United Technologies Corporation United Technologies Building Hartford, CT 06101 (860) 728-6246

Technologies

Gregory J. Hayes Vice President Accounting and Control

July 31, 2006



LETTER OF COMMENT NO. /O

Mr. Robert H. Herz Chairman. Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

Proposed FASB Staff Position on Accounting for Planned Major Re: Maintenance Activities (FSP AUG AIR-a)

Dear Mr. Herz:

We appreciate the opportunity to comment on the proposed FASB Staff Position Accounting for Planned Major Maintenance Activities.

United Technologies Corporation (UTC), based in Hartford, Connecticut, is a diversified company that provides a broad range of high technology products and support services to the building systems and aerospace industries. Within our aerospace businesses, we provide products under lease to a broad customer base principally in the commercial engine business. Given customer demand, these engine leases are generally short-term, and as such, we typically lease these engines to a number of operators between the engines' mandated service intervals. Given the nature of this aspect of our business, we have consistently concluded that the accrue-in-advance method of accounting for planned major maintenance activities is the most appropriate method of accounting for these costs.

While we support the Board's efforts to continuously improve financial accounting and reporting standards, we disagree with the Board's proposal to prohibit the use of the accrue-in-advance method of accounting for planned major maintenance activities. In fact, we believe the accrue-in-advance method is among the more preferred alternative methods of accounting for these costs. While we understand the Board's desire to promote consistency of reporting among all entities, we do not believe such consistency across all entities is appropriate if the accounting does not fit the specific facts and circumstances of particular companies or industries.

The FASB's principal argument for eliminating the accrue-in-advance method of accounting is the Board's belief that this accounting method results in recognition of liabilities that do not meet the definition of a liability in FASB Concepts Statement No. 6, Elements of Financial Statements (CON No. 6). We disagree. CON No. 6 defines liabilities as "probable future sacrifices of economic benefits arising from present obligations of a particular entity ... as a result of past transactions or events". CON

No. 6 further provides that liabilities have three essential characteristics: (a) a present duty or responsibility..., (b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid future sacrifices, and (c) the transaction or other event obligating the entity has already happened.

Air safety, including aircraft and engine maintenance requirements, is highly regulated and, as such, planned major maintenance activities are mandated by specific rules and regulations. Typically, the nature and timing of maintenance intervals are directly related to aircraft and engine usage with major overhauls occurring every five to six years. As a going concern, we intend to use our productive assets, including commercial aircraft engines, on a continuous basis as an integral part of our ongoing operations. The continued use of these assets creates a legal obligation for us to perform mandated maintenance activities at specific intervals. This legal mandate establishes a liability that, in our view, should be recognized in a company's financial statements.

Having concluded that maintenance activity is a legal obligation that we have little or no discretion to avoid, the next question is what is the most appropriate timing of liability recognition? We believe that the accrue-in-advance method, where a liability is recognized as usage occurs, provides for a more appropriate matching of revenues with the costs that must be incurred to generate those revenues. While other accounting methods, such as the deferral or built-in-overhaul method, may also result in a matching of revenues and expenses, the accrue-in-advance method is the more preferred method because there is a more direct relationship between asset usage and the amount of expense charged to revenues. This is particularly true in situations such as ours where assets are not used in UTC's operations but, rather, are under lease to meet our customer's short-term demands. We do not believe that the other accounting methods are an acceptable alternative given our facts and circumstances. Accordingly, because of differences in how these assets are used between various companies and industries, the accrue-in-advance method should continue to be available as an appropriate accounting method, particularly in instances where a direct relationship can be made between revenue generating activities and asset usage.

We appreciate your consideration of these comments. If you require any additional clarification or assistance, please feel free to contact me.

Yours truly.

Gregory J. Hayes

Vice President, Accounting and Control