October 21, 2010

Ms. Leslie F. Seidman  
Acting Chairman  
File Reference No. 1820-100  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Re: Exposure Draft - Proposed Accounting Standards Update, Revenue Recognition (Topic 605): Revenue from Contracts with Customers

Dear Ms. Seidman,

Thank you for the opportunity to comment on the proposed revenue recognition standard. We greatly appreciate the time various Board members and the revenue recognition project staff have taken to discuss the project and help us better understand how the proposed guidance would be applied in our industry.

We support the Boards’ efforts to create a revenue recognition standard converging U.S. GAAP and IFRS. We are generally supportive of the principles outlined in the model for revenue recognition. However, the proposed guidance could have a significant impact on our financial results and impair our ability to clearly articulate financial performance to investors and other users of our financial statements. Of greatest concern is the proposed cost guidance that could require us to expense all deferred production costs associated with investments in commercial airplane programs.

Our commercial airplane business has a generally accepted and well established history of capitalizing deferred production costs and treating the airplane program as the unit of account. A program consists of an estimated number of airplanes to be delivered under existing and anticipated contracts. Deferred production costs meet the definition of an asset because they represent an investment in technology and know-how that will be recoverable from the overall profit we expect from the airplane program. Without the ability to continue capitalizing deferred production costs, the financial results over the life of a commercial airplane program would be significantly different than our current reporting and would not be representative of the underlying economics of our airplane programs nor provide decision-useful information to investors.

Considering this, we would ask the Boards to consider limiting the proposed cost guidance to set-up costs for service contracts and pre-contract costs or clarify that the proposed guidance does not apply to product manufacturing costs. Should the Boards decide to address cost guidance for production-type contracts, we suggest that the Boards consider undertaking a separate project to address both inventory costing and the capitalization of internally generated intangible assets to ensure application of a consistent global accounting model.

In addition to our concerns with the proposed cost guidance, we would propose the following additional observations and recommendations:
• **Onerous obligations** – Because the business assessment and economic considerations are made at the airplane program level for our commercial airplane business or contract level for our defense business, we recommend that onerous obligations be assessed at the program or contract level. We believe that in cases where a day one loss would be recorded for onerous performance obligations on an overall profitable contract or program, some if not all of those costs in excess of revenues represent an asset in the context of FASB Concept Statement No. 6. Alternatively, a day one loss on a particular performance obligation may indicate that pricing is interdependent and the contract should be accounted for as a single profit center.

• **Contract segmentation and identification of performance obligations** - The conditions for segmentation could result in an unintended proliferation of segments or preclude segmentation in transactions for multiple goods and services where a quantity discount is presumed to exist. We would propose that the Boards eliminate the guidance on segmentation and provide additional guidance concerning identification of performance obligations that includes consideration of the intent of the contracting parties, the existence of significant over-arching contract management services, and the underlying economics of transactions. We also ask that the Boards permit changes in estimated transaction prices to be allocated to specific performance obligations where the change clearly relates to a specific performance obligation.

• **Continuous transfer of control** – We believe that additional guidance on when continuous transfer of control exists would be helpful. As written, the guidance may preclude proportional or percentage-of-completion revenue recognition on certain long-term contracts. We suggest that the Boards provide indicators of contractual arrangements where continuous transfer of control is presumed to exist. We also note that the control indicators in the proposed standard have limited relevance for service contracts.

• **Variable consideration** – We are concerned that the proposed guidance for estimating variable consideration is too rules-based and could preclude recognition of variable consideration when a company is offering new products or services. We also believe that using a probability-weighted approach introduces unnecessary complexity and potentially misleading financial results. Accordingly, we would ask that the proposed standard be revised to permit use of management’s best estimate in situations where consideration is variable.

• **Contract costs** – In addition to our comments in the opening paragraphs of this letter, we are concerned that the concept of abnormal costs, while not new, may result in divergent accounting practices as changes in estimates are common in our industry. Overall program or contract profitability is the key performance metric. We therefore do not believe that separating costs into normal and abnormal can be operationalized to provide useful information to investors or enhance comparability.

