Case 04-2

Busy Signals, Unlimited

Busy Signals, Unlimited (Busy), an SEC registrant, provides customer support services to third parties through the use of telephone service representatives (TSRs) who are employees of Busy. For example, a contract may involve Busy's TSRs providing technical support for products of Company X. Since the products of Company X are unique to Company X, TSRs typically have to be trained to provide technical support. As a result, for each contract, there are generally two sources of revenue to Busy if TSR training is a required part of the contract.

Training Revenue
Training revenue consists of a nonrefundable, up-front fee (based on training hours) billed to customers to cover the cost of training Busy's TSRs. For example, a contract may call for 100 "seats," with each seat to be trained for 100 hours over a period of three to four weeks.

Call Revenue
Call revenue is based on a stated rate per hour. For example, if TSRs spend an aggregate of 800 hours on calls for the week, the customer is billed for 800 hours, multiplied by the stated rate in the contract for the inbound or outbound call services provided.

Revenue Recognition Policy
Busy's current policy is to recognize revenue related to the call revenue as earned, i.e., when TSRs perform services. Busy's policy with respect to training revenue is to defer amounts received under these contracts in accordance with Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, (EITF 00-21) and *Staff Accounting Bulletin No. 104 -- Revenue Recognition (Office of the Chief Accountant, December 17, 2003)* (SAB 104), and recognize these revenues over the life of the contracts. Busy does not believe that training is a separate deliverable under the contracts because the training of Busy's TSRs is integral to the services that Busy provides pursuant to these contracts. In addition, even if Busy were able to conclude that training was a separate deliverable, Busy does not believe that revenue from training could be accounted for separately as it would not meet the separation criteria specified in paragraph 9 of EITF 00-21. Accordingly, based on the guidance contained in EITF 00-21 and SAB 104, Busy has concluded that deferral of training revenue and recognition over the life of the contract is the appropriate accounting treatment.

Cost Deferral Policy
Upon the adoption of EITF 00-21, in fiscal year 2003, Busy also adopted a policy of deferring direct costs of employees for the specific costs associated with the specific hours related to the TSR training. (It is noted that the adoption of EITF 00-21 did not change Busy's revenue recognition policies with respect to training, as the revenue from training was previously deferred and recognized over the life of the contract pursuant to

the guidance contained in SAB Topic 13, *Revenue Recognition*). These direct costs include salary, benefits and payroll taxes. The adoption was made in conjunction with Busy's adoption of the provisions of EITF 00-21. The fee charged to train employees exceeds the direct costs to train employees on a contract and aggregate basis, i.e., the total training revenues exceed total training costs on an individual contract basis, as well as on a total, companywide basis. Additionally, the total fees (training revenue and call revenue) on an individual contract and aggregate basis exceed the direct costs of a contract, including amortization of the deferred costs, before any indirect, or SG&A, costs.

Required:

Is it appropriate for Busy to defer the costs of training its TSRs?