March 12, 2012

Submitted via email (to director@fasb.org) and ordinary mail

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116


Dear Sir/Madam:

United Technologies Corporation (UTC or the Company) welcomes the opportunity to share its views on the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (collectively, the “Boards”) proposed Accounting Standards Update “Revenue Recognition (Topic 605).” (Exposure Draft) UTC is a $50+ billion global provider of high technology products and services to the building systems and aerospace industries, operating in nearly 190 countries around the world.

Our business units operate in diverse industries, and as a result, we apply a wide range of revenue recognition methodologies based on the practices within those industries. For example, we have:

- Revenue associated with elevator and escalator sales, installations and modernization contracts that are accounted for under the percentage-of-completion method;
- Revenues associated with government and commercial fixed-price contracts and government fixed-price-incentive contracts that are recorded at the time deliveries are made or, in some cases, on a percentage-of-completion basis;
- Revenues associated with cost reimbursement contracts that are recorded as work is performed; and
- Revenues associated with service sales, representing aftermarket repair and maintenance activities, that are recognized over the contractual period or as services are performed.

We commend the Boards for their attempt to develop a common revenue standard for U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). While we believe that both U.S. GAAP and IFRS would benefit from improvements, there is an area within the Exposure Draft which we feel requires additional clarification.

We ask that the Boards provide clarification pertaining to the use of the units-of-delivery method of revenue recognition for the aircraft and components that we manufacture under U.S. Government contracts. Products manufactured to U.S. Government specifications generally have no alternative uses without significant modification and sales of these products to foreign governments generally require U.S. Government approval. Government contracts may be of either
a cost reimbursable or a fixed fee type and contain normal business terms, such as progress payments, termination for convenience clauses and liens on the assets being constructed. Additionally, prior to the official transfer of title, acceptance is required from the Defense Contract Management Agency in the form of a signed DD250 form. Currently, we recognize revenue using the units-of-delivery method upon customer acceptance for our fixed price helicopter and military engine contracts as we believe this method best reflects the transfer of control and the underlying economics of these transactions. This is consistent with a number of other companies in the Aerospace & Defense industry.

The Exposure Draft is based on the premise that the satisfaction of a performance obligation, and therefore revenue recognition, is based upon the timing of the transfer of an asset. “An asset is transferred when (or as) the customer obtains control of that asset.” The Exposure Draft requires the recognition of revenue over time if one of two criteria is met. In our industry, the criterion that our performance “does not create an asset with an alternative use to the entity,” coupled with the termination-for-convenience clauses that are “intended to at least compensate the entity for performance completed to date even if the customer can terminate the contract for reasons other than the entity’s (our) failure to perform as promised” results in the satisfaction of performance obligations and revenue recognition over time. However, although the customer in these specific situations is taking a lien in the work product to the extent of any progress payments they have made, the customer is not entitled to direct possession of the goods in the ordinary course of business until delivery of the unit (and customer acceptance through a signed DD-250) or unless the contract is terminated. The risk of loss remains with us until the product is delivered to the customer. Based on the forgoing, we request further clarification regarding the interpretation of paragraph 93.(c), which reads as follows:

93. An entity shall recognize the following costs as expenses when incurred:

(c) Costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in the contract (that is, costs that relate to past performance)

This paragraph could be interpreted to indicate that it would never be appropriate to capitalize any costs associated with a contract with continuous transfer of control. However, such interpretation would result in a prescriptive application based on input measures, such as cost-to-cost. We believe output measures, such as units-of-delivery, faithfully depict the measurement of progress towards complete satisfaction of certain performance obligations subject to continuous transfer of control. However, because the units-of-delivery method results in the capitalization of costs until a unit is delivered, we are requesting the Boards clarify and allow for the acceptability of the units-of-delivery method in contracts with continuous transfer of control such as those more fully described above. We believe the guidance should provide flexibility in application to long-term contracts such that either the cost-to-cost or units-of-delivery method can be applied based on the

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1 See paragraph 31 of the Exposure Draft
2 See paragraph 35(b) of the Exposure Draft
3 See paragraph 35(b)(iii) of the Exposure Draft
method that best depicts the earnings process, and is most faithful to the economics and substance of the underlying transaction.

We would be happy to further discuss our view on this proposal with the FASB members or its staff.

Sincerely,

[Signature]

Peter H. Longo
Vice President, Controller
United Technologies Corporation