• **Disclosure** – We believe the suggested disclosures for backlog, detailed roll-forwards of balance sheet accounts and disaggregation of onerous performance obligations to be excessive and benefits will not outweigh costs. Indeed, they could be competitively harmful.

• **Transition** - We believe mandatory retrospective application of the proposed guidance could be costly, burdensome and impracticable due to the number of long-term contracts in our company and for others in our industry. Therefore, we recommend that prospective adoption be permitted.
Again, we support your efforts and thank you for the opportunity to comment. Our responses to the specific questions in the Exposure Draft are attached in the appendix to this letter. If you have questions, or need additional information, please contact me at 312-544-2625 or Michael Cleary, Vice President of Accounting and Financial Reporting, at 312-544-2115.

We look forward to continuing dialog on this very important project.

Sincerely,

[Signature]

Greg Smith
Vice President of Finance and Corporate Controller
Appendix

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 separate contract?

We agree with the proposed price interdependence principle and suggested indicators for the combination of two or more contracts into a single unit of account. However, we do not agree with the conditions for segmentation as described in Paragraph 15. We believe that the conditions for segmentation are not operational as they could result in a proliferation of segments or preclude segmentation in transactions for multiple goods and services where a quantity discount is presumed to exist. We believe that the Boards have included the segmentation guidance to provide relief from having to allocate variable transaction price across multiple performance obligations when those performance obligations are priced independently. While we agree with the Boards that there needs to be a way for companies to allocate a variable transaction price or change in variable transaction price to a specific performance obligation, we do not believe that the segmentation guidance would achieve the intended purpose. We recommend that the Boards eliminate the guidance on segmentation and provide further guidance on allocating transaction price to specific performance obligations. Our recommendation would eliminate the guidance in Paragraphs 15 and 16 and clarify the guidance as follows:

- Paragraph 50 would require an estimate of contingent consideration that relates to a specific performance obligation to be initially assigned to that performance obligation; and,

- Paragraph 53 would require any subsequent changes in estimate of contingent consideration that relates to a specific performance obligation to be assigned to that performance obligation.

We generally agree with the guidance in paragraph 19 on the accounting for contract modifications as a separate contract or as part of the original contract based upon price interdependence.

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?

Overall, we support the concept of identifying performance obligations to be accounted for separately and that the best evidence that a good or service is distinct is when the good or service is sold separately. However, we believe that there are some additional factors that should be considered in identifying separate performance obligations in a contract.

First, we agree with the application guidance in Paragraphs BC56 – BC59 that acknowledges the role of significant over-arching contract or program management services and pervasive risks involved in the production of highly complex deliverables. We recommend that the Boards include this concept in the body of the proposed standard, supplementing the guidance provided in paragraphs 23 (a) and (b) for determining whether a good or service, or a bundle of goods or services, is distinct. Inclusion of this concept will ensure that contracts
for highly complex deliverables with integrated contract management services and risks are accounted for consistently and the resulting accounting provides decision-useful information to investors.

Second, we believe that the intentions of the contracting parties as well as underlying negotiations and pricing should be contemplated in determining the number of performance obligations in a contract. For example, we believe that a contract for multiple units of highly specialized equipment built to a customer’s specification should be accounted for as a single profit center whereas a contract for multiple units of a standard product that is sold to many customers should be accounted for as multiple performance obligations. We would also generally consider the production of multiple units of highly specialized equipment to be a separate performance obligation from the operation and maintenance of those units. We recommend the Boards clarify the proposed guidance to require consideration of the intent of the contracting parties and the underlying economics of transactions in identifying performance obligations.

