



2011-230  
Comment Letter No. 50

Tellabs  
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March 12, 2012

Ms. Leslie F. Seidman, Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Exposure Draft: Revenue from Contract with Customers

We would like to thank the Boards for giving us the opportunity to comment on the Exposure Draft for Revenue Recognition Topic 605 – Revenue from Contracts with Customers. Tellabs designs, develops and supports telecommunications networking products. We generate revenue principally through the sale of these products to communications service providers worldwide as both stand-alone network elements and as elements of integrated solutions. We also generate revenue by providing services to our customers. Tellabs looks forward to the issuance of a single standard for companies under U.S. GAAP and IFRS. We believe that the new revenue recognition standard will reduce the complexity of applying revenue recognition guidance as well as improve comparability of revenue recognition practices across similar or identical transactions and various industries.

### **Warranty Obligations**

It is customary business practice in the telecommunications industry for telecom vendors to provide their customers with warranties for the products they purchase. These warranty periods, while in substance may provide the same type of coverage across different transactions, may vary in length depending on the specific business opportunity. The exposure draft provides factors that should be considered *“in assessing whether a warranty provides a customer with a service in addition to the assurance that the product is in accordance with its agreed upon specifications”* and thus as a separate performance obligation. These factors include

*“(1) whether the warranty is required by law, (2) the length of the warranty period and (3) the nature of the tasks that the entity promises to perform”.*

In many cases, warranties are not required by law and only provide assurance that the product will perform in accordance with the agreed upon specifications. However, the length of these warranty periods may vary. It is unclear based on the current exposure draft, in this type of scenario, as to how



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one would account for these varying warranty periods. While length of warranty period is a factor that must be considered, is an extended warranty that only provides assurance with agreed upon specifications accounted for differently than one that provides this same assurance but for a shorter period of time?

We believe that a warranty that only provides assurance that a product is in accordance with contractual specifications should be treated as a warranty liability regardless of the length of that warranty period. Our perspective is that the nature of the warranty is much more crucial and determinative in how the warranty should be accounted for as opposed to the length, but we kindly request clarification around this type of scenario. Our questions include: Can an extended length of time *alone* constitute a service that should be accounted for as a separate performance obligation? What is considered an extended warranty period and at what point in time does the length of the warranty become a service and thus a separate performance obligation?

Would the Boards consider providing clarity around the accounting for these types of arrangements where the nature of the warranty is only one of providing a product in accordance with agreed upon specifications but the warranty period is extended?

We believe that all warranty arrangements that provide assurance that a product is in accordance with contractual specifications should be accounted for under the cost method and not become part of a separate performance obligation. Splitting a warranty period is not practicable and in our view does not provide additional transparency as to the nature of our warranty program or potential related revenue streams.

### **Onerous Performance Obligations**

We would like to address question four in the Questions for Respondents section of the exposure draft. Question four states,

*“For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognize a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why? As a part of our response to this question, we would also like to address disclosure requirement number four of question five which requires a disclosure for “Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period.”*



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First of all, we'd like to commend the Board on their revision to the latest exposure draft on the scope related to the measurement of onerous performance obligations. While there is still the requirement to measure the expected loss at a performance obligation level for those performance obligations that are satisfied over a period of time greater than one year, this is much more reasonable than the initial requirement to measure the expected loss for every onerous performance obligation regardless of the length of time required to satisfy the obligation.

Companies in our industry have been and continue to move towards the practice of offering solutions to their customers that include multiple products and services. The competitive nature of the telecommunications industry, the current business environment and the needs of customers are moving vendors to provide more comprehensive solutions that offer multiple goods and services. It is often that individual components may be sold at a loss while the company focuses on overall profitability especially from a contract perspective. Under the original revenue recognition proposal, the requirement of having to track and measure every performance obligation in which the costs exceeded the revenue allocated to it would have been overly burdensome and resulted in increased costs associated with the tracking and recording of this data. To that end, we still believe that the cost of disclosing this data would far outweigh the benefits of presenting it and that the incremental information it presents to users would not justify the costs associated with that disclosure.

We further implore the Boards to remove the existing requirement to measure onerous performance obligations delivered over time periods longer than one year. We do not perceive that the benefits derived from this recognition will outweigh the costs associated with its presentation. One important consideration is that the length of time associated with performing an onerous performance is not necessarily tied to the vendor's efforts associated with delivering it. To capture all of these reasons, which change daily and are numerous, in the financial statements, is cumbersome. Performance obligations are often satisfied over periods of time longer than a year due to reasons outside the control of the vendor. Customers often delay the delivery or satisfaction of these performance obligations due to many different reasons, of which some are related to their own internal timelines, allocated resources, and other outside forces (work strikes, weather conditions, etc.). Another important point is that customers are interested in purchasing bundled solutions and are focused on the total cost of ownership associated with a solution or project. They are not concerned with the bifurcation of the proposal or contract into smaller pieces as their budgets must accommodate the purchase of the overall solution. The vendor, too, has a business objective of achieving overall profitability from a contract perspective. We believe the Boards could further improve the practicality and cost/benefit of the new standard by removing the measurement and disclosure requirement associated with these onerous performance obligations. We believe that the other disclosure requirements that have been added in



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this latest exposure draft will provide the users of financial statements with information that is more than sufficient and meaningful.

### **Time Value of Money**

We are pleased with the Boards' changes related to time value of money. The revised exposure draft introduces a practical expedient that an entity would not need to adjust the promised amount of consideration for transactions in which the entity expects the period of time between payment from the customer and the transfer of goods and/or services to the customer to be less than one year. While we understand that there are other factors to consider besides time when determining if a material financing component is relevant in a transaction, we welcome the practical expedient that the Boards have incorporated into the exposure draft. This expedient provides a static timeframe that we think most companies will find useful and will use on a consistent basis so that a standard of comparability is established across transactions of this duration.

### **Collectibility**

We'd like to commend the Boards on changes in the new exposure draft related to collectability. We think it appropriate to report the effects of customer credit risk in accordance with the guidance in Topic 310 on receivables and as a separate line item offsetting revenue when this guidance does not apply. This type of transparency is most useful to users of financial statements as they will be able to identify changes in revenue separately from changes associated with bad debts on customer accounts. The original exposure draft introduced the concept of measuring the customer's ability to pay based upon a probability-weighted amount of consideration. This guidance would have resulted in an entity recording revenue amounts that did not reflect what the entity actually collected from their customers. We believe that recording those amounts actually invoiced and most likely to be collected will provide a true representation of the consideration most likely to be received.

Regards,

A handwritten signature in black ink, appearing to read 'Tom Minichiello', written in a cursive style.

Tom Minichiello

Vice President Finance & Chief Accounting Officer



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A handwritten signature in cursive script that reads 'Michael Miles'.

Michael Miles

Director Finance – Revenue Recognition

A handwritten signature in cursive script that reads 'Larry Alfonso'.

Larry Alfonso

Finance Manager – Revenue Recognition