March 13, 2012

Ms. Leslie F. Seidman
Chairman
File Reference No. 2011-230
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2011-230, Proposed Accounting Standards Update (Revised) Revenue Recognition (Topic 605): Revenue from Contracts with Customers

Dear Ms. Seidman,

Thank you for the opportunity to comment on the revised proposed revenue recognition standard. We greatly appreciate the time Board members and revenue recognition project staff invested on outreach activities and the impact those efforts have had on the proposed revenue recognition model. We believe the exposure draft reflects significant progress in addressing accounting for long term production and construction contracts. However, the proposed standard will require significant changes in how we account for long term contracts and measure financial performance as well as outreach to investors and other users of our financial statements to explain those changes. We are concerned that some of the changes will not improve financial reporting and as such we believe additional work is needed to operationalize the proposed model and ensure that it aligns with underlying economics and provides useful information to investors. Our major concerns are summarized below and described in more detail in the Appendix.

- **Identification of Performance Obligations** – We recommend further clarity around when a bundle of goods or services should be considered a single performance obligation versus multiple performance obligations. We understand that there are conflicting interpretations of the proposed criteria of highly interrelated, significant integration services and significantly modified or customized. Generally we believe that production units such as military airplanes that are bid, negotiated and managed as a single arrangement should be accounted for as a single performance obligation rather than considering each airplane to represent a separate performance obligation. We recommend providing additional indicators to help determine when to bundle goods or services into a single performance obligation and providing examples of common goods and services that would be expected to represent single versus multiple performance obligations.

- **Contract costs** – We believe the guidance should permit companies to select a systematic and rational approach for recognizing costs in earnings to reflect the single, overall profit objective of a performance obligation satisfied over time. We agree with the Boards that there is diversity in practice when accounting for the costs of products produced under long-term production programs and agree that this should not be within the scope of the revenue project. However, we believe the Boards should continue to permit the use of lot accounting in order to average costs across multiple performance obligations under certain circumstances.

- **Disclosure** – We believe the costs associated with designing and implementing systems to reliably capture the data required for backlog and detailed roll-forward disclosures will be
significant and greatly outweigh any benefit to the investor or user of the financial statements. We recommend that the Boards eliminate the quantitative backlog and balance sheet roll-forward requirements.

- **Transition** – We believe mandatory retrospective application of the proposed guidance could be costly, burdensome and impracticable due to the number, complexity and duration of our long-term contracts. Transition challenges would be exacerbated because the proposed rules may also change when and how revenue is recognized on long term contracts which will require significant system and process changes. We recommend that both retrospective and modified prospective application be permitted.

- **Time Value of Money** – We believe that the proposed guidance may be potentially misleading and the cost to comply would significantly outweigh the benefit to investors and users of financial statements. We recommend that the Boards eliminate or modify the time value of money requirement.

Again, we support your efforts and thank you for the opportunity to comment. If you have questions, or need additional information, please contact me at 312-544-2165 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,

Diana Sands
Vice President of Finance and Corporate Controller
Appendix

Following please find more detail on the points summarized in our cover letter.

Identifying performance obligations

We understand that paragraph 29 was included in the revised Exposure Draft to respond to feedback received from companies in the construction and manufacturing industries, particularly those companies that have historically applied ASC 605-35 Construction-Type and Production-Type Contracts. Therefore, we would expect, for example, that all contracts with the U.S. Government (USG) for the production of multiple aircraft would meet the criteria in paragraphs 29(a) and 29(b) and the arrangement would be accounted for as a single performance obligation. However, in recent Aerospace & Defense (A&D) publications, some interpretations have suggested that in some production contracts for multiple units, each aircraft would likely be a performance obligation, presumably because the individual aircraft would not meet the “highly interrelated” criterion in paragraph 29(a). We do not believe this was the intention of the Boards nor does it reflect the underlying nature of the transaction, the risk involved, or the way such efforts are bid in our industry. Rather, we believe the units in the production contract are highly interrelated as the units are bid, negotiated, and managed as a single arrangement.

In order to avoid misapplication of the guidance as intended by the Boards, we recommend the Boards provide indicators in paragraph 29(a) to help companies determine whether the goods or services in a bundle are “highly interrelated”. The list of indicators could include, but not be limited to, the following:

- The bundle of goods or services is negotiated as a package in the same economic environment with an overall profit margin objective and shared risks.
- The bundle of goods or services constitutes in essence an agreement to do a single project. A project for this purpose consists of construction, or related service activity with different elements, phases, or units of output that are closely interrelated or interdependent in terms of their design, technology, and function or their ultimate purpose or use.
- The bundle of goods or services requires a significant service to manage and coordinate closely interrelated construction activities.
- Goods or services in the bundle are produced or performed concurrently or in a continuous sequence under the same project management at the same location or at different locations in the same general vicinity.
- The bundle of goods or services is significantly modified or customized to a customer’s specification.

We also recommend that the Boards clarify the scope of paragraph 29 in the ED by providing examples of contract types where the goods or services in the bundle would likely be “highly interrelated.” We believe that the contract types for which paragraph 29 is intended could be based on the guidance in ASC 605-35-15-3 and include, but not be limited to, the following:

(a) Contracts in the construction industry, such as those of general building, heavy earth moving, dredging, demolition, design-build contractors, and specialty contractors (for example, mechanical, electrical, or paving). In general the type of contract here under consideration is for construction of a specific project. While such contracts are generally carried on at the job site, this Subtopic also would be applicable in appropriate cases to the manufacturing or building of special items on a contract basis in a contractor’s own plant.

(b) Contracts to design and build ships and transport vessels.
(c) Contracts to design, develop, manufacture, or modify complex aerospace or electronic equipment to a buyer's specification or to provide services related to the performance of such contracts.