Finally, we believe that the concept of inconsequential and perfunctory should be carried forward from existing guidance. We do not agree that revenue recognition should be deferred for performance obligations that are considered inconsequential and perfunctory. We recommend that the Boards carry-forward this concept by adding the following language to the performance obligation guidance included in the standard:

- **It is not necessary to apply the proposed recognition and measurement requirements to performance obligations that are inconsequential and perfunctory. A performance obligation would be inconsequential and perfunctory if it is not essential to other performance obligations in the contract and failure to complete it would not result in the customer receiving full or partial refund or rejecting the other performance obligations.**
- **Indicators that a performance obligation is substantive rather than inconsequential or perfunctory:**
  - The seller does not have a demonstrated history of completing the performance obligation in a timely manner and reliably estimating their costs.
  - The cost or time to complete the performance obligation for similar contracts historically has varied from one instance to another.
  - The skills or equipment required to complete the performance obligation are specialized and not readily available in the marketplace.
  - The cost of completing the performance obligation, or the fair value of the performance obligation, is more than insignificant in relation to such items as the contract fee, gross profit and operating income allocable to other performance obligations in the contract.
  - The period before the performance obligation will be extinguished is lengthy. Registrants should consider whether reasonably possible variations in the period to complete performance affect the certainty that the performance obligation will be completed successfully and on budget.
  - The timing of payment of a portion of the sales price is coincident with completing the performance obligation.

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?

Proportional or percentage of completion revenue recognition is important in our industry. We are concerned that the proposed criteria for transfer of control may preclude proportional revenue recognition on certain arrangements based on contractual terms and conditions. We
believe the current language in the proposed guidance does not provide sufficient guidance with respect to when continuous transfer of control exists. We recommend the Boards provide indicators of contractual arrangements where continuous transfer of control is presumed to exist. Such indicators could be added in a paragraph following Paragraph 31 and could include such factors as the following:

- The contract involves an ongoing relationship over a long-term period of performance;
- The customer has the ability to customize the product or service;
- The existence of progress or milestone payment requirements as the work is performed;
- The contracted scope of work occupies a significant portion of the contractor’s resources dedicated to the contract in question;
- The scope of work involves specific, unique assets or services rather than the mass production of identical assets or performance of routine services; or
- Ongoing assessment by both the contractor and customer of the contractor’s progress toward completion of performance obligations.

Absent such indicators, contractors have no support beyond the guidance in paragraph 30(d) for supporting continuous transfer of control despite the fact that there are numerous contractual circumstances not addressed by 30(d) that further support the continuous transfer model. We also note that the control indicators have limited relevance for service contracts.

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 proposes 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?**

Quite often in our industry, a company must use an estimated selling price (including a variable fee) to make the economic decision of whether or not to enter into a contract. Generally, we would not be willing to enter into a contractual relationship to produce a good or service if we could not reasonably estimate the expected value to be received, including a fee or earnings component. In such circumstances, estimation of the selling price is an essential element of the transaction. As such, we agree that an entity should recognize revenue based on an estimated selling price in the appropriate circumstances. However, we are concerned that paragraphs 38 and 39 are too rules based and may be interpreted by some to preclude recognition of variable consideration when a company is offering new products or services. In our industry we frequently develop new products for our customers and contracts typically include bonus and penalty clauses which we have a history of estimating. We recommend that Paragraphs 38 and 39 be eliminated in their entirety and replaced by more principles based guidance similar to that currently provided in ASC 605-35, as follows:

“For entities engaged on a continuing basis in the production and delivery of goods or services under contractual arrangements and for whom contracting represents a significant part of their operations, the presumption is that they have the ability to make estimates that are sufficiently dependable. Persuasive evidence to the contrary is necessary to overcome
that presumption. *The ability to produce reasonable dependable estimates is an essential element to the contracting business.*

We believe that the above guidance will better achieve the result intended by the Boards.

Furthermore, we do not agree with a probability-weighted approach in determining the amount of variable consideration. When estimating the transaction price for contracts with variable consideration, the use of probability-weighted amounts, especially when there are binary outcomes, likely would lead to recording revenue at an amount that is not a possible outcome under the contract. The approach adds unnecessary complexity to the assessment of transaction price for a result that would not accurately reflect the underlying economics of the transaction or provide decision-useful information to a user of the financial statements.

We recommend the use of management’s best estimate for the measurement of variable transaction price. We believe that management’s best estimate is the most useful measure as it allows for the exercise of judgment based on experience to determine the transaction price. It also provides the most decision-useful information for investors as it would reflect the most likely transaction price expected to be received rather than a range of possible, arbitrary outcomes. If an entity is not able to support an estimate for variable consideration included within a contract, no revenue for the variable part of the arrangement would be included in the amount of the transaction price to be allocated to those performance obligations where the transaction price is measurable.

