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August 10, 2009

Mr. Russell G. Golden
Chairman, Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856

Via E-mail to director@FASB.org

Re: File Reference No. EITF 0801 & 0903

Dear Mr. Golden:

The purpose of this letter is to express the views of Xerox Corporation (Xerox) on the draft abstracts for EITF Issue No. 08-1, "Revenue Arrangements with Multiple Deliverables" (EITF 08-1) and EITF Issue No. 09-3 "Applicability of AICPA Statement of Position 97-2 to Certain Arrangements That Contain Software Elements" (EITF 09-3). Xerox is a $17.6 billion technology and services enterprise and a leader in the global document market. We have long disclosed in our financial statements that we deliver a significant portion of our revenue through multiple element arrangements. Further all of our hardware products contain embedded software which is integral to the functioning of such products. Accordingly, the accounting guidance reflected in these two issues is extremely applicable to our business operations.

Overall, we are very supportive of the approach taken by the EITF with respect to the arrangements covered by these two issues. We believe the draft abstracts clearly represent a principles based approach to revenue recognition for these arrangements and the guidance appears to be consistent with the approach and direction taken by both the FASB and IASB in their joint revenue recognition project. We view these two consensuses for exposure as significant steps forward in reducing the complexity and inconsistencies that have developed in practice in recording revenue associated with these arrangements. Accordingly, we would like to see the EITF move as quickly as possible to adopt the guidance contained in these abstracts since they clearly represent an improvement in the accounting and reporting for these types of transactions. We believe the EITF's work is substantially complete on these two topics and we look forward to them being finalized at the September EITF meeting. The views expressed below are consistent with our Comment Letter dated January 30, 2009 on Issue 08-1 and with the comments we expressed at the Roundtable Meeting at your offices on May 1, 2009.

Executive Summary:

- We fully support the recognition and measurement recommendations as included in the draft abstract for Issue 08-1.

- The continuing disclosures of Issue 08-1 appear to be extreme and are beyond any comparable disclosures for other types of revenue recognition. They come across as possible evidence of discomfort by the EITF with the recognition and measurement conclusions reached.
- The transitional disclosures of Issue 08-1 should generally be feasible but we are uncertain of their importance.
- We fully support modification of the scope of SOP 97-2 to exclude 'software enabled devices'. We believe the definition of software enabled devices and the application examples as included in the draft abstract of Issue 09-3 are clear and operational.
- We believe companies should have the option to adopt Issue 09-3 immediately.
- The transitional disclosures of Issue 09-3 should generally be feasible but we are uncertain of their importance.
- We urge the EITF to finalize both Issues at the September meeting.

The following are specific comments related to each EITF Issue:

<u>EITF 08-1:</u>

We believe the elimination of the residual method of allocation and ability to use estimated selling prices in the allocation of revenue will produce results that are more consistent with the economic substance of multiple element arrangements. Multiple element arrangements are often priced to a customer through the development of estimated selling prices for the individual elements with consideration of standalone pricing and competitive pricing (i.e. third party evidence) to the extent available. Accordingly, we definitely believe use of estimated selling prices in the allocation of revenue under the relative-selling price method would be operational and can be consistently applied. In addition, having the ability to use the best estimate of selling price renders the residual method no longer applicable, and we likewise support the decision to eliminate the residual method of allocation. In addition, elimination of the residual method will result in a proportionate allocation of any inherent discount in a multiple element arrangement to each deliverable, which we believe provides a better reflection of the underlying economics of an arrangement.

We are aware of the concern of some constituents about the efficacy of using estimated selling prices in the measurement and recognition of revenue. We do not believe this generally should be a significant concern in practice for a number of reasons including:

- There are numerous checks and balances already in GAAP that put reasonable boundaries around the amounts recorded. For example, a boundary on front ending 'too much revenue' could be the need for an impairment or similar charge if the result is that the remainder of the arrangement has a built-in loss;
- In situations where there is truly no VSOE or third party evidence, once a company has a sufficient number of similar arrangements, VSOE would naturally emerge and if the product or service was successful in the marketplace eventually competition would emerge. Accordingly, over time the reliance solely on estimated selling prices for revenue recognition purposes should dissipate.
- In many arrangements only a subset of the total expected revenue would be subject to the estimation of selling price methodology. For example, portions of expected revenue flows could be contingent revenue and therefore not 'available' for estimation of selling price purposes. Still other revenue flows might be subject to pre-codification "higher-level

