatments, and illustrate how the guidance in Issue 01-09 might be circumvented based on the Task Force's tentative conclusions on Issue 06-01.

Thank you again for the opportunity to provide you with our input, and please feel free to contact me if there are any questions related to our comments herein.

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