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?**

We do not agree that a customer’s credit risk should be reflected in the estimate of the transaction price. Generally, we would not be providing goods or services to a customer if we believed payment would not be received. We believe a customer’s credit risk should be accounted for as an adjustment to revenue through bad debt expense and a corresponding allowance for bad debts. We do not believe that recording subsequent cash receipts in excess of the estimated transaction price in income outside of revenue provides decision-useful information. Furthermore, the cost to implement a process to distinguish initial collectability estimates from subsequent changes and ensure appropriate presentation in the financial statements would likely be significant as compared with the benefits of making such a distinction. We recommend that the Boards retain current accounting for customer credit risk which requires an adjustment to bad debt expense and a corresponding allowance for bad debts.

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

Conceptually, it makes sense that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material explicit or implicit financing component. However, we believe that the underlying intent of terms and conditions requiring payment significantly before or significantly after the transfer of goods or services should be considered in determining whether the contract includes a material financing component. In long-term contracting, advanced payments are often collected to protect the financial interest of the contractor rather than as a vehicle for financing the satisfaction of the underlying obligations. We recommend that the Boards develop a more principles based requirement that would allow companies to consider the economic
substance of the arrangement and use judgment to determine if contracts include a material financing component. In situations where the underlying intent of the contract terms and conditions represent a material financing component, an entity would account for the advanced or deferred payments arrangement accordingly.

Furthermore, the possibility of multiple payments and uncertainty related to timing of delivery of goods or services in a contract in the assessment and calculation of the time value of money may require the use of simultaneous equations. If variable elements are present in the arrangement, such as contingent consideration, these calculations may become even more complex. The cost of designing and maintaining a system to track and recalculate interest on payments received significantly in advance or significantly after the transfer of goods or services could be substantial. We believe that the cost to comply with this guidance would significantly outweigh the benefit to investors and users of financial statements.

We recommend that the Boards either eliminate the time value of money requirement or clarify that the guidance be applied when the underlying intent of the terms and conditions represent a material financing arrangement.

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?

We agree that an entity should allocate transaction price to all separate performance obligations in a contract in proportion to the standalone selling price. However, we believe the Boards should clarify that variable consideration that relates to a specific performance obligation should be considered in the estimated standalone selling price for that particular performance obligation. For example, in our commercial airplane business most contracts contain price escalation factors that are based on public indices. As price escalation is specific to an aircraft, we believe that the impact of price escalation should be allocated to the specific performance obligation. We do not believe that reallocation of transaction price to all delivered and undelivered aircraft reflects the economic substance of the transaction. We recommend that the Boards clarify in paragraphs 50 and 53 that if variable consideration or changes in variable consideration relate to a single performance obligation, an entity should assign that contingent consideration and subsequent changes thereto directly to the specific performance obligation.

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?

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 exclude and why?

The following response addresses questions 8 and 9.

We understand that the Boards’ project is primarily aimed at clarifying revenue recognition principles and developing a common revenue standard. We appreciate that the Boards have
included guidance in the proposed standard for capitalization of set-up and pre-contract costs. However, given that the proposed standard will supersede existing U.S. Generally Accepted Accounting Principles ("U.S. GAAP") that specifically supports deferral of certain costs related to work-in-process on long-term construction-type and production-type contracts we do not believe the proposed guidance is fully operational or sufficient.

Until further consideration can be given to the accounting for contract costs related to long-term construction-type and production-type contracts, we believe that the contract cost guidance included in the proposed guidance should be limited to set-up costs for service contracts and pre-contract costs and that the contract cost guidance included in the existing Codification be retained, as follows:

- **Subtopic 912-20 Contractors – Construction- Contract Costs Paragraphs 25-5A and 25-6 on program accounting, and**

- **Subtopic 605-35 Revenue Recognition – Construction-Type and Production-Type Contracts Paragraph 25-9 average costing for production lots and 25-34 to 25-43 on the capitalization of contract costs.**

We also believe that the guidance contained in these two Subtopics on the accounting for onerous obligations should be retained such that onerous obligations are assessed at the program or contract level.

