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Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
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Submitted via electronic mail to director@fasb.org

**Subject: File Reference No. 2011-230**

Dear Ms. Cosper:

We appreciate the opportunity to review and provide comments on the Revised Proposed Accounting Standards Update, *Revenue Recognition (Topic 650) - Revenue from Contracts with Customers* (the "Exposure Draft") issued by the Financial Accounting Standards Board (FASB). We commend both the FASB's and International Accounting Standards Board's ("the Boards") initiative to clarify the principles for recognizing revenue and to develop a common revenue recognition standard for both U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards. A significant portion of our company operates in the aerospace and defense industry and we generally support the views expressed in the comment letter submitted by the Aerospace Industries Association (dated March 13, 2012). We have not attempted to respond to all of the questions raised by the Boards in the Exposure Draft, but rather have focused on certain areas that we believe will have the most significant impact on our ability to recognize the economics and substance of certain transactions and to clearly articulate financial performance to investors and other users of our financial statements.

Textron is a multi-industry company with a global network of aircraft, defense, industrial and finance businesses. In 2011, we had approximately 32,000 employees in 25 countries with total revenues of $11.3 billion of which approximately 31% was generated by or resulted from contracts with the U.S. Government. A substantial portion of the sales to the U.S. Government are made pursuant to long-term contracts. These contracts include the engineering, design, development and production of highly specialized aircraft, along with a variety of defense and mission support products and services, over extended periods of time.

We negotiate each contract with the U.S. Government as a bundle of goods and/or services and generally price the contracts based on estimated costs, which include general and administrative costs, plus a reasonable margin. Products manufactured under these contracts must meet specific requirements of the customer and generally do not have alternative uses without significant modification. In addition, the sale of these products to foreign governments typically requires approval by the U.S. Government. We generally manage and account for each contract as a single profit center. These contracts may include economic participation clauses and retainage provisions that are based on performance over the entire contract, not on specific deliverables within the contract. Our obligations under these contracts are not fulfilled until completion of all deliverables included in the contract. For fixed price incentive contracts, at the end of the contract term, we determine the total cost of the contract and share in over/underruns with our customer.

We account for our long-term contracts under the percentage-of-completion method of accounting based on current accounting guidance. Under this method, we estimate profit as the difference between total estimated revenues and total estimated cost of a contract. We then recognize that estimated profit over the contract term based on either the units-of-delivery method or the cost-to-cost method, as appropriate under the circumstances. Revenues under cost-reimbursement contracts, as well as fixed-price development and low-rate initial production contracts, are typically recorded using the cost-to-cost method. Revenues under fixed-price production contracts generally are recorded using the units-of-delivery method.

For our production contracts, we believe that the units-of-delivery method is generally the best measure of progress toward completion based on our typical contractual terms. The transfer of control occurs when each unit is delivered and accepted by the customer. Prior to official transfer of title to the customer, acceptance is required from the Defense Contract Management Agency via a signed DD-250 form. Additionally, the risk of loss passes to the customer upon delivery. As the risk of loss does not pass to our customer until delivery, we maintain insurance for materials, work in process and units not delivered.

The margin we recognize on each delivered unit is based on the overall profit margin for the contract, which we believe is most appropriate since the overall contract margin is negotiated as a combined bundle of goods/services, rather than based on the individual performance/delivery of a single unit. For example, for a contract that calls for the production of 100 aircraft over a period of three years, we would recognize a portion of the total contract revenue upon delivery of each aircraft and would allocate costs to each aircraft based on an average-per-unit cost. We are concerned that under the Exposure Draft, it could be interpreted that each aircraft would represent a single performance obligation if it is not considered to be highly interrelated with the other aircraft under the contract and does not require significant integration services with the other items under the contract.

The guidance currently provided in Accounting Standards Codification (ASC) 605-35, *Revenue Recognition, Construction-Type and Production-Type Contracts* was designed in consideration with how companies bid, negotiate and manage highly specialized contracts with the U.S. Government using the basic presumption that each contract is the profit center for revenue recognition, cost accumulation and income measurement. Contracts are negotiated by both parties with this presumption and our systems and the customer's systems have been designed to manage and report each contract as one profit center. We believe this is appropriate since each of our contracts is negotiated based on a single profit rate.