(d) Contracts for construction consulting service, such as under agency contracts or construction management agreements.

(e) Contracts for services performed by architects, engineers, or architectural or engineering design firms.

(f) Arrangements to deliver software or a software system, either alone or together with other products or services, requiring significant production, modification, or customization of software.

We believe that the guidance in paragraph 29 would have a greater chance of being consistently applied and interpreted by preparers, public accounting firms and regulators if the Boards provided the additional clarifying criteria described above.

**Contract costs**

We believe the Boards should provide guidance permitting companies to select a systematic and rational approach for recognizing costs in earnings to reflect the single, overall profit objective of a performance obligation satisfied over time. Paragraphs 38 through 48 provide guidance for determining the timing of revenue recognition for a performance obligation satisfied over time. When the cost-to-cost method is used for recognizing revenue, we believe it is clear costs would be recognized as incurred. However, if any other measurement method (e.g. units of delivery, milestones) is used for recognizing revenue because it best depicts the transfer of control of the goods or services, we do not believe that enough guidance is provided to determine the amount of cost to be recognized at each revenue recognition event. We recommend the following be added after Paragraph 40 to address recognition of costs:

“For each separate performance obligation satisfied over time, an entity shall apply a rational and systematic approach for recognizing cost of sales that reflects the single overall profit objective for that performance obligation”.

We agree with the Boards that there is diversity in practice when accounting for the costs of products produced under long-term production programs and agree that this should not be within the scope of the revenue project. However, we believe the Boards should continue to permit the use of lot accounting in instances where multiple production units do not meet the criteria in paragraph 29 for bundling into a single performance obligation. Lot accounting, prevalent in ASC 605-35, is an existing costing method that reflects the economics of long-term production efforts and contracting. We recommend the following be added after paragraph 93 of the ED to permit average unit costing in certain circumstances:

“Goods or services that do not meet the criteria in paragraph 29 for bundling of goods or services into a single performance obligation may be combined into groupings such as production lots or releases for the purpose of accumulating and allocating production costs to units produced or delivered based on average unit costs in the following circumstances:

(a) Performance obligations are for the production of substantially identical units of a basic item produced concurrently or sequentially.

(b) Performance obligations are for the production of highly complex, specialized equipment where costs incurred on initial performance obligations benefit all performance obligations in a contract.”
In order to accommodate the recommendations described above, paragraph 93 of the ED would need to be modified as follows:

- Eliminate the phrases of "(or partially satisfied performance obligations)" and "(that is, costs that relate to past performance)" within item (c); and
- Remove item (d) entirely.

We believe companies should disclose their policy for relieving inventory and recognizing cost of sales related to performance obligations satisfied over time. We recommend the following be added after Paragraph 127 to address disclosure:

"An entity shall disclose information about the methods, inputs, and assumptions used to relieve inventory and recognize cost of sales when performance obligations are satisfied over time."

**Disclosure**

We do not believe the suggested disclosures for backlog and detailed roll-forwards of balance sheet accounts will provide decision-useful information for investors and users of financial statements. With respect to the backlog disclosures, we have very long cycles with many outside factors (e.g. contract substitutions, acceleration or deceleration of delivery dates, etc.) that could impact the timing of satisfaction of our obligations. Additionally, backlog only represents a portion of expected business for future years. As such, we believe that the proposed backlog disclosures would not provide investors with more useful information regarding revenue projections in out years and could inadvertently provide sensitive information to our competitors. We believe that the 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. With respect to roll-forwards of balance sheet accounts, we believe it is unclear how investors or users of financial statements would derive value from the disclosures when management does not compile and aggregate this information nor use it in any meaningful way to run the business. Furthermore, we believe the costs associated with designing and implementing systems to reliably capture the data required for the disclosures significantly outweigh any benefit to the investor or user of the financial statements. We recommend that the Boards eliminate the quantitative backlog and balance sheet roll-forward requirements.

**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. Furthermore, restating multiple years of financial information would not be limited to revenues and costs as it would also impact income tax expense, various balance sheet accounting, and disclosures due to the "cascading effect" of such a change. 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 modified prospective application of the new standard to all revenue-generating contracts outstanding on a stated single date with a cumulative catch up adjustment as of that date and accompanying disclosure of comparative period impacts for those contracts. We believe that this approach would provide investors and users of financial statements with decision-useful quantitative and qualitative information about the effect(s) of adopting the standard on an entity's results without having to incur the costs associated with full retrospective presentation.
Time Value of Money

We do not believe the broader implications of time value of money have been considered by the Boards. First, companies with implicit financing in customer contracts generally have similar arrangements with suppliers and collaborative partners. An accounting model that only recognizes the impact of implicit financing on revenues could significantly distort financial results. Second, in long-term contracting, advanced payments are often collected to protect the financial interest of the contractor or reserve production capacity for the supplier rather than as a vehicle for financing the satisfaction of the underlying obligations. We believe a model that reflects these advanced payments as financing transactions would be misleading to investors as it would not represent the intent of the transaction. Last, multiple payments, uncertainty related to timing of delivery of goods or services, and variable consideration in long-term contracts significantly add to the complexity of time value of money calculations. 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 eliminate the time value of money requirement and instead require disclosure of the value of payments received significantly in advance or significantly after the transfer of goods or services with qualitative discussion as to future timing of transfer of goods or receipt of payment. If the Boards choose to continue to require time value of money we recommend that the one year practical expedient in paragraph 60 be modified to also scope out standard advance payments intended to cover production costs and long lead items. This modification would greatly reduce the complexity and cost of compliance and depict more meaningful revenues and margins for companies that have operating cycles that typically exceed one-year.