If retention of current U.S. GAAP for the accounting of contract costs related to long-term construction-type and production-type contracts cannot be supported by the Boards, we believe that the cost guidance contained in the proposed guidance needs to be reworked to permit the capitalization of deferred production costs, allow for a consistent model for the capitalization of development costs, further define abnormal costs, and require assessment of onerous obligations at the contract or program level. We believe that these enhancements and adjustments, further described below, should be made to the proposed guidance for contract costs to make the guidance operational and ensure that the resulting accounting appropriately reflects the underlying economics of long-term construction-type and production-type contracts.

First, our commercial airplane business has a generally accepted and well established history of capitalizing deferred production costs and treating the airplane program as the unit of account. When we enter into a commercial airplane program, we expect to make a program investment represented by research and development costs which we period expense and deferred production costs which we capitalize. Deferred production costs are recoverable from program profits as management's commitment to moving forward with a production program is based on long-term profitability and cash flow analyses. We believe capitalized deferred production costs meet the definition of an asset, which is defined as "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events" under FASB Concept Statement No. 6.

Deferred production costs meet the three essential characteristics of an asset as follows:

- They embody a reasonably expected future benefit that involves a capacity to contribute to future net cash inflows.
  - *Program investments generate technology and know-how that will be used in future production and result in overall positive cash flows for the entity.*

- An entity can obtain the benefit and control others' access to it.
  - *We control access to the know-how and intellectual property generated from the program investments.*
The transaction giving rise to our right to and control of the benefit has occurred.

- We have incurred the program investment costs that are capitalized.

We believe these costs are appropriate to defer and recognize over the performance of the program when recovery is probable. Without the ability to capitalize deferred production costs, the financial results over the life of a commercial airplane program would be significantly different than our current reporting and would not be representative of the underlying economics of our airplane programs. Furthermore, we believe that it would be very difficult to clearly articulate our financial results to investors and that the financial results would not provide investors with decision-useful information or a clear understanding of the performance of the business. Therefore, we recommend that the Boards clarify the cost guidance to permit capitalization of a portion of production costs that enhance resources to be used in satisfying future performance obligations under existing contracts as well as reasonably expected contracts.

Additionally, Paragraphs 57(b), 59(b) and 60 refer to a distinction between satisfaction of past and future performance obligations. As written, we do not believe that this distinction is operable. As previously discussed, program investments represent the genesis of technology and know-how that will be used in future production and result in overall positive cash flows over the course of the airplane program. In our industry, we have established a methodology for distinguishing which of these costs relate to satisfied performance obligations versus future performance obligations and industry experience has proven that incurring such costs in the early stages of an airplane program will benefit cost performance on future performance obligations. We believe that it is possible for costs to have dual purpose, benefiting the satisfaction of both current and future performance obligations. As such, we recommend that the Boards revise the contract cost guidance to acknowledge situations where costs incurred might relate to the satisfaction of current as well as future performance obligations.

Second, while we do not object to any of the specified criteria in paragraph 58 for recognizing costs as an asset, we do not believe that the proposed criteria are complete due to differences between U.S. GAAP and International Financial Reporting Standards ("IFRS") that currently exist for the treatment of development costs. International Accounting Standards ("IAS") 38, Intangible Assets, allows for the capitalization of an intangible asset arising from development or from the development phase of an internal project. Development activities that can be capitalized include the design, construction and testing of pre-production or pre-use prototypes and models, among other activities. Intangible development costs are then amortized over the "number of production or similar units expected to be obtained from the asset". For our industry, the ability to capitalize these types of development costs is important to alignment in accounting treatment for long-term construction / production-type transactions between U.S. GAAP and IFRS. We recommend that, prior to issuing a converged revenue recognition standard, consideration be given to the potential disparity of financial results for a company in our industry reporting under U.S. GAAP versus IFRS, due to the ability of a company reporting under IFRS to capitalize and spread costs that would otherwise be expensed as incurred under U.S. GAAP. We also recommend that further clarification be provided to permit deferred production costs that, in essence, represent investments in know-how and technology to qualify for capitalization under IAS 38.