In our opinion, it is important that the guidance continue to allow companies to utilize the units-of-delivery method for long-term contracts and an average cost basis for production lots as we believe this best depicts the economics of many long-term production contracts. We are concerned that the application of the principles set forth in the Exposure Draft may prevent companies from utilizing this method in the future which would accelerate revenue and profit recognition, would not reflect the true economics of the contract and would not provide decision-useful information for financial statement users. Accordingly, we strongly recommend certain modifications to the Exposure Draft, which we have discussed below according to the applicable section of the Exposure Draft.

*Identifying Performance Obligations*

While the criteria in paragraph 29(b) will typically be met for long-term production contracts, we believe the application of the criteria in paragraph 29(a) to long-term production contracts that involve the delivery of multiple units requires clarification. Units in a production contract (such as aircraft) may not be deemed to be "highly interrelated" if the transfer of each unit to the customer does not require significant integration into one or more final units. In our opinion, all aspects of a contract with the U.S. Government are highly interrelated and the deliverables under one contract are not considered to be individually distinct since our contracts are bid, negotiated and managed on a combined deliverable basis, not an individual unit basis.

In order to clarify paragraph 29(a) of the Exposure Draft, we recommend that additional guidance is provided to assist in the determination of whether the goods or services in the bundle are "highly interrelated." This additional guidance could be based on the existing guidance outlined in ASC 605-35-25-8 on combining contracts and include the following indicators:

- The bundle of goods or services is negotiated as one package with significant shared risks in the same economic environment with an overall profit margin objective.
- 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.

Additionally, we believe that the final guidance should include illustrative examples of contracts that would meet the performance obligation criteria outlined in paragraph 29 in order to ensure consistent application across industries.

*Contract Costs*

For our long-term production contracts with the U.S. Government that are accounted for using the units-of-delivery method, contract costs are capitalized, including general and administrative costs, and recognized proportionally as units are delivered under the terms of the contract. We understand, as noted in section BC234 of the Exposure Draft, that the Boards acknowledge the diversity in practice when accounting for costs for products produced under long-term production programs and that they have agreed to consider adding a project to their agenda at a future time. Since this Exposure Draft would replace current accounting for contract costs prior to any future project, we believe that modifications to the Exposure Draft are required to preserve the current accounting for the costs of long-term production programs as provided in the Contract Costs Subsections 34 to 43 of ASC 605-35-25. Without such modifications, companies that recognize revenue using the unit-of-delivery method, and currently accumulate and allocate production costs to units produced or delivered based on average unit costs, will no longer have clear guidance on recognizing such costs.

In the Basis for Conclusions and in publications from certain national public accounting firms, the interpretation of paragraph 93 of the Exposure Draft relating to contract costs is that it would preclude the current accounting for costs related to long-term production contracts accounted for under units-of-delivery or require the use of the cost-to-cost method. Our contracts are negotiated with the U.S. Government and priced with the assumption that there is a learning curve built into the contract, and this assumption is an integral part of our contracts due to the highly complex nature of the products and services we provide. To recognize costs as incurred at the beginning of the contract would result in low profit margins in the initial years of the contract followed by much higher margins in the later years of the contract. Since the contracts are priced based on an overall profit margin, such distortions within the reporting periods would not be representative of the true economics of the contract.

In order to preserve the current practice of accounting for costs under long-term production contracts that utilize the units-of-delivery method, we recommend modifying paragraph 93 of the Exposure Draft 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.

Additionally, we recommend the following be added after paragraph 40 of the Exposure Draft to further address the recognition of costs related under the units of delivery method:

- 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 strongly believe that these modifications are necessary to ensure that companies continue to have the ability to use the units-of-delivery method while aligning the appropriate costs with the revenue recognized upon delivery. In many circumstances, the units-of-delivery method is the best measure of progress toward completion for production contracts that have a reliable measure of output, and we do not believe that cost-to-cost is an appropriate method for all production contracts.

We understand the Boards' goal of providing one comprehensive standard on revenue recognition that covers all industries; however, we believe that the standard needs to also appropriately reflect the economics of the aerospace and defense industry's contractual arrangements with the U.S. Government. We appreciate being provided the opportunity to comment on the Exposure Draft and respectfully request that you consider implementing the clarifications we have suggested into the final standard.

If you have any questions or require additional information, please feel free to contact me at (401) 457-2599.

Sincerely,

/s/ Richard L. Yates

Richard L. Yates
Senior Vice President and Corporate Controller