July 30, 2009
Via email to director@fasb.org
Mr. Russell G. Gordon
Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 08686-5116

File Reference No. EITF0801&0903

Mr. Golden:

Thank you for the opportunity to comment on the draft abstracts for EITF Issues 08-01 and 09-03. Echelon Corporation is a publicly held company that develops, markets, and sells system and network infrastructure products that enable everyday devices — such as air conditioners, appliances, electricity meters, light switches, thermostats, and valves — to be made smart and inter-connected. Working together, products and systems equipped with our technology can monitor and save energy, lower costs, improve productivity and enhance service, quality, safety and convenience. A very significant percentage of Echelon's revenue relates to software enabled devices such as smart metering systems.

We appreciate the efforts of the Task Force and believe the resulting guidance will significantly improve financial reporting for multiple element arrangements. From time to time advances in technology and commerce radically change the economic foundation for past accounting determinations. This is clearly the case with respect to software enabled devices. When faced with such a discontinuity, it is tempting to defocus to an overly broad examination of issues or to wait for some other party to tackle the issue. In our view, the Task Force did not succumb to either of the foregoing alternatives and instead has produced two well reasoned standards that bring accounting for arrangements with multiple deliverables back into balance with modern technology and commerce.

We generally support the conclusions reached by the EITF on both issues and do not anticipate any significant implementation issues. However, we have some concerns about the proposed guidance with respect to the extent and difficulty of the proposed disclosures and the restrictions on early adoption in transition. Our specific comments follow:

3. Issue 08-01 significantly expands the disclosures that are required relating to multiple-deliverable revenue arrangements (including those arrangements affected by Issue 09-03).

550 Meridian Ave.
San Jose, CA 95126
tel: 408 938 5200

a. Do you agree that the disclosures in the consensus-for-exposure would provide useful information to financial statement users? If you do not believe those disclosures would provide useful information, what disclosures should be required and why would they be useful?

b. Are there additional disclosures that would provide useful information for financial statement users relating to multiple-deliverable revenue arrangements that the Task Force should consider requiring?

We believe that most of the disclosures would provide useful information to financial statement users. The challenge will be to provide essential information in a narrative that is short enough that financial statement users will read the disclosure. We do not recommend any further disclosures. However, it would be helpful to clarify the objective of the disclosures so that the notion of "similar arrangements" does not result in an overly granular discussion and does not lead to significant debate about the grouping of arrangements for disclosure purposes. For instance, we envision a single disclosure for all of Echelon's smart metering transactions. We believe these arrangements are sufficiently similar as to warrant grouping into one discussion. However, we can envision situations where this conclusion is subject to debate and second guessing. In particular, absent some clarity regarding the disclosure's objective, it is possible that some might read the phrase "similar arrangements" as suggesting that disaggregated information by arrangement is necessary absent substantially identical terms and conditions.

4. The Task Force discussed whether these disclosures should also include the effects of changes in selling prices, allocation methods, or assumptions if they have a significant effect on profit margins but decided not to require such disclosure. Should the disclosure requirements of Issue 08-1 be expanded to include disclosure of the effects in changes in selling prices, allocation methods, or assumptions on profit margins, if significant?

   Because existing GAAP already requires disclosures for changes in estimate, we question the basis for requiring more granular, detailed discussion of effects of changes in selling prices, allocation methods and assumptions in the context of multiple element arrangements. We believe these incremental disclosure requirements unnecessarily add to complexity and cost without adding to the substance of the resulting information. For this reason, we do not believe the disclosure requirements should be expanded to include disclosure of the effects of such changes on profit margins. In addition to being burdensome to preparers, we fear that such further disclosures would make the total disclosure so long and complex so as to significantly distract users from the operating results reported in accordance with the requirements of GAAP.

5. Do you agree that this Issue should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted as of the beginning of a fiscal year provided the vendor has not previously issued financial statements for any period within that year?

   We agree that the two issues should be applied prospectively to new or materially modified arrangements. However, because we believe the new guidance represents a significant improvement to existing standards, we disagree with the restriction on early adoption. We believe it would be appropriate to permit adoption in other than the first quarter provided that earlier periods were retrospectively adjusted – particularly if the later adoption simply results from the actual effective date of the Issue. That is, we do not believe that investors should be required to wait three quarters for the improved reporting that will arise from Issues 08-1 and/or 09-03 if the final rule becomes effective in early 2010, as opposed to 2009.

6. The consensus-for-exposure requires an entity to disclose in the year Issue 08-1 and/or 09-3 are adopted, the amount of revenue recognized under those Issues and the amount of revenue that would have been recognized had the entity applied Issue 00-21 and/or SOP 97-2. The Task Force believes that this information is necessary to describe the effect of the adoption of these Issues to financial statement users. Do you agree with that decision?

   No, we do not agree with that decision.

   The recommendation of the Task Force is very costly as it will require companies to account twice for each transaction – once under the then current accounting literature and once under the former accounting literature. Additionally, internal controls design and effectiveness testing under Sarbanes-Oxley would be required for both accounting methods further increasing the cost. This will be a burden for small companies such as Echelon Corporation and perhaps for large companies as well. Further, the proposed disclosure seems wholly inconsistent with the reason these issues were added to the EITF agenda: investors and preparers alike were concerned that the results of applying EITF Issue 00-21 and SOP 97-2 distorted the economic reality of the underlying arrangements. We are confused as to why taskforce members or investors believe that this information is even useful, much less "necessary," as the question implies. Providing pro forma type information only creates confusion in terms of which numbers are "correct", i.e. are more representative of the transactions being reported.

   Additionally, as the Task Force appreciates, companies will enter the first year with a backlog of arrangements. The effect of the transition for any fiscal period will depend on the proportion of arrangements that were entered into prior to the effective date of the Issues. For any given company, the effect of this transition may be different in each quarter as an increasingly larger percentage of arrangements are accounted for under Issues 08-01 and/or 09-03. Further, an arrangement may be modified in the second third or fourth quarter after adoption further adding to confusion on the part of financial statement users.

Of course, there could be instances when companies will believe that the effect of recognizing revenue under Issue 08-01 and/or 09-03 had a significant effect on revenues for a period and comparability to an earlier period. For public companies, we believe that companies should address this in "Results of Operations" section of Management's Discussion and Analysis of Financial Condition and Results of Operations, as they would other issues of comparability.

We appreciate your efforts in addressing the complexities of accounting for software enabled devices under SOP 97-02 and thank you for the opportunity to voice our concerns with respect to the proposed disclosures and transition to the draft EITF issues 08-01 and 09-03.

Sincerely,

Oliver R. Stanfield
Executive Vice President and Chief Financial Officer
Echelon Corporation