Third, we believe that further work is needed to define abnormal costs as changes in estimates are common in contracting and different interpretations of abnormal could result in significantly different applications of the proposed standard. The aerospace and defense industry frequently involves highly complex new products and services where cost and revenue variances are normal. We are concerned that the concept of abnormal costs, while
not new, may result in divergent accounting practices. Overall program or contract profitability is the key performance metric. We therefore do not believe that separating costs into normal and abnormal can be operationalized to provide useful information or enhance comparability.

Finally, we believe that recording an onerous liability for a performance obligation at inception of an overall profitable contract or program does not provide decision useful information. We understand the Boards feel it is preferable to apply the onerous test at a performance obligation level to ensure that adverse changes in circumstances are reported timely. However, if losses are expected to be realized on early performance obligations followed by profits on later performance obligations, we do not believe up front recognition of the anticipated losses would depict an adverse change in circumstances. Rather, decision-useful information would be to understand when a contract or program, due to cost overruns or unanticipated production issues, has fallen into an overall loss position. This would truly represent an adverse change in circumstances for which a liability should be recorded and the change in circumstances disclosed in the financial statements.

Further, we believe that in cases where a day one loss would be recorded for onerous performance obligations on an overall profitable contract or program, some if not all of those costs in excess of revenues represent an asset in the context of FASB Concept Statement No. 6. As previously discussed, we believe that a technology and know-how asset is being created in the production of early units that will benefit production on later units. Alternatively a day one loss on a particular performance obligation may indicate that pricing is interdependent and the contract should be accounted for as a single profit center. As such, we recommend onerous obligations be assessed at the program or contract level.

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?

We understand that, through the Financial Statement Presentation project, the Boards are contemplating a requirement for the rollforward of significant balance sheet accounts with reconciliation to the income statement in the footnotes to the financial statements. We believe that these rollforward and reconciliation requirements are best addressed in the Financial Statement Presentation project and should be eliminated from the proposed guidance. Such significant changes in disclosure requirements for revenue and contracts should be determined in the context of the overall benefit and decision-usefulness of financial statements and related disclosures. Furthermore, we believe that the system and administrative costs that would be involved in providing rollforwards of contract balances outweigh any benefit that might be provided to the users of financial statements. Much of the information required to complete contract balance rollforwards and reconciliations would be tracked in multiple off-line repositories or systems, requiring a significant administrative effort and system cost to aggregate this information.

As stated previously, we do not agree that onerous obligations should be measured at the performance obligation level. Rather, we believe that onerous obligations should be measured at the contract or program level. As such, we believe that quantitative disclosures should be limited to disclosing unusual or infrequent items that would provide additional useful information to financial statement users about the performance on particular contracts or programs. Further, qualitative disclosures should be limited to sales by contract type or by line of business rather than at the detailed level of a particular good or product.

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?

We have very long cycles that result in a significant amount of backlog and there are many outside factors that could impact the timing of satisfaction of our backlog obligations. Additionally, the proposed backlog disclosures would represent only a portion of expected business for future years. As such, we believe that the proposed disclosures would not provide investors with more useful information regarding revenue projections in out years and could inadvertently provide sensitive information to our competitors. Furthermore, we believe that there would be a significant amount of cost involved in preparing and auditing such disclosures and that the costs would far outweigh the benefits to investors. We believe that existing backlog disclosures included in Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) are sufficient and appropriately positioned in MD&A as the disclosures contain forward-looking information.

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?

We believe that current U.S. GAAP guidance requiring disaggregation of revenue by products and services, segments, and geographies is sufficient. As such, we recommend that current guidance is carried forward into the proposed guidance.

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? 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.

