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Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116
Via email to director@fasb.org

RE: *Proposed Accounting Standards Update—Revenue Recognition (Topic 605): Revenue from Contracts with Customers*

DynCorp International, Inc. (“DI”) welcomes the opportunity to provide comments to the FASB concerning this exposure draft moving GAAP to a single model for revenue recognition for all contracts with customers.

DynCorp International is a global government services provider in support of U.S. national security and foreign policy objectives, delivering support solutions for defense, diplomacy, and international development. DI operates major programs in logistics, platform support, contingency operations, and training and mentoring to reinforce security, community stability, and the rule of law. DynCorp International is headquartered in Falls Church, Va. For more information, visit <http://www.dyn-intl.com/>.

While we agree that revenue recognition is a key principle under GAAP and IFRS standards, and acknowledge that some existing guidance may be applied inconsistently, we have concerns over the potential scope of the disclosures required under this Exposure Draft.

We support a focused attempt to reconcile and simplify the guidance on revenue recognition, with the caveat that some provisions for industry-specific issues may need to be retained. For example, the terms and conditions of our contracts with our primary customers, the U.S. Department of Defense and the U.S. Department of State, differ significantly from those most often found in the commercial business world. We cannot envision a single standard, rules-based or principles-based, that would encompass guidance for specialized industries currently found in the Accounting Standards Codification.

Our views on the individual questions raised by this Exposure Draft are included on the following pages.

Recognition of Revenue (paragraphs 8-33)

Question 1: Paragraphs 12-19 propose a principle (price interdependence) to help an entity determine whether to:

- a. Combine two or more contracts and account for them as a single contract;
- b. Segment a single contract and account for it as two or more contracts; and
- c. Account for a contract modification as a separate contract or as part of the original contract.

Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a single contract?

DI agrees with the price interdependence principle.

Question 2: The Boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?

DI agrees with the criteria established for determining whether a promised good or service is distinct.

Question 3: Do you think that the proposed guidance in paragraphs 25-31 and related implementation guidance are sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?

The proposed guidance and related implementation guidance are sufficient for determining when control of a promised good or service has been transferred to a customer.

Measurement of Revenue (paragraphs 34-53)

Question 4: The Boards propose that if the amount of consideration is variable, an entity should recognize revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposed criteria that an entity should meet to be able to reasonably estimate the transaction price.

Do you agree that an entity should recognize revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognizing revenue when the transaction price is variable and why?

DI agrees with revenue recognition on the basis of an estimated transaction price if the amount of consideration is variable.

Question 5: Paragraph 43 proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer's credit risk should affect *how much* revenue an entity recognizes when it satisfies a performance obligation rather than *whether* the entity recognizes revenue? If not, why?

While a significant change in current literature, DI agrees in concept with utilizing collectability to determine transaction price rather than to determine whether revenue should be recognized. However,

we believe that the application of this concept in practice may prove challenging in some industries or for companies entering new markets with new customers. Additionally, we believe that the proposed guidance will require many companies to modify their accounting systems in order to record revenue at a transaction price that is adjusted for collectability. We believe that additional implementation guidance would be appropriate to provide further clarity where supportable estimates are not available.

DI disagrees with reflecting changes in the assessment of credit risk in other income rather than contract revenue. Reporting subsequent changes in other income will distort contract performance and income from non-operating sources for a given period. We believe that such changes should be recorded as changes of the original estimate.

Question 6: Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?

DI agrees that when material financing components are part of the promised consideration, the amount of consideration should reflect the time value of money.

Question 7: Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the standalone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate, and how should the transaction price be allocated in such cases?

DI agrees with allocating the transaction price to all separate performance obligations as prescribed in the Exposure Draft.

Contract Costs (paragraphs 57-63)

Question 8: Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards (for example, Topic 330 or IAS 2; Topic 360 or IAS 16; and Topic 985 on software or IAS 38, *Intangible Assets*), an entity should recognize an asset only if those costs meet specified criteria.

Do you think that the proposed guidance on accounting for the costs of fulfilling a contract is operational and sufficient? If not, why?

DI agrees the proposed guidance is both operational and sufficient.

Question 9: Paragraph 58 proposes the costs that relate directly to a contract for the purposes of (a) recognizing an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognized for an onerous performance obligation.

Do you agree with the costs specified? If not, what costs would you include or excluded and why?