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- We believe companies should have the option to adopt Issue 09-3 immediately.
- The transitional disclosures of Issue 09-3 should generally be feasible but we are uncertain of their importance.
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<u>EITF 08-1:</u>

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- In situations where there is truly no VSOE or third party evidence, once a company has a sufficient number of similar arrangements, VSOE would naturally emerge and if the product or service was successful in the marketplace eventually competition would emerge. Accordingly, over time the reliance solely on estimated selling prices for revenue recognition purposes should dissipate.
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08-1 should be made considering these current disclosure requirements; specifically disclosure should be limited to the discussion of the impact of adopting EITF 08-1 on total or segment revenues/results of operations and financial position if considered material. We believe such information would be more useful to readers especially in assessing the impact of EITF 08-1 on future results. These concerns aside, we believe the transitional disclosure requirements can generally be done by financial statement preparers should the EITF decide to retain them.

EITF 09-3:

We fully agree with the Task Force's decision to limit EITF 09-3 to the modification of the scope of SOP 97-2 to address software enabled devices as we believe guidance regarding the scope of SOP 97-2 is critically needed in practice. We believe expanding EITF 09-3 to address the measurement and separation criteria within SOP 97-2 will likely lead to a delay in adopting this critically needed guidance. In our opinion the scope issue is more important than the measurement and other issues and is one that can quickly be resolved as the draft abstract demonstrates. Virtually all electronic devices and equipment sold today include software that provides essential functionality and absent a change in the scope paragraph of SOP 97-2, many companies not considered traditional software companies have or will become subject to SOP 97-2. We believe the scope modification language as outlined in the draft abstract is both clear and operational. The scope modification will result in recognition of revenue similar to that for other tangible products.

The scope paragraph of SOP 97-2 has been extremely difficult to apply in practice. SOP 97-2 was written at a time when the sales of software enabled devices were still in their early stages. We note the scope paragraph of SOP 97-2 states that the SOP applies to 'computer software' which we understand was the context in which AcSEC evaluated the issue. Therefore we believe SOP 97-2 neither contemplated nor addressed the significant expansion in the sales of 'software enabled devices'. This has led to numerous difficulties, inconsistencies and unintended consequences in applying the scope paragraph of SOP 97-2 in practice. Accordingly, the guidance included in EITF 09-3 is assuredly necessary. Furthermore, although some judgment will likely be required to apply the scope modification guidance of EITF 09-3, we believe the guidance provided in the Issue together with the related examples makes it operational and allows it to be applied on a consistent basis.

We support the prospective application of EITF 09-3, but we believe the Task force should reconsider the transition guidance in EITF 09-3 and allow for the immediate adoption of this guidance. (We have no disagreement with establishing the mandatory date as June 15, 2010). As noted above, the scope paragraph of SOP 97-2 has been extremely difficult to apply in practice. We believe the application of EITF 09-3 will bring needed clarity and consistency to the revenue recognition associated with software enabled devices and therefore companies should be allowed to implement the guidance as soon as possible. Many companies affected by the consensus will be calendar year filers and we find it problematic that the exact same types of transactions will qualify for revenue recognition differently in January than in December. EITF 09-3 does not represent a broad based change in accounting principles but is more of a situation of compensating for the unintended consequences resulting from the too literal of application of SOP 97-2. While we would like to see the final EITF conclusion to allow for earlier adoption than proposed, we believe it is more important to finalize the project at the September EITF meeting than to delay it to reconsider earlier adoption. Stated differently, we can support the transitional guidance as proposed although we would prefer it to be different.

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As noted above with respect to EITF 08-1, we likewise do not support the transitional disclosure requirements of EITF 09-3. We believe transition disclosure should be limited to disclosure of the impact of adopting EITF 09-3 if deemed material in relation to total company/segment results of operations or financial position. These concerns aside, we believe the transitional disclosure requirements can generally be done by financial statement preparers should the EITF decide to retain them. However, similar to our view of EITF 08-1, despite our concerns regarding the disclosure requirements, we are very supportive of the overall guidance contained in EITF 09-3 and believe it should be ratified as expeditiously as possible.

Interaction of EITF 08-1 and EITF 09-3:

We understand the EITF has been working these two topics in tandem and ideally would like to issue them simultaneously. While laudable in concept, we believe that each topic has sufficiently been developed such that if, for whatever reason, one is delayed at the September EITF meeting, the other can be finalized independently.

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We appreciate the opportunity to express our views on these two important issues. Please do not hesitate to contact me if you have any questions.

Yours very truly,

Gary R. Kabureck

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c: L. A. Zimmerman,
Vice Chairman and Chief Financial Officer