We believe that retrospective application of the proposed guidance could be costly, burdensome and impracticable. Our contract base is composed of thousands of contracts that often span a period of several years. It would be extremely complex and time-consuming to recast these contracts to their inception, requiring the revision of quarterly estimates of profitability on a contract-by-contract basis over a multi-year period. Furthermore, assumptions and estimates are made at multiple points throughout a contract’s life. Retrospective adoption presupposes that an entity has available information for historic contract assumptions and estimates and, as such, can make a fully informed and audible decision under the proposed guidance for each past contract decision point. To the extent this information is not available an entity may arrive at an answer in the restatement process that would differ from an identical contract being accounted for under the proposed guidance from its inception. Furthermore, the processes and systems involved in restating prior period results would most likely be different from those involved in accounting for new contracts, thereby exacerbating the cost associated with retrospective application. If application of the proposed guidance were permitted on a prospective basis, we believe that the costs of implementing would be significant but manageable. We believe prospective application would allow for system and process optimization.

We do not object to giving entities the option to apply the proposed guidance retrospectively. However, we recommend that the Boards implement a transition alternative that would permit prospective application for new arrangements entered into and arrangements materially modified after the date of adoption. Other major revenue recognition standards have been applied on a prospective basis, including AICPA Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, AICPA Audit and Accounting Guides for Federal Government Contractors and Construction Contractors, and

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?**

The implementation guidance covers only a small sample of the possible, simplified transactions that would be insufficient to make the proposed guidance operational. We appreciate the implementation guidance Paragraphs BC56 – BC59 on the role that contract management services may play in determining performance obligations in a contract. However, we believe that a more complex example, including contemplation of the contracting parties’ intent, should be provided. Additionally, we believe that implementation guidance is required to help companies differentiate between normal and abnormal costs. This implementation guidance should consider that the distinction between normal and abnormal may vary between industries. We believe that based on the current guidance provided, there is a risk that preparers will develop varying interpretations of the guidance or utilize accounting firms to help define the appropriate accounting when specific circumstances occur that are not addressed in the implementation guidance. We would expect that the Boards recognize the possibility that this could result in financial statements that are not comparable, based on how a preparer has interpreted the guidance. We recommend that the Boards consider adding more complex, realistic examples that clarify the Boards intentions when drafting the guidance.

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?**

We do not agree with the proposed accounting for warranties. Where a warranty does not represent a separate performance obligation, we believe revenue should not be allocated or deferred with respect to such warranties and, instead, such “standard warranties” should be accounted for as accrued cost in accordance with current industry practice. We believe accruing the cost of providing a warranty is more representative of the underlying economics than allocating revenue and margin to standard warranties. Generally, warranties entitle customers to repairs or replacement of defective deliverables and do not entitle them to refunds; as such, the provision of a standard warranty is always a cost of performance as opposed to a revenue-generating activity. Further, we believe that it may be very difficult in situations where a company offers a standard warranty to determine whether a portion of the warranty is intended to cover pre-delivery defects as well as post-delivery issues. We believe that separately priced extended warranty coverage, which may be purchased at the discretion of the customer, should be accounted for as a separate performance obligation, with revenue recognized as the related services are delivered. As such, we recommend that the Boards permit an accrued cost model for standard warranties and require a performance obligation model for separately priced warranties.
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?

Conceptually we agree that the pattern of revenue recognition should depend on whether the transfer of a license satisfies the obligation to the customer. However, we do not agree with the proposed conclusion applied broadly that the pattern of revenue recognition should depend on whether the license is exclusive. We believe exclusivity affects the perceived value of a product or service and does not have bearing on when revenue should be recognized. Furthermore, we do not agree that satisfaction should be broadly based on “when the customer is able to use and benefit from the license”. In many situations, it may be very difficult to determine whether the customer has used or benefited from the license. We believe that once control of the license has been transferred to the customer and there is no significant continuing involvement, revenue should be recognized immediately.

17. The Boards propose that in accounting for the gain or loss on 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?

We agree with the Boards proposal to extend the proposed revenue recognition principles to the sale of nonfinancial interests; however, we recommend that the Boards clearly define the boundary for where revenue recognition guidance ends and other guidance begins. For example, there are standards governing assets held for sale and discontinued operations and we believe any guidance in the final revenue recognition standard should make it clear it does not apply to asset disposals in those situations.