DI agrees with the costs specified in the Exposure Draft.

Disclosure (paragraphs 69-83)

Question 10: The objective of the Boards' proposed disclosure requirements is to help users of financial statements understand the amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?

The prescriptive nature of the proposed disclosure requirements seem inconsistent with the principles-based approach to the Exposure Draft. With guidance applicable across all industries, these detailed disclosure requirements will add significant detail to the financial statements which we believe will be costly to implement for many financial statement preparers. DI believes a principles-based approach should be applied to the disclosures with guidelines established for the use of management judgment in determining qualitative and quantitative disclosures.

Question 11: The Boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year.

Do you agree with that proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?

DI does not agree with the proposed disclosure requirement. The inclusion of forecasted financial information will add volatility to financial statements, expose auditors to additional reviews of these estimates, and circumvent safe harbor protections provided by the Private Securities Litigation Reform Act for financial statement filers. Finally, these disclosure requirements would require auditors to audit long-range planning information subject to many changes and variability while disclosing competitively sensitive information. As an alternative, DI recommends principles-based disclosure which provides management with the ability to exercise judgment on value added disclosures balanced against cost-benefit.

Question 12: Do you agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing, and uncertainty of revenue and cash flows are affected by economic factors? If not, why?

With guidance applicable across all industries and no clear set of categories that best depict the amount, timing, and uncertainty of revenue and cash flows, the cost of providing this information would outweigh any benefit provided to a financial statement user. Principles-based disclosures, as discussed in question 10, would provide more meaningful information to the financial statement reader without subjecting preparers to the costly implementation inherent in the proposed requirements.

Effective date and transition date (paragraphs 84-85)

Question 13: Do you agree that an entity should apply the proposed guidance retrospectively (that is, as if the entity had always applied the proposed guidance to all contracts in existence during any reporting periods presented)? If not, why?

The proposed retrospective treatment seems inconsistent with other recent pronouncements. ASU 2009-13, ASU 2009-14, and ASC 605-28 were recently adopted with a prospective application. ASC 250 details specific conditions that indicate the impracticality of retrospective application of changes in accounting principles. DI believes these conditions apply to our industry which commonly has large

contracts covering multiple years. In addition, entities routinely make assumptions and estimations at multiple points throughout a contract's life.

Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.

Consistent with recently issued literature, DI believes prospective application will provide the most benefit to financial statement users with a balanced cost to financial statement preparers.

Implementation guidance (paragraphs IG1-IG96)

Question 14: The proposed implementation guidance is intended to assist an entity in applying the principles in the proposed guidance. Do you think that the implementation guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?

There are many complex issues and combinations of circumstances that occur in practice that will be challenging to apply this guidance without more robust examples. More specific examples as to how stand-alone selling price, distinct performance obligations, allocation of transaction price across variable priced performance obligations, and credit risk assessments should be determined and/or performed would greatly benefit the financial statement preparer in the implementation of this guidance.

Question 15: The Boards propose that an entity should distinguish between the following types of product warranties:

- (a) A warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.
- (b) A warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract.

Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?

DI agrees with the proposed distinction and treatment of the various types of product warranties.

Question 16: The Boards propose the following if a license is not considered to be a sale of intellectual property:

- (a) If an entity grants a customer an exclusive license to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and it satisfies that obligation over the term of the license; and
- (b) If an entity grants a customer a nonexclusive license to use its intellectual property, it has a performance obligation to transfer the license and it satisfies that obligation when the customer is able to use and benefit from the license.

Do you agree that the pattern of revenue recognition should depend on whether the license is exclusive? Do you agree with the patterns of revenue recognition proposed by the Boards? Why or why not?

There are certain unique situations with service contracts that provide licensing to the customer but performance of the service agreement requires use of the license. These situations could be sufficiently covered in these provisions if the statement read “use or access and potentially benefit” from the license.

Consequential amendments

Question 17: The Boards propose that in accounting for the gain or loss in the sale of some nonfinancial assets (for example, intangible assets and property, plant, and equipment), an entity should apply the recognition and measurement principles of the proposed revenue model. Do you agree? If not, why?

DI agrees that in accounting for gains and losses an entity should use the recognition and measurement principles of the proposed revenue model.

Sincerely,

/s/ Bradley G. Graham

**Bradley G